



**Webcast
Meeting**



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE Thursday, 23rd June, 2011

Place: Civic Offices, High Street, Epping

Room: Council Chamber

Time: 7.00 pm

**Democratic Services
Officer** Gary Woodhall – The Office of the Chief Executive
Tel: 01992 564470
Email: gwoodhall@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), C Finn and Ms S Watson

Independent Mrs M Peddle (Vice-Chairman) and R Thompson

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

3. DECLARATIONS OF INTEREST

To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 4 April 2011 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. CORPORATE GOVERNANCE GROUP - 16 MARCH 2011 (Pages 5 - 8)

(Director of Finance and ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 16 March 2011.

7. CORPORATE GOVERNANCE GROUP - 20 APRIL 2011 (Pages 9 - 14)

(Director of Finance and ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 20 April 2011.

8. CORPORATE GOVERNANCE GROUP - 1 JUNE 2011 (Pages 15 - 20)

(Director of Finance and ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 1 June 2011.

9. ANNUAL ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (Pages 21 - 34)

(Director of Finance & ICT) To consider the attached report (AGC-001-2011/12).

10. ANNUAL GOVERNANCE STATEMENT 2010/11 (Pages 35 - 48)

(Chief Internal Auditor) To consider the attached report (AGC-002-2011/12).

11. TREASURY MANAGEMENT STRATEGY STATEMENT & INVESTMENT STRATEGY 2011-2014 (Pages 49 - 74)

(Director of Finance & ICT) To consider the attached report (AGC-003-2011/12).

12. REPORT OF THE EXTERNAL AUDITOR - AUDIT FEE LETTER (Pages 75 - 80)

(Director of Finance & ICT) To consider the attached report (AGC-004-2011/12).

13. INTERNAL AUDIT MONITORING REPORT - JANUARY TO MARCH 2011 (Pages 81 - 112)

(Chief Internal Auditor) To consider the attached report (AGC-005-2011/12).

14. INTERNAL AUDIT ANNUAL REPORT 2010/11 & REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT (Pages 113 - 126)

(Chief Internal Auditor) To consider the attached report (AGC-006-2011/12).

15. BRIBERY ACT - POLICY (Pages 127 - 140)

(Chief Internal Auditor) To consider the attached report (AGC-007-2011/12).

16. LEGACY BENEFITS OF THE 2012 OLYMPIC & PARALYMPIC GAMES (Pages 141 - 146)

(Acting Chief Executive) To consider the attached report (AGC-008-2011/12).

17. FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION (Pages 147 - 154)

(Director of Finance & ICT) To consider the attached report (AGC-009-2011/12).

18. ANY OTHER URGENT BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

19. 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
20	Former Chief Executive – Contract of Employment	1, 2 & 3

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

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

20. FORMER CHIEF EXECUTIVE - CONTRACT OF EMPLOYMENT (Pages 155 - 164)

(Acting Chief Executive) To consider the attached restricted report (AGC-010-2011/12).

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 16 MARCH 2011
(9.30 - 10.15 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), I Willett (Assistant to the Chief Executive) and B Bassington (Chief Internal Auditor)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

94. MINUTES OF THE PREVIOUS MEETING - 23.2.11

Agreed subject to an amendment to Minute 89(g) (Risk Register) to include an additional risk arising under mid term financial strategy relating to non achievement of budget saving targets and that sub-section (2) (Welfare Reform) be renumbered (h) as a separate risk.

95. MATTERS ARISING

(a) Head of Paid Service, Monitoring Officer and Chief Finance Officer Protocols (Minute 90)

Noted that these protocols had now been agreed by the Overview and Scrutiny Committee on 28 February 2011 and would be considered at the Council meeting in March 2011.

(b) Pest Control Contract – Liquidation (Minute 92(b))

Noted that although the Cabinet at its meeting on 7 March 2011 had agreed the basis on which the Pest Control Contract would be transferred to the successor company following the liquidation of the previous contractor, it had now become apparent that the basis on which the Contract would operate in future had been substantially changed by the new contractor despite earlier assurances to the contrary.

Noted that discussions were in progress with the Portfolio Holder regarding a temporary arrangement for the contract pending further consideration of the position by the Cabinet at its April meeting.

Noted that a proposal was being considered whereby the company would deal directly with the public on the basis of an agreed scheme of fees and charges in the capacity of preferred contractor for this authority.

Agreed that following the April Cabinet meeting, every effort should be made to seek competitive quotations for the contract if it is to continue.

ACTION:

J Gilbert to note.

(c) Langston Road – Planning Application (Minute 92(f))

Noted that following further discussion, it was now likely that the planning application for the Langston Road Depot site and adjoining land would be dealt with at the District Development Control Committee as an application which was important to the District Council.

Noted that this was in line with the terms of reference for that Committee.

ACTION:

N Richardson to pursue.

96. DECLARATIONS OF INTEREST

None for this meeting.

97. TERMS OF REFERENCE

Noted.

98. EFFECTIVENESS OF ARRANGEMENTS FOR RISK MANAGEMENT

Draft report for the Audit and Governance Committee on 4 April 2011 agreed.

ACTION:

R Palmer to pursue.

99. DRAFT INTERNAL AUDIT PLAN 2011/12

Draft report for the Audit and Governance Committee on 21 March 2011 agreed subject to the following comments:

(a) consider adding reference to joint working arrangements with other local authorities under paragraph 5 of the main report;

(b) include reference under "Resource Implications" to possible savings through not re-engaging Deloitte to undertake internal audit work with appropriate financial adjustments between other budgets to provide resources;

(c) consider changing the reference to local area agreements in the Audit Plan 2011/12;

(d) allocate time from contingency resources in the programme for a review of Land Charges charging regime;

(e) consider changing the Audit Plan table to indicate risks as "high/medium/low" instead of the "completed" column.

(f) amend reference in the Plan in respect of housing rents.

ACTION:

B Bassington to revise report.

100. AUDIT & GOVERNANCE COMMITTEE - ANNUAL REPORT

Draft Annual Report for consideration at the next meeting of the Audit and Governance Committee agreed subject to the following comments:

- (a) consider amending paragraph 4(10);
- (b) update terms of reference to cover new responsibilities for treasury management.

ACTION:

B Bassington to revise report.

101. PRIORITY 1 AUDIT RECOMMENDATIONS - MONITORING

Revise schedule tabled at the meeting.

Agreed that the comments included under "Director's Assurance" in the table be transferred to the "Status" column and an implementation position report be included in the table.

Agreed that Internal Audit look into the contractual position concerning bed and breakfast housing accommodation and give further explanation in the text of the schedule.

ACTION:

B Bassington to pursue.

102. STANDARDS COMMITTEE

(a) Complaints Assessments, Reviews and Adjudications – Update

Schedule noted.

(b) Standards for England – Direction Nazeing Parish Council

Noted that Standards for England had now formally notified the Monitoring Officer that the previous direction regarding training, mediation and conflict resolution for Nazeing Parish Councillors had now been cancelled.

Noted that discussion was still in progress with Standards for England regarding the status of three complaints which had been cancelled in favour of the direction being issued.

ACTION:

C O'Boyle/I Willett to pursue.

103. ANY OTHER BUSINESS

(a) Audit and Governance Committee Agenda – International Accounting Standards

Noted that P Maddock was preparing a report for the next meeting of the Committee.

104. DATE FOR NEXT MEETING

20 April 2011 at 9.00am in the Acting Chief Executive's Office.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 20 APRIL 2011
(9.30 - 11.15 AM)**

Present: C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), I Willett (Assistant to the Chief Executive) and B Bassington (Chief Internal Auditor)

**Apologies for
Absence:** D Macnab (Acting Chief Executive)

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

105. CHAIRMAN OF THE MEETING

Noted that, in his absence, D Macnab had asked R Palmer to chair the meeting.

106. MINUTES OF THE PREVIOUS MEETING (16.3.11)

Agreed.

107. MATTERS ARISING

None for this meeting.

108. DECLARATIONS OF INTEREST

None for this meeting.

109. TERMS OF REFERENCE

Noted.

110. AUDIT & GOVERNANCE COMMITTEE (4.4.11) - ISSUES RAISED ON RISK

Noted that the Audit and Governance Committee at its meeting on 4 April 2011 had raised four issues in relation to risk, namely:

(a) advice from the Council's Data Protection Officer in respect of any possible threats or risk to the Council from members failing to register in accordance with the Data Protection Act;

(b) information about registering under the Data Protection Act being included as part of the induction for new members;

(c) a request for a report by the Officer Working Group on the Olympics on the manner in which the Council was seeking to maximise opportunities arising from the 2012 Olympics; and

(d) a request to the Corporate Governance Group to decide on what action, if any is appropriate in seeking to confirm the level of understanding of risk management further down the organisation.

Agreed that, in relation to (a) and (b) above all members of the Council be advised to register with the Information Commissioner as data controllers and to use their basic allowance for this purpose as they were at personal risk if they did not and that a recent letter supplied by the Vice Chairman of Council from the Information Commissioner be also circulated.

Agreed that on item (b) above I Willett include reference in the induction session for new members mention of the requirement to register.

Agreed that further advice be given to members about Freedom of Information Act or Data Protection Act requests that they receive direct from the public with a view to ensuring that appropriate documents which they hold are shared with the Council.

Agreed that in relation to item (c) above, the Management Board be recommended to seek a report from the Olympics Working Party on opportunities being realised as a result of the Olympics in 2012 for consideration by the Audit and Governance Committee.

Agreed that in relation to (d) additional provision be made in the Internal Audit work programme for 2011/12 in order to carry out random checks on understanding of risk management amongst junior staff in the Council.

Noted that the Council had requested that member accountability statements in respect of the Audit and Governance Committee be drafted for member remuneration purposes.

Action:

D Macnab to co-ordinate report of Olympic Working Party for Management Board to consider.

D Newton to give advice on Data Protection registration.

D Newton/I Willett to give advice on control of documentation by Councillors in respect of Data Protection and Freedom of Information requests.

B Bassington to make provision in the Internal Audit work programme for risk management awareness checking.

I Willett to include a section in new member induction regarding Data Protection Act registration.

111. FUTURE OF PUBLIC AUDIT - GOVERNMENT CONSULTATION

Noted that the Government was now conducting a public consultation regarding its plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other public bodies to account for local spending decisions.

Noted that the matter would be referred for responses to the Finance and Performance Management Cabinet Committee on 20 June 2011 and the Audit and

Governance Committee on 23 June 2011 and that the deadline for comments was 30 June 2011.

Agreed that a report be prepared for the two committees, accepting that there may be differing views between the Cabinet Committee and Audit and Governance Committee about the ideal form for the proposed statutory Audit Committees.

Agreed that in formulating proposals the precedent set by the Standards Committee in terms of the involvement of independent members and general constitutional arrangements be taken into account.

Action:

R Palmer to draft report.

I Willett to supply details of the governance arrangements for the Standards Committee as a precedent for responses to this Government consultation.

112. INTERNAL AUDIT - OUTSTANDING PRIORITY 1 ACTIONS 2010/11 (AS AT 13.4.11)

Noted that the latest report on Priority 1 actions indicated as follows:

(a) Building Maintenance Unit (Stock Control)

Internal Audit report being prepared but concern was likely to be expressed about the continuing error rate in stock control;

(b) Car Mileage Claims

Need for specimen signatures from authorising officers to be followed up;

(c) Licensing Enforcement

Agreed that at the next meeting of Corporate Governance Group, J Gilbert should attend to discuss the question of a perceived shortfall in enforcement as recorded in a previous Internal Audit report;

(d) Bed and Breakfast Contracts – Homeless Persons

Agreed that a further check be made on the current contractual position regarding provision of bed and breakfast accommodation to homeless persons.

Agreed that a copy of a recent Portfolio Holder decision should be referred to B Bassington for information purposes.

(e) Planning Fees – Income Reconciliation

Agreed that the entry on the schedule regarding target date be checked;

(f) Remaining Priority 1 Actions

Noted

Action:

A Hall/P Pledger to note position concerning stock control in Building Maintenance and likely need for both to attend the next Audit and Governance Committee;

R Palmer to follow up on specimen signatures for car mileage claim;

J Gilbert to attend next Corporate Governance Group to discuss licensing enforcement.

113. POLITICALLY-RESTRICTED POSTS

List of politically-restricted posts agreed for submission to the Standards Committee.

Action:

P Maginnis to note.

I Willett to refer to Standards Committee.

114. DATA PROTECTION ACT - COUNCILLORS

Dealt with under a preceding item (Audit and Governance Committee).

115. DECLARATIONS OF INTERESTS - AREA PLANS SUB COMMITTEES

Agreed that the proposed entry in Area Plans Sub Agendas regarding dual hatted members declaring interests be not pursued.

Noted that members were under an individual obligation to declare their interests.

Agreed that, if necessary, consideration might be given to an announcement by the Chairman under the Declaration of Interests item to seek indications from all members as to whether they would be declaring personal interests by virtue of dual hatted membership of councils if they intended to speak.

Noted that the view of Democratic Services staff was that the need to make these declarations at Area Plans Sub Committees was not unduly onerous or time consuming.

Action:

I Willett to monitor

116. STANDARDS COMMITTEE

(a) Complaints – Assessments, Investigations, Reviews and Adjudications

No new complaints received.

(b) Nazeing Parish Council – Direction by Standards for England

Noted that confirmation had been received from Standards for England that the previous direction had now been cancelled and the complaints previously referred to

Standards for England about certain Nazeing Parish Council members had also been discontinued.

117. CARBON ACTION NETWORK EAST (CAN EAST) AND EASTERN CARBON REDUCTION INITIATIVE (EASTERN CRI)

Noted that the Council had participated in an unincorporated association of 47 councils under the title of Can East and a project sponsored by the Group known as Eastern CRI.

Noted that approaches had been received in regard to unpaid invoices submitted between January and March 2010.

Agreed that the following governance implications of this issue be referred to Management Board for further discussion with Directors and to extended Management Board for discussion with Assistant Directors:

- (a) the importance of obtaining legal advice and authority to sign up to such bodies where potential liabilities for the Council could be created;
- (b) the need for letters before action being passed to Legal Section immediately on receipt in view of the timescale that applies;
- (c) the need for financial monitoring of these arrangements;
- (d) the need for supervision/reporting of the work of such bodies;
- (e) the importance of measures to limit liability of the Council; and
- (f) arrangements to ensure that documentation on such arrangements was available.

Agreed that Management Board should seek to advise senior staff of the definition of unincorporated associations and that this should be the basis for directorates providing details of such organisations which were in relationships with the Council so that a register could be created.

Noted that the Council had received a refund from the organising District Council (Mid Bedfordshire) for work previously undertaken in respect of the relevant statutory performance indicator and that, without admitting liability and bearing in mind the comparatively small sum, the Solicitor to the Council should seek to settle the payment from the refund already received.

Action:

C O'Boyle to pursue settlement as discussed.

I Willett to refer governance issues to Management Board.

118. BRIBERY ACT 2010

Noted that the Ministry of Justice had circulated guidance regarding the newly instituted Bribery Act 2010 which required a statement by the Council of implementing the Act to comply with the statutory provisions.

Agreed that B Bassington draft a policy statement based on best practice available for submission to the next meeting of Corporate Governance Group.

Action:

B Bassington to pursue.

119. DATE FOR FUTURE MEETINGS

Next meeting – 1 June 2011 at 9.30 am in the Acting Chief Executive's office.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 1 JUNE 2011
(9.30 - 11.45 AM)**

Present: D Macnab (Acting Chief Executive) (Chairman) C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), I Willett (Assistant to the Chief Executive) and B Bassington (Chief Internal Auditor)

**Apologies for
Absence:**

Place: Room 1.05, First Floor, Civic Offices, High Street, Epping, Essex

1. MINUTES OF THE PREVIOUS MEETING - 20.4.11

Agreed.

2. MATTERS ARISING

(a) Licensing Enforcement (Minute 112(c))

(J Gilbert in attendance)

Noted that an action plan had been prepared in order to respond to concerns about enforcement of taxi licensing in a previous internal audit report.

Noted that in future the service will continue to be complaint-orientated but more time would be devoted to proactive enforcement work subject to availability of staff resources.

Action:

J Gilbert to pursue.

(b) Politically Restricted Posts

Agreed that the current position be checked regarding submission to the Standards Committee.

Action:

I Willett to pursue.

(c) Carbon Action Network East (CAN East) and Eastern Carbon Reduction Initiative (Eastern CRI) (Minute 117)

Noted that no payment had yet been made in respect of the outstanding financial liability for the Council pending a current police investigation of this organisation and the lead Council concerned.

Action:

C O'Boyle to monitor.

3. DECLARATIONS OF INTEREST

None for this meeting.

4. TERMS OF REFERENCE

Noted.

5. AUDIT COMMISSION - DIGEST OF RECENT REPORTS

None for this meeting.

6. INTERNAL AUDIT - ANNUAL REPORT AND EFFECTIVENESS STATEMENT

Agreed that the draft report submitted to the meeting be approved for submission to the Audit and Governance Committee subject to the following:

(a) Paragraph 6 (Performance Management) – add additional comment on proposals for improving service performance in 2011/12;

(b) Paragraph 8.9 – make reference to the intention of Internal Audit to remind audit report recipients to provide feedback, if necessary attaching the feedback form to the final version of the audit report as issued to Service Directors.

(c) Paragraph 15 (Good Practice Questionnaire) – insert 97% as the compliance score achieved.

Agreed that (b) above be referred to the next Extended Management Board meeting for discussion with Directors and Assistant Directors.

Action:

B Bassington to pursue.

I Willett to refer to Extended Management Board.

7. INTERNAL AUDIT MONITORING REPORT (JANUARY-MARCH 2011)

Noted that in the last quarter all internal audit reports had findings of either full or substantial assurance.

Agreed that the draft report be approved for submission to the Audit and Governance Committee subject to minor clerical changes and to the omission of Appendix 4 which could be cross-referenced to a separate report on the same agenda.

Action:

B Bassington to pursue.

8. EXTERNAL AUDITOR - ANNUAL AUDIT FEE LETTER 2011/12

Draft report agreed.

Action:

R Palmer to pursue.

9. ANNUAL GOVERNANCE STATEMENT 2010/11

Draft statement agreed for submission to the Audit and Governance Committee subject to the following:

- (a) Paragraph 3.6 – check wording on whether there is a currently a Performance Plan in being;
- (b) Paragraph 7.1.6 – delete last sentence;
- (c) Paragraph 7.2.2 – make reference to progress with the Guide to Procurement and to work being undertaken on Freedom of Information Act and Data Protection Act procedures;
- (d) Paragraph 7.2.3 – amend wording to clarify that current work is regarding the updating of the existing policy only.

Action:

B Bassington to pursue.

10. DRAFT ANTI-BRIBERY POLICY

Agreed for submission to the next Audit and Governance Committee subject to the following:

- (a) check whether there is full member and officer access to the policy available;
- (b) make reference to access to the document for staff who are not connected to the Council's Intranet;
- (c) make reference in the policy to possible disciplinary penalties for staff;
- (d) bring forward proposals for training of staff on anti-bribery issues with particular reference to vulnerable areas such as major contracts, assets and planning.

Action:

B Bassington to report back.

11. CORPORATE RISK REGISTER

Agreed that the latest version of the Corporate Risk Register be approved subject to the addition of a new risk relating to "bundling" along the boundary of the North Weald Airfield adjacent to the M11 motorway which was to be the subject of a future Cabinet report.

Noted that comments made by the Leader of Council concerning the potential risk surrounding the Localism Bill, currently before Parliament, had been covered in item No 22 in the Schedule.

Agreed that No 9 (Depot Accommodation) be reclassified to Risk D2.

Agreed that consideration be given to provision of risk management training by Zurich Municipal in respect of new Cabinet members and the Audit and Governance Committee.

Action:

R Palmer to pursue.

12. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011/12-2013/14

Agreed that the draft report be approved for submission to the Audit and Governance Committee.

Agreed that consideration be given to specific training for key members on future borrowing policy.

Action:

R Palmer/B Moldon to pursue.

13. OLYMPIC WORKING GROUP

Draft report for submission to the Audit and Governance Committee agreed subject to the addition of reference to:

- (a) Essex Procurement Business Breakfast; and
- (b) current impact assessment being undertaken.

Action:

D Macnab to pursue.

14. STANDARDS COMMITTEE

(a) Complaints – Assessments, Reviews and Adjudications

No new items for report.

(b) Ninth Annual Report (2010/11)

Agreed, subject to the inclusion of the Chairman of the Committee's introductory statement, a schedule of cases and an amendment to Paragraph 5.4 to reflect new information received recently about a possible replacement Code of Conduct.

Action:

I Willett to finalise.

15. FORMER CHIEF EXECUTIVE - CONTRACT OF EMPLOYMENT

Noted that the Senior Partner in PKF Accountants (the Council's external auditors) had submitted a report on his review of the terms of employment in respect of the former Chief Executive.

Agreed that a brief covering report be drafted to accompany the documents presented by PKF at the next meeting of the Audit and Governance Committee.

Noted that C O'Boyle would be attending the meeting.

Action:

D Macnab to draft report.

16. PUBLIC AUDIT - GOVERNMENT CONSULTATION

Noted that a draft report would be circulated for comment to CGG members.

Action:

R Palmer to pursue.

17. IFRS - CHANGES TO THE ANNUAL ACCOUNTS

Noted that a draft report would be circulated by P Maddock for comments by CGG members.

Action:

P Maddock to pursue.

18. AUDIT AND GOVERNANCE COMMITTEE - DEPUTY PORTFOLIO HOLDERS

Noted that one Deputy Portfolio Holder had been appointed as a member of the Audit and Governance Committee.

Agreed that this necessitated a review of the terms of reference of the Audit and Governance Committee as the involvement of a Deputy Portfolio Holder was not covered and not regarded as best audit practice.

Agreed that this issue be considered at a future meeting of the Constitution and Member Services Panel.

19. DATE FOR FUTURE MEETINGS

13 July 2011 at 9.30 am in the Acting Chief Executive's Office.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-001-2011/12

Date of meeting: 23 June 2011

Portfolio: Finance & Economic Development

Subject: Annual Accounts under International Financial Reporting Standards (IFRS)

Responsible Officer: Peter Maddock (01992 564602).

Democratic Services: Gary Woodhall (01992 564470).

Recommendation:

(1) To note the format of the core financial statements and notes to be included in the 2010/11 Statutory Statement of Accounts and that this will not be presented to this meeting but to the September meeting once the audit is completed.

Executive Summary:

At the meeting of 4 April 2011 this committee received a report on the progress toward the restatement of the 2009/10 Accounts in line with IFRS. This work has now been completed and indeed the 2010/11 Accounts are substantially complete on the same basis. This report provides a first sight of the Core Financial Statements to be included within the Statutory Statement for 2010/11 under IFRS. The requirement for the accounts to be scrutinised by this committee and approved by Council prior to audit has been removed by the Accounting and Audit Regulations 2011. The Accounts will therefore be approved once the audit has been completed toward the end of September following the year end to which the accounts relate.

Reasons for Proposed Decision:

To provide members with a first sight of the core financial statements and the notes required to those statements and included in the Statutory Statement of Accounts.

Other Options for Action:

No other options are available.

Report:

1. IFRS has been adopted by local authorities for financial years commencing 1 April 2010. The first year's accounts as well as being compliant with IFRS also require a restatement of the previous year for comparative purposes. This has been carried out and is currently with the External Auditor for their comments.

2. Previously it has been the practice for an unaudited set of accounts to be scrutinised by this committee and then approved by Council. The latest Accounting and Audit Regulations have removed this requirement and the scrutiny and approval process will take place in September once the accounts have been audited.

3. The Income and Expenditure Account (Annex 1(a)) which, as its name suggests,

recorded the in year income and expenditure and the Statement of Total Recognised Gains and Losses (STRGL) (Annex 1(b)) which recorded other gains and losses have been replaced by the Comprehensive Income and Expenditure Statement (CIES) (Annex 1(c)). The thinking behind this is to bring together all gains and losses during the year and report them in one statement. The total at the bottom of the CIES is therefore equivalent to the total that would have been recorded at the bottom of the STRGL.

4. The Statement of Movement on General Fund Balance (Annex2(a)) was a statement that reconciled the surplus or deficit on the Income and Expenditure Account to the amount to be added to or taken from the General Fund Balance as a result of the years activities. This statement now forms part of the Movement in Reserves Statement (Annex 2(b)), which tracks all movements on all reserves in the bottom half of the Balance Sheet. There is still a requirement for a note detailing all of the items to be reversed out to get from the surplus or deficit on the CIES to the General Fund Balance but this now includes even more items than before and is referred to as the 'adjustments between accounting basis and funding basis under regulations!'

5. The Balance Sheet, (Annexes 3(a) and (b)), is the statement of net worth the balance representing the net value of the Councils assets. This is only ever an estimate as by far the biggest number is the Value of Council Dwellings based on a valuer's judgement. Whilst there are presentational changes within the statement, the statement itself looks broadly similar.

6. The Cashflow Statement, (Annexes 4(a) and (b)), is still in existence but is now in a more summarised form. The statement now reports the movement on cash and cash equivalents. The category described as cash will contain some items that would previously not have been reported as cash hence the total at the bottom of Annex 4 (a) differs from the third from bottom line under IFRS.

7. It should be noted that the statements presented from the 2009/10 accounts are before the IFRS restatement and therefore the totals will differ from the comparatives shown for the same year on the new statements.

8. There have been a number of changes to the notes to be included in the statement with some additional notes, some changes in content and some no longer required. Annex 5 gives a listing of the notes required under IFRS and those not required and whether it is felt that retention would aid understanding of the accounts.

9. The statements and listing of notes are presented to this committee in advance of the formal approval process to give an opportunity for comment.

Resource Implications:

Budget provision: Existing.

Personnel: Existing.

Land: Nil

Legal and Governance Implications:

Financial reporting needs to be on the basis of latest guidance and regulations therefore it is good practice, where appropriate, to follow this guidance.

Safer, Cleaner, Greener Implications:

The Council's accounts contain expenditure in relation to this initiative.

Consultations Undertaken:

There have been a number of consultations with the Council's external auditors of IFRS related matters.

Background Papers:

Various working papers held in Accountancy.

Impact Assessments:

Risk Management

There is a reputational risk to the Council if it is criticised for failing to present the annual accounts in accordance with IFRS.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
None.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

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THE INCOME & EXPENDITURE ACCOUNT

CONSOLIDATED EXPENSES	Note	Gross Expend £000	2009/10 Income £000	Net Expend £000	2008/09 Net Expend £000 <i>Restated</i>
Continuing Operations					
Central Services	1/3	12,385	10,360	2,025	2,801
Corporate and Democratic Core	1/2/3	2,746	0	2,746	2,973
Cultural Related	1	4,513	595	3,918	4,126
Environmental Services	1/4	10,088	2,124	7,964	8,136
Highways and Transport	1/5	2,495	2,135	360	442
Housing	1	34,704	33,098	1,606	2,797
Planning & Development	1/5/8	3,860	1,325	2,535	3,002
Exceptional Item - Reimbursement of VAT	9	290	1,448	(1,158)	0
Housing Revenue Account	1/2/3	30,087	55,099	(25,012)	32,734
NET COST OF SERVICES		101,168	106,184	(5,016)	57,011
(Gain)/Loss on disposal of fixed assets				(488)	(301)
Precepts paid to Parish Councils				2,942	2,830
Total Net (Surplus)/Deficit from Trading Operations	7			(1,438)	785
Interest payable and similar charges				41	51
Housing Capital Receipts Pool				761	728
Interest and Investment Income				(1,183)	(3,600)
Impairment of Investments				(155)	794
Pensions Interest/Return on Investments				3,238	2,266
TOTAL NET OPERATING EXPENDITURE				(1,298)	60,564
AMOUNT TO BE MET FROM GOVERNMENT GRANTS & LOCAL TAXPAYERS					
Receipts from the Collection Fund				(10,845)	(10,543)
Government Grants and Other Contributions	8			(1,886)	(1,414)
Distribution from the Non-Domestic Rate Pool				(7,611)	(8,183)
(SURPLUS)/DEFICIT FOR YEAR				(21,640)	40,424

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits (Note 33, page 30). Other gains and losses are made up of the change in value of deferred capital receipts under the rents to mortgages scheme and gains as a result of an in-year restatement of housing stock valuations.

	31 March 2010 £000	31 March 2009 £000 <i>Restated</i>
Surplus/(deficit) for the year on the Income and Expenditure Account	21,640	(40,424)
Surplus/(deficit) arising on revaluation of fixed assets	22,938	(44,630)
Actuarial gains/(losses) on pension fund assets/liabilities	(13,794)	3,034
Other gains/(losses)	215	(1,175)
Total recognised gains and (losses)	30,999	(83,195)

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2011

	Note	Gross Expend £000	2010/11 Income £000	Net Expend £000	2009/10 Net Expend £000
CONTINUING OPERATIONS					
Central Services	1/3				2,039
Corporate and Democratic Core	1/2/3				2,746
Cultural Related	1				3,988
Environmental Services	1/4				8,019
Highways and Transport	1/5				360
Housing	1				1,611
Planning & Development	1/5/8				2,572
Exceptional Item	9				(1,158)
Housing Revenue Account	1/2/3				(24,974)
NET COST OF SERVICES					(4,797)
OTHER OPERATING EXPENDITURE					
Precepts paid to Parish Councils					2,942
Housing Capital Receipts Pool					761
(Gain)/Loss on disposal of fixed assets					(488)
FINANCING AND INVESTMENT INCOME AND EXPENDITURE					
Interest payable and similar charges					41
Pensions Interest/Return on Investments					3,238
Interest and Investment Income					(1,183)
Total Net (Surplus)/Deficit from Trading Operations	7				(1,419)
Changes in fair value of Investment Properties					(239)
Impairment of Investments					(156)
TAXATION AND NON-SPECIFIC GRANT INCOME					
Receipts from the Collection Fund					(10,845)
Government Grants and Other Contributions	8				(2,711)
Distribution from the Non-Domestic Rate Pool					(7,611)
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES					(22,466)
(Surplus)/Deficit on Revaluation of Property Plant and Equipment					(22,938)
Actuarial (gains)/losses on Pension Assets/Liabilities					13,794
Other (Gains)/Losses					(215)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE					(31,825)

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However the Council is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than from council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

The General Fund Balance compares the Councils' spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for the future.

This reconciliation statement summarises the differences between the outturn in the Income and Expenditure Account and the General Fund Balance.

	Note	2009/10 £000	2008/09 £000 <i>Restated</i>
INCREASE IN THE GENERAL FUND BALANCE			
(Surplus)/Deficit for the year on the Income and Expenditure Account		(21,640)	40,424
Net additional debits/(credits)	12	21,775	(41,397)
Deficit/(Surplus) for the year		135	(973)
General Fund Balance brought forward		(8,435)	(7,462)
General Fund Balance carried forward		(8,300)	(8,435)

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movements in 2009/10									
Balance as at 31 March 2009	8,435	4,730	6,081	4,561	24,319	6,919	236	55,281	563,301
Surplus/(Deficit) on Provision of Services	(1,965)		24,431					22,466	-
Other Comprehensive Income and Expenditure								-	9,138
Total Comprehensive Income and Expenditure	(1,965)	-	24,431	-	-	-	-	22,466	9,138
Adjustment between accounting and funding bases under regulations	2,756	(644)	(24,424)	(180)	(3,228)	4,778	95	(20,847)	20,846
Net Increase/(Decrease) before transfer to Earmarked Reserves	791	(644)	7	(180)	(3,228)	4,778	95	1,619	29,984
Transfers to Earmarked Reserves	(926)	962	1			(5,967)		(5,930)	5,930
Increase/(Decrease) in Year	(135)	318	8	(180)	(3,228)	(1,189)	95	(4,311)	35,914
Balance as at 31 March 2010	8,300	5,048	6,089	4,381	21,091	5,730	331	50,970	599,215
Movements in 2009/10									
Balance as at 31 March 2010	8,300	5,048	6,089	4,381	21,091	5,730	331	50,970	599,215
Surplus/(Deficit) on Provision of Services								-	-
Other Comprehensive Income and Expenditure								-	-
Total Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-
Net Increase/(Decrease) before transfer to Earmarked Reserves	249	-	-	-	-	-	-	249	(249)
Transfers to Earmarked Reserves	667	(667)						-	-
Increase/(Decrease) in Year	916	(667)	-	-	-	-	-	249	(249)
Balance as at 31 March 2011	9,216	4,381	6,089	4,381	21,091	5,730	331	51,219	598,966

BALANCE SHEET

	Note	31 March 2010		31 March 2009	
		£000	£000	£000	£000
LONG TERM ASSETS					
Fixed Assets	13		655,737		605,174
Intangible Assets	14		748		710
Long Term Investments	15		677		11,868
Long Term Debtors	16		1,844		1,792
TOTAL LONG TERM ASSETS			659,006		619,544
Current Assets					
Stocks and Work in progress	17	188		272	
Debtors and Prepayments	18	11,969		4,202	
Short Term Temporary Investments	19	35,163		45,008	
Cash at Bank and in Hand		8,505	55,825	1,340	50,822
Current Liabilities					
Creditors	20	(6,311)		(9,712)	
Bank Overdraft		(1,367)		0	
			(7,678)		(9,712)
TOTAL ASSETS LESS CURRENT LIABILITIES			707,153		660,654
Deferred Revenue Income	22		(526)		(536)
Pensions Liability	33		(56,493)		(41,547)
Unapplied Capital Contributions	23		(280)		(226)
Capital Grants and Contributions Deferred	24		(4,796)		(4,286)
TOTAL ASSETS LESS LIABILITIES			645,058		614,059
RESERVES					
Revaluation Reserve	25		26,716		3,403
Capital Adjustment Account	26		623,540		596,749
Capital Receipts Reserve	27		21,091		24,319
Pensions Reserve	33		(56,493)		(41,547)
Major Repairs Reserve	9(HRA)		5,730		6,919
Earmarked Reserves	35		9,429		9,291
Revenue Balances	28		14,325		14,492
Deferred Capital Receipts	29		1,336		1,258
Financial Instruments	30		(466)		(711)
Accumulated Absences Account	31		(150)		(114)
			645,058		614,059

BALANCE SHEET

	Note	31 March 2011		31 March 2010	
		£000	£000	£000	£000
LONG TERM ASSETS					
Property, Plant & Equipment			624,619		617,866
Investment Properties			39,225		37,870
Intangible Assets			775		748
Long Term Investments			320		677
Long Term Debtors			1,800		1,844
TOTAL LONG TERM ASSETS			666,739		659,005
Current Assets					
Stocks and Work in progress		223		188	
Debtors and Prepayments		6,590		11,969	
Short Term Temporary Investments		43,707		38,163	
Cash & Cash Equivalents		4,730		4,138	
			55,250		54,458
Current Liabilities					
Creditors		(8,692)		(5,948)	
Bank Overdraft		0		0	
			(8,692)		(5,948)
LONG TERM LIABILITIES					
Deferred Revenue Income		(509)		(526)	
Pensions Liability		(46,324)		(56,493)	
Capital Grant Receipts in Advance		(646)		(311)	
			(47,479)		(57,330)
TOTAL ASSETS LESS LIABILITIES			665,818		650,185
Useable Reserves					
			47,788		50,970
Unuseable Reserves					
			618,030		599,215
			665,818		650,185

THE CASH FLOW STATEMENT

		Note	31 March 2010 £000 £000		31 March 2009 £000 £000 <i>Restated</i>	
REVENUE ACTIVITIES						
	Net Cash Flow from Revenue Activities	40		3,610		(5,585)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE						
Out	Interest Paid		1		3	
In	Interest Received		(1,490)		(3,336)	
	Net Cash Flow from Investments and Servicing of Finance			(1,489)		(3,333)
CAPITAL ACTIVITIES						
Out	Purchase of Fixed Assets		13,068		8,297	
	Purchase of long term investments		0		5,000	
	Other Capital cash Payments		0	13,068	90	13,387
In	Sale of Fixed Assets and Repayment of Mortgages		(1,248)		(1,049)	
	Capital Grants Received	41	(116)		(108)	
	Repayment/Reclassification of Long Term Investments		(10,000)		(5,000)	
	Other Capital Cash Income		(753)	(12,117)	(392)	(6,549)
	Net Cash Flow from Capital Activities			951		6,838
MANAGEMENT OF LIQUID RESOURCES						
	Net Increase/(Decrease) in short-term deposits			(10,878)		(750)
	Net Increase/(Decrease) in other liquid resources			2,008		3,677
	Net (Increase)/Decrease in Cash			(5,798)		847

THE CASH FLOW STATEMENT

	Note	31 March 2011		31 March 2010	
		£000	£000	£000	£000
REVENUE ACTIVITIES					
Net (Surplus)/Deficit on Provision of Services	xx				(22,466)
Adjust for Non-cash Movements					25,955
Adjust for Investing and Financing Activities					(1,369)
<hr/>					
NET CASH FLOW FROM OPERATING ACTIVITIES					2,120
INVESTING ACTIVITIES					951
FINANCING ACTIVITIES					(5,869)
<hr/>					
NET (INCREASE)/DECREASE IN CASH					(2,798)
Cash & Cash Equivalents at Start of Period					(1,340)
<hr/>					
TOTAL CASH AND CASH EQUIVALENTS					(4,138)

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-002-2011/12

Date of meeting: 23 June 2011

Portfolio: Finance and Economic Development

Subject: Annual Governance Statement 2010/11

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To consider, comment upon and approve the draft Governance Statement for 2010/11.

Executive Summary:

The Council's Statutory Statement of Accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) 2006). Within the Regulations, and in accordance with defined 'proper practice', there is a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements are designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved.

Reasons for Proposed Decision:

To provide the Committee with the opportunity to scrutinise the draft Governance Statement.

Other Options for Action:

No other options.

Report:

1. In accordance with good practice the governance statement should include the following information:

(a) an acknowledgement of responsibility for ensuring there is a sound system of governance;

(b) an indication of the level of assurance that the systems and processes that comprise the authority's governance can provide;

(c) a brief description of the key elements of the governance framework, including reference to group or partnership activities where those activities are significant;

(d) a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements; and

(e) an outline of the actions taken, or proposed, to deal with significant governance Issues.

2. The production of an AGS enables the Authority to use the review process positively and proactively to deliver assurance about governance arrangements within the Authority to stakeholders, and to develop better arrangements where the review finds areas in need of improvement. The process involves a comparison of achievements against the principles set out in the Authority's Local Code of Governance, and supports an intention and commitment to provide good governance.

3. The Annual Governance Statement is the product of an annual review by the Authority, of the effectiveness of the Council's governance arrangements. This includes an assessment of the effectiveness of its internal control arrangements. The AGS is published with the Statement of Accounts.

4. The AGS is derived partly from detailed reviews by all Service Directors of the effectiveness of the governance arrangements operating within their Directorate, by reference to a detailed checklist incorporating the key elements within the Local Code of Governance. As part of this process Directors have considered available evidence to demonstrate that these governance systems and processes are working effectively and as intended. All Directors have provided assurance statements indicating the level of assurance that can be placed on the effectiveness of key controls operating at service level. These statements are intended to be a balanced representation of the arrangements in place during the year, and to highlight those areas where improvement is required. Significant issues are commented upon in the Governance Statement.

5. Internal Audit focuses its work on providing an independent and objective opinion on the Council's internal controls, and submits an annual report and quarterly monitoring reports to this Committee, where significant audit findings and improvement areas are highlighted. The Chief Internal Auditor is required to include in the annual audit report an opinion on the overall adequacy and effectiveness of the Council's internal control environment, drawing attention to any issues that are relevant to the preparation of the Governance Statement. The annual audit report for 2010/11 is included on the agenda for this meeting, and includes an opinion that satisfactory assurance can be given regarding the adequacy of the Council's internal control system in 2010/11.

Resource Implications:

From existing resources.

Legal and Governance Implications:

No specific implications.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group and Service Directors.

Background Papers:

CIPFA Internal Audit Code of Practice, Audit reports and files.

Impact Assessments:

Risk Management

The preparation of the Annual Governance Statement is a key part of the Council's governance arrangements in demonstrating that there is a continuous review of the Council's internal control and risk management systems.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

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Epping Forest District Council

Annual Governance Statement 2010/11

1. Scope of Responsibility

1.1 Epping Forest District Council (EFDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In addition, the Council has a key role with respect to Community Leadership, exercising its powers under the Community Wellbeing Act 2000, facilitating effective engagement and collaborative working through the auspices of One Epping Forest, formerly the Local Strategic Partnership.

1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

1.4 The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at www.eppingforest.gov.uk. This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2006, in relation to the publication of a Statement on Internal Control.

1.5 The Council's Code of Governance recognises that effective governance is achieved through the following core principles:

- (i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- (iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour;
- (iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk;
- (v) developing the capacity and capability of Members and officers to be effective;
- (vi) engaging with local people and other stakeholders to ensure robust public accountability.

2 The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to fully achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks and the impact should they occur and to manage them efficiently, effectively and economically.
- 2.3 A governance framework has been in place at the Council for a number of years and has been effective for the year ended 31 March 2011, and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

- 3.1 The Council has an established Council Plan setting out its objectives, and there is an accompanying Performance Plan in which achievement of the objectives is monitored.
- 3.2 The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios. There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee. An Audit and Governance Committee provides independent assurance to the Council on risk management and internal control and the effectiveness of the arrangements the Council has for these matters.
- 3.3 The Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures, which ensure compliance with established policies, procedures, laws and regulations. A comprehensive corporate induction programme is in place and information regarding policies and procedures are held on the intranet, which continues to be enhanced and developed. The Council's Internal Audit function has been effective in recent years and there are well established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, laws and regulations within their remit.
- 3.4 The Council's risk management arrangements are subject to regular review. Leadership to the risk management process is provided by the Director of Finance and ICT and the Portfolio Holder for Finance and Economic Development, who are the Officer and Member leads for risk management, respectively. The Council has approached embedding of risk management in accordance with best practice guidance, with a Corporate Risk Register supported by Directorate and Sectional risk registers.

- 3.5 Financial management in the Council and the reporting of financial standing is undertaken through a General Ledger Financial Information System, CEDAR, which integrates the general ledger function with those of budgetary control. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way and corrective action is initiated.
- 3.6 The Council has adopted a new Corporate Plan for 2011/12 to 2014/15. The Corporate Plan is the Council's key strategic planning document, setting out service delivery priorities over the four-year period, with strategic themes reflecting those of the Sustainable Community Strategy for the district. The Corporate Plan is an important element of the Council's Performance Management Framework and its corporate business planning processes, and informs the content of annual Business Plans to illustrate the work that Directorates and Services perform that directly contributes towards the achievement of the Council's corporate objectives. The Corporate Plan also provides the emerging policy foundation for the Medium-Term Financial Strategy.

As part of the duty to secure continuous improvement, new Medium-Term Aims have also been adopted for 2011/12 to 2014/15. The identification of the Council's service delivery priorities over the four-year period of the new Corporate Plan, and the annual adoption of key objectives for each year of the Plan, provides an opportunity for the Council to focus specific attention on how areas for improvement will be addressed, opportunities exploited and better outcomes delivered for local people. A range of Key Performance Indicators (KPI) relevant to the Council's services and key objectives are also adopted each year. A number of the KPIs are used as performance measures for the key objectives, and relevant performance management processes are in place to review and monitor performance against the key objectives and KPIs, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of under performance.

4. Financial Management and Reporting

- 4.1 Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Chief Finance Officer. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be promptly detected.
- 4.2 Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.
- 4.3 In their Annual Audit Letter for 2009/10, the Council's External Auditor (PKF) stated the following key findings:
- 4.3.1 The External Auditor issued an unqualified opinion on the Council's financial statements on 30th September 2010. Their opinion confirmed that the financial statements gave a true and fair view of Council's financial affairs as at 31st March 2010 and of its income and expenditure for the year then ended.
- 4.3.2 The External Auditor was satisfied that the Annual Governance Statement was not inconsistent or misleading with other information they were aware of from their audit of the financial statements.

4.3.3 The External Auditor identified some notable control weaknesses from their review of the Council's accounting and internal control systems, which adversely impacted the audit approach. These were:

a) Benefits: Reconciliations, both between the housing and council tax benefits module of the Academy system and the general ledger and between the housing and council tax benefits module of the Academy system and the council tax module, had not been completed during the year. In addition, accuracy checks on claims processed had lapsed during the year.

b) Creditors: Controls over the ordering of goods and services were found to have lapsed, with notable amounts of orders being placed outside of Marketplace, the Council's electronic ordering system.

4.3.4 Although the draft accounts were prepared on time not all of the working papers requested were provided in time for the agreed start date of the audit, most significantly the reconciliations of housing and council tax benefit expenditure to the financial ledger and working papers that support the figures in the Cash Flow Statement.

4.3.5 Errors were identified and corrected during the course of the audit, of which six were significant enough to report in some detail in our Annual Governance Report.

The most significant was a material misstatement of £25.5m in respect of accounting for fixed asset revaluations. The overall impact of the correction of this misstatement was to change the Council's reported outturn from a £4m deficit to a £21m surplus for the year in the Income and Expenditure account but did not have an impact on the General Fund balance.

4.3.6 In addition, the cash flow statement required substantial restatement and amendment to comparatives to fully reflect the requirements of the SORP in respect of agency accounting.

5 Standards Committee

5.1 During 2010/11 the Standards Committee has dealt with 9 complaints against Councillors. These mainly concern Parish and Town Councillors. At the time of writing, there are no current cases awaiting adjudication and under investigation.

5.2 During the year, the Standards for England Direction regarding one Parish council and the institution of a series of training and conflict resolution measures designed to address continuing complaints was cancelled. This was due to the difficulties encountered at the first two training sessions which led the trainer, the Monitoring Officer and the Standards Committee to question the likelihood of achieving a positive outcome and the cost of the programme.

5.3 The Committee continues to give advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members as referred by the Standards Board for England. It is also available to assist with interpretation of Council protocols. During 2009/10 the Committee considered and issued Standards for England guidance on Predisposition, Predetermination or Bias and the Code of Conduct. The Committee submits an annual report on its activities to the Council. A further review of the Planning Protocol has been launched and will be concluded during 2011/12.

Planning and Legal Officers, planning agents and Town and Parish Councils have made submissions concerning the protocol.

- 5.4 During 2008/09, the Standards Committee responded to Government consultation on a new Code of Conduct. This proposed revision to the code has not been pursued by the new government which has, instead indicated that the present ethical framework and standards regime will be discontinued along with Standards for England, the national appeal body, mandatory Standards Committees and Codes of Conduct. The new regime is currently before Parliament and when legislation is enacted the District Council will need to review what takes its place at a local level, if anything. A new legal duty is likely to be introduced by the Government regarding failure by elected members to declare financial interests which, if proved, to be willful in nature may risk a criminal conviction.
- 5.5. The new legislation is thought likely to come into force in late 2011 or early 2012.

6. Review of Effectiveness

- 6.1 The Council has responsibility for conducting an annual audit review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Corporate Governance Group, the Chief Internal Auditor's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- 6.2 The Council contributes to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Council Plan 2006/10 with the Community Strategy. This is supported by a planning framework which includes the Council Plan and Directorate/Service Plans. The Council, through the Finance and Performance Management Scrutiny Panel, monitors and reports on progress so that Members can see how issues are being tackled. The Corporate Plan (formerly Council Plan) has been updated for 2011/15 and is awaiting Council approval.
- 6.3 Directorate and Sectional business plans contain a variety of performance indicators and targets that are regularly reviewed.
- 6.4 The Council's Constitution, which includes Financial Regulations, Contract Standing Orders and Delegated Authorities, is required to be reviewed annually and this is carried out by a nominated group of officers led by the Deputy Monitoring Officer. This annual programme of reviews of Contract Standing Orders, Financial Regulations and Delegated Authorities continued as in previous years.
- 6.5 The Council has three statutory posts as follows:-
- Head of Paid Service - Chief Executive
 - Chief Financial Officer - Director of Finance and ICT
 - Monitoring Officer – Director of Corporate Support Services / Solicitor to the Council.

These officers, with the Deputy Chief Executive, Deputy Monitoring Officer and Chief Internal Auditor form the Corporate Governance Group who meet monthly. The group's terms of reference: are available on the Council's web site.

- 6.6 The Council continues to assess how its overall corporate governance responsibilities are discharged. As referred to earlier the Council has adopted the CIPFA/SOLACE guidance and adopted a revised local Code of Governance in 2008.
- 6.7 The Council is required to maintain an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations. The Internal Audit function is managed by the Chief Internal Auditor and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
The annual Internal Audit work plan is discussed with senior officers and approved by the Audit and Governance Committee in consultation with the Finance and Performance Management Cabinet Committee.

All internal audit reports include an assessment of the adequacy of internal control and result in prioritised action plans to address any areas needing improvement. These are submitted to Service Directors, and an executive summary is provided to the Acting Chief Executive and the relevant Portfolio Holder.

- 6.8 The review of governance incorporates the system of internal control. In previous years the Council's review of the effectiveness of the system of internal control has been supported by:
- Directorate assurance based on management information, performance information and Director assurance statements;
 - The work undertaken by Internal Audit during the year;
 - The work undertaken by the external auditor reported in their annual audit and inspection letter and other review reports;
 - Other work undertaken by independent inspection bodies.

7. Governance – Service Issues and Improvements

- 7.1. Service Directors have reviewed the governance arrangements operating within their Service Areas using a detailed checklist, and have provided assurance statements confirming their belief that appropriate controls were in place during 2010/11. Significant areas where governance arrangements have been strengthened are detailed below.

7.1.1. Office of the Chief Executive

Throughput of Freedom of Information requests is sometimes at risk due to the number of applications received corporately and dealt with / monitored through the Democratic Services Department.

- 7.1.2. One significant breach of Data Protection Act requirements in 2009/10 has been addressed through revised data protection processes and continue to be carefully monitored.

7.1.3. Corporate Support Services

Within Corporate Support Services no significant weaknesses have been identified by the review, internal /external audits or otherwise.

A corporate issue which the Corporate Governance Group has considered and referred to Management Board concerns the Council's membership of Unincorporated Associations.

Directors are reviewing such memberships in the light of advice with a view to a register being established and maintained.

7.1.4. **Environment and Street Scene**

A number of Internal Audit reports were issued during 2010/11 which required actions by the Directorate. Those reports requiring specific action by the Directorate included:

- Contracts Compliance (553)
- Waste Management (558)
- Business Plans (562)
- Grounds Maintenance (566)
- Car Parking (589)
- Licensing Enforcement (590)

Action plans have been agreed between Internal Audit and the Directorate Management and steps have been taken to deal with the issues raised and ensure compliance.

Following previous difficulties regarding breaches of contract standing orders arising from multiple small contracts, a new ICT system which monitors the totality of contract expenditure has been successfully implemented thereby reducing the risks of unintended breaches of contract standing orders.

7.1.5. **Finance and ICT**

During the first three quarters of 2010/11 there were no audits with limited assurance that related directly to the Directorate of Finance & ICT and follow ups have indicated positive progress on previous recommendations.

Last year one significant weakness was identified as the Audit Commission decided that progress on improving the Benefits Service was too slow and the service was inspected during 2009/10. Following the inspection, action plans were agreed with both the Audit Commission and the Department for Work and Pensions. Reports on progress have been made to the Finance & Performance Management Scrutiny Panel and the Audit & Governance Committee. All key actions have been implemented and significant improvements have been made in processing times.

During the year a firm of bailiffs used by the Council were placed in administration. Legal action is being pursued against the directors of the company to recover money owed to the Council. A procurement exercise is underway for replacement bailiffs and controls around the use of external bailiffs have been reviewed.

7.1.6. **Housing**

A number in Internal Audit Reports since the Housing Directorate has taken over responsibility for the former Building Maintenance Works Unit have highlighted internal control deficiencies within that section (now known as the Housing Repairs Service) with regard to procedures relating to the Stores.

Although, in monetary terms, discrepancies between actual and recorded stock are relatively small, the number of discrepancies is outside of an acceptable tolerance.

Since taking over the Stores, the Asst. Director (Property) has taken a number of steps to improve the position in the short term. However, improvement has been hampered by the limitations of the legacy IT system.

The Housing Directorate has ensured that this weakness will be addressed in the medium term through the appointment of the Private Repairs Management Contractor (Mears) in May 2011 - one of the 5 "key deliverables" which Mears must deliver in the first year of the contract is to improve the supply chain for materials.

This will not only result in better value for money - through lower unit costs being harnessed through Mears' bulk purchasing power - but will also include the introduction of the contractor's own IT system for the control of materials, with more sophisticated internal controls.

7.1.7. Planning and Economic Development

Corporately, there has been recognition that a flow chart to ensure compliance with Contract Standing Orders is necessary, in part because of their complexity, and, in part to ensure that the most up to date Orders are being applied. The flow chart will be a helpful tool.

The various financial systems do not allow for the highlighting of accumulated consultancy work within the Planning and Economic Development Directorate, which would exceed contract standing orders to be avoided.

7.2. Governance – Internal Control Issues

Other areas have been highlighted in the review of the Council's systems of internal control and are listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements:

7.2.1. Internal Audit had identified one income system where controls were in place however, the audit identified control weaknesses in the reconciliation of income and data quality. Management now ensure that income is recorded correctly to enable a full reconciliation of income due to the amount received.

7.2.2. Within the corporate systems for processing purchase orders and invoices, there are still instances of weaknesses and departures from Contract Standing Orders, Financial Regulations and good practice. While further instances of departures from Financial Regulations have been identified through audit review and corrective guidance given, it should be noted that the audit priority 1 recommendations which cover such departures, have fallen from 39 (09/10) to 29 (10/11). A course for managers on finance and regulatory issues continues to be regularly held for both new staff and existing staff where the need for a refresher has been identified through audit review or as part of Performance Development Reviews. An officer working group has reviewed Contract Standing Orders and Financial Regulations and a simplified instruction guide is in preparation.

7.2.3. Two Internal Audit reports have identified areas where documentation has not been retained for a sufficient period to provide evidence for audit purposes or legislative requirements. Initial guidance had been given and an officer working group is in the process of updating the document retention policy and guidelines.

8. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Derek Macnab
Acting Chief Executive

Signed

Councillor Lesley Wagland
Leader of the Council

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Report to the Audit & Governance Committee



**Epping Forest
District Council**

***Report reference: AGC-003-2011/12
Date of meeting: 23 June 2011***

Portfolio: Finance & Economic Development

**Subject: Treasury Management Strategy Statement and Investment
Strategy 2011/12 to 2013/14**

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations:

- (1) To consider how the risks associated with Treasury Management have been dealt with in the amended Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14; and**
- (2) To make any comments or suggestions that Members feel necessary to Full Council.**

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators and a statement on the Minimum Revenue Provision (MRP) before the start of each financial year. This was achieved for 2011/12 when Members approved this in February 2011. However, following the Government announcement to proceed with Housing Self Financing through the Localism Bill, the Council needs to be ready to borrow around £200m. The amended strategy enables the Council to borrow up to £200m and gives delegated powers to the Director of Finance & ICT to undertake this borrowing, in consultation with the Leader and the Finance and Economic Development Portfolio Holder.

The risks associated with the changes to the strategies are highlighted within the report along with how these risks are being managed.

A further report on how the borrowing will be structured will follow in due course.

Reasons for Proposed Decision:

The changes to the strategies fundamentally alter the Council's position on Treasury Management. The Council has been debt free for a number of years and has previously expressed the desire to remain so. However, Government policy means this position is not sustainable and the Council must now put itself in a position where it can borrow approximately £200m.

As the changes fundamentally alter the strategies previously considered by this committee it is appropriate for the committee to consider the changes and comment on them.

Other Options for Action:

Members could recommend different values for 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 forthcoming year.
2. The Council approved the Treasury Management Strategy and Investment Strategy for 2011/12 and the Prudential Indicators for 2011/12 to 2013/14 in February 2011 as part of the budget process.
3. The report attached at appendix 1 shows the amended Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Reason for the Change to the Original Strategy

4. The layout between the strategy approved in February 2011 and the proposed strategy being suggested for approval have not changed, nor have any of the strategy and prudential indicators relating to the investment activities. The only changes relate to borrowing activities.
5. The Council has been debt free since 2004 and the original strategy (approved February 2011) advised that the Council had no intention to borrow in order to finance our capital programme. However, Members will be aware that the previous Government announced the proposal to review the current Housing Subsidy System with a view to dismantle this and to offer Councils the possibility to buy themselves out of the Subsidy system. The current Government has pushed forward with this and as part of the Localism Bill from April 2012 the subsidy system will be dismantled and a self financing regime will start. This will result in the Council needing to pay the Government around £200m to buy itself out of the subsidy system.
6. The Council have had initial discussions with Arlingclose (our treasury advisors) who have advised that our treasury strategy needs to be updated as soon as possible to allow the Council the powers to borrow the amount required, during this financial year.

Changes from the Original Strategy

7. The main changes from the original strategy reflect the need for the Council to borrow around £200m. This has resulted in the need to amend a number of the Prudential Indicators as shown below.

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's estimated total CFR will change from March 2012 onwards to reflect the need to pay the Government around £200m. This increase in CFR will result in the Council needing to borrow to finance this payment.

	31/02/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
Total CFR				
Original Strategy	-0.784	-0.784	-0.784	-0.784
Amended Strategy	-0.784	179.216	179.216	179.216
Cumulative Net Borrowing Requirement / (Investments)				
Original Strategy	-50.784	-47.784	-43.784	-37.784
Amended Strategy	-50.784	132.216	136.216	142.216

9. As the Council will now need to borrow to fund the payment to the Government, the Council is proposing to change its Authorised Limit (this represents a limit beyond which external debt is prohibited and needs to be approved by full Council) from £5m to £200m, the Operational Boundary (the expected maximum external debt during the course of the year) from £0.5m to £181m and the Maturity Structure of Fixed Rate Borrowing (how long we can borrow for) from under 12 months, to an upper limit of 100% on each of the duration periods, as we are still to determine the exact composition of the debt.

10. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensures where debt is owed it is managed, whereby the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms. The risk associated with this section are:

(a) Level of borrowing set too low – The risk here relates to the possibility that once the final settlement figures are known (around January 2012), our Operational Boundary and our Authorised Limit Prudential Indicators are below the revised debt figure. The likelihood of this is small, as there is £19m headroom between the Operational and Authorised limit and any changes from the estimated debt figure of £181m and the final figure will only be due to changes to housing stock numbers. There is also the possibility that Members may consider part funding the loan from using internal resources and therefore reducing the initial loan required.

(b) Being unable to finance level of debt – This relates to the Council being unable to finance and repay the debt. The Council has appointed Consult CIH to work closely with the Council to produce an indicative HRA business plan to identify the viability of the plan. The result shows that the HRA business plan is viable, with the Council being able to repay the debt back within 17 years whilst still being able to fund the capital programme.

(c) Timing and changes to interest rates – The risk relates to the Council missing the opportunity to borrow in advance if Arlingclose suggest interest rates were likely to increase. This could then leave the Council paying higher interest charges on the borrowing over the entire life of the loans. By ensuring the Council has the power to borrow, it should reduce the chance of the Council missing out on the opportunity to borrow at a competitive rate. Any evaluations here will have to weigh the interest charge from borrowing earlier than necessary against the interest charges from borrowing later at a higher rate (cost of carrying).

11. As the Council is currently debt free and is now looking to borrow, the risk to the Council will be to determine how best the debt portfolio is created, in relation to interest rates, duration and type of borrowing. This work will be undertaken working closely with our treasury advisors (Arlingclose) and further reports will be made to this Committee and Cabinet before any decisions are made.

Resource Implications:

Within the Government proposal it states 'These reforms only have implications for each stock-retaining local authority's ring-fenced Housing Revenue Account, and will not impact on their general finances'.

The Council is a debt free authority with a negative overall Capital Financing Requirement (CFR), however, we do have a positive general fund CFR of around £38m. The impact on the General Fund could result in a substantial increase in the cost to the general fund through Minimum Revenue Provision (MRP) payments of £1.5m and an increase in interest payments of £1.6m.

However, there are indications that mitigation will be put in place so that where an authority has no current requirement to make MRP on its General Fund it will not be required to make MRP as a consequence of self financing.

Currently, the interest payment for the borrowing between HRA and General Fund is based on the average rate of return on investment. However, it is generally agreed that the average rate of borrowing will be higher than the average rate on investment, resulting in potential increase in interest charges to the general fund. Recent discussions with Government officials indicate they are aware of this issue and considering alternative ways of providing some form of mitigation.

The Council currently pays the Government subsidy payments each year. For 2011/12 this amounts to £11.312m which in future years would not be paid. Within the latest HRA Business Plan 2011-12 it estimates that the debt could be paid off within 17 years, whilst the capital programme is fully funded and substantial balances accumulate after repayment.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes and 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 2009/10);
- 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 238(2) 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.

The power to dismantle and to force Council's to buy themselves out of the Housing Subsidy System is included within the Localism Bill that is currently going through Parliament.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

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

Background Papers:

The original treasury management strategy for 2011/12 and prudential indicators for 2011/12 to 2013/14 went to Council on 22 February 2011.

Finance and Performance Management Cabinet Committee on 18 May 2010 – Response to CLG offer on the reform of the HRA subsidy system. CLG prospectus on Council housing: a real future published March 2010.

HRA Business Plan 2011-2012.

Impact Assessments:

Risk Management

As detailed in paragraph 10 in changing the strategies the Council needs to ensure that:

- (a) the borrowing limit is not too restrictive;
- (b) the level of debt is sustainable; and
- (c) sufficient flexibility exists to borrow in advance of need if this will reduce overall life time costs of the borrowing.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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Epping Forest District Council Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

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- 1. Background**
- 2. Balance Sheet and Treasury Position**
- 3. Borrowing Strategy**
- 4. Outlook for Interest Rates**
- 5. Investment Policy and Strategy**
- 6. Balanced Budget Requirement**
- 7. 2011/12 MRP Statement**
- 8. Reporting**
- 9. Other Items**

Appendices

- A. Current and Projected Portfolio Position
- B. Interest Rate Outlook: The Council's, Arlingclose's
- C. Specified Investments for use by the Council
- D. Non- Specified Investments for use by the Council

Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14

1. Background

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.
- 1.2. CIPFA has defined Treasury Management as:
"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.
- 1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators and the outlook for interest rates (Appendix B).
- 1.5. The purpose of this TMSS is to approve:
- Treasury Management Strategy for 2011-12 (Borrowing - Section 4, Investments - Section 5)
 - Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
 - MRP Statement – Section 8
 - Use of Specified and Non-Specified Investments – Appendices C & D
- 1.6. The Council approved the adoption of the CIPFA Treasury Management Code on 22 April 2002. The Council has incorporated the changes from the revised CIPFA Code of Practice (November 2009) into its treasury policies, procedures and practices.
- 1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.

**Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14**

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
General Fund CFR	37.519	37.519	37.519	37.519
HRA CFR	-38.303	161.697	161.697	161.697
Total CFR	-0.784	179.216	179.216	179.216
Less: Existing Profile of Borrowing and Other Long Term Liabilities	0.000	0.000	0.000	0.000
Cumulative Maximum External Borrowing Requirement	-0.784	179.216	179.216	179.216
Balances & Reserves	50.000	-47.000	-43.000	-37.000
Cumulative Net Borrowing Requirement/(Investments)	-50.784	132.216	136.216	142.216

2.2

The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Appendix A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA	8.511	4.786	6.431	2.370	1.221
HRA	6.956	6.636	6.973	6.875	5.831
Total	15.467	11.422	13.404	9.245	7.052

**Epping Forest District Council
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2.4. Capital expenditure is expected to be financed as follows:

Capital Financing	2010/11 Approv ed £m	2010/1 1 Revis ed £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/1 4 Estimat e £m
Capital receipts	7.720	3.431	5.801	2.024	0.918
Government Grants	0.841	1.398	0.658	0.396	0.353
Major Repairs Allowance	5.143	4.783	4.873	4.775	3.731
Revenue contributions	1.763	1.810	2.072	2.050	2.050
Total Financing	15.467	11.422	13.404	9.245	7.052
Supported borrowing	0.000	0.00	0.000	0.000	0.000
Unsupported borrowing	0.000	0.00	0.000	0.000	0.000
Total Funding	0.000	0.00	0.000	0.000	0.000
Total Financing and Funding	15.467	11.422	13.404	9.245	7.052

Incremental Impact of Capital Investment Decisions:

2.5. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2010/11 Approv ed £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	-0.42	0.71	2.33	3.13
Increase in Average Weekly Housing Rents	0.11	1.81	3.99	3.98

Reform to the Council Housing Subsidy System:

2.6. CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system were announced in February 2011 and will be introduced in the Localism Bill later this Autumn to enable the new system to start in 2012.

**Epping Forest District Council
Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14**

2.7. This will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on in discussions with the Housing directorate, members and the councils' Treasury Advisors.

2.8. The estimate for interest payments in 2011/12 is nil and for interest receipts is £0.667m. The ratio of financing costs to the Council's net revenue stream 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 borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	-2.52	-1.36	0.54	3.99	6.03
HRA	-2.60	-1.40	-4.59	30.49	27.98

3. **Borrowing Strategy**

3.1. The Council's balance of Actual External Debt at 31/03/10 (gross borrowing plus other long-term liabilities) is shown in Appendix A. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

3.3. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Authorised Limit	5.0	5.0	200.0	200.0	200.0
Operational Boundary	0.5	0.5	181.0	181.0	181.0

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- 3.4. The Director of Finance & ICT has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council.
- 3.5. In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:
- PWLB loans
 - Borrowing from other local authorities
 - Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
 - Borrowing from the Money Markets
 - Local authority stock issues
 - Local authority bills
 - Structured finance
- 3.6. Notwithstanding the issuance of Circular 147 on 20th October following the CSR announcement which increases the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:
- Variable rate borrowing
 - Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
 - Long-term Maturity loans, where affordable
- 3.7. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium- and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.
- 3.8. PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

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3.9 The Council is likely to borrow in the region of £200m for housing reform. There is the possibility that the Council may borrow in advance of spending needs. If this occurs, a report to members would be made stating the benefits for undertaking such a transaction.

- 3.10 The rationale for rescheduling would be one or more of the following:
- Savings in interest costs with minimal risk
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.

As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers.

3.11 Borrowing activity will be reported to the Finance & Performance Cabinet Committee.

3.12 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

The Council's existing level of fixed interest rate exposure is (74)% and variable rate exposure is (26)%.

Interest Rate Exposure	2010/11 Approved %	2010/11 Revised %	2011/12 Estimated %	2012/13 Estimated %	2013/14 Estimated %
Upper Limit for Fixed	100	100	100	100	100
Upper Limit for Variable	50	50	50	50	50

The limits are for both borrowing and investments.

3.13. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

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Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/10 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and within 20 years	0	0	100
20 years and within 30 years	0	0	100
30 years and above	0	0	100

4. Investment Policy and Strategy

4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Director of Finance & ICT under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Audit & Governance Committee.

4.4. There are no changes proposed to the investment strategy for 2011/12.

4.5. The Council's current level of investments is presented at Appendix A.

4.6. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.7. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

4.8. The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:

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- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices (where quoted)
- Macro-economic indicators
- Corporate developments, news and articles , market sentiment.

4.9. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.10. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.11. To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

4.12. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No . 12	Upper Limit for total principal sums invested over 364 days	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimated £m	2012/13 Estimated £m	2013/14 Estimated £m
		30.0	30.0	30.0	30.0	30.0

5. Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

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6. **Balanced Budget Requirement**

6.1. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7. **2011/12 MRP Statement**

7.1. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2. The four MRP options available are:

Option 1: Regulatory Method

Option 2: CFR Method

Option 3: Asset Life Method

Option 4: Depreciation Method

7.3. MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

7.4. The MRP Statement was submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

7.5. The Council's CFR at 31st March 2011 is estimated to be negative £0.784m and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2011/12.

8. **Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

Treasury activity is monitored monthly and reported internally to the Director of Finance & ICT.

The Director of Finance & ICT will report to the Finance & Performance Cabinet Committee on treasury management activity and Performance Indicators as follows:

(a) Mid-year against the strategy approved for the year.

(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

(c) The Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

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9. **Other Items**

Training

CIPFA's Code of Practice requires the Director of Finance & ICT to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment Consultants

The Council appointed Arlingclose to act as Investment Consultants from 1 May 2010 for a period of three years. Regular meetings are held with Arlingclose to discuss the performance of the Council's investments and any opportunities arising in the market.

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APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31 Mar 10 Actual Portfolio £m	%	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
External Borrowing: Fixed Rate – PWLB Fixed Rate – Market Variable Rate – PWLB Variable Rate – Market						
Total Gross External Debt	0.0		0.0	0.0	0.0	0.0
Investments: <i>Managed in-house</i> - Short-term monies (Deposits/ monies on call /MMFs) - Long-term investments (maturities over 12 months)	-50.5		-50.0	-47.0	-43.0	-37.0
Total Investments	-50.5		-50.0	-47.0	-43.0	-37.0
(Net Borrowing Position)/ Net Investment position	-50.5		-50.0	-47.0	-43.0	-37.0

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APPENDIX B

Arlingclose's Economic and Interest Rate Forecast

	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Official Bank Rate												
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
1-yr LIBID												
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.90	2.15	2.40	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.50	3.50
Downside risk	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt												
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.75	3.00	3.25	3.50	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt												
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.80	4.10	4.25	4.50	4.75	4.75	4.75	4.75	4.75	5.00	5.00	4.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt												
Upside 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
Central case	4.60	4.80	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.25	5.25	5.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt												
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50	4.75	4.75	4.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The degree of uncertainty over the medium term outlook for growth and inflation is increasing.
- Given the precarious outlook for growth, rates will rise if there is firm evidence the economy has survived the fiscal consolidation or there is sustained inflationary pressure over the coming months.

Underlying assumptions:

- Consumer Price Inflation dropped back unexpectedly to 4%, led by falling food and non-alcoholic beverages prices, the decrease eases pressure on the Bank of England to raise the Bank Rate. The Bank of England and the Office of Budget Responsibility (OBR) forecast CPI to remain above 4% in the near term.
- The spike in oil prices due to the Middle East crisis has the potential to keep prices higher with a negative impact on real income and growth.
- The activity data in the UK economy has been weak and suggests the bounce back from the 2010 Q4 fall in GDP of 0.5% may disappoint. The outlook for exports remains positive but household purchasing power is constrained by a much-needed adjustment of personal balance sheets

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(seen through a higher savings ratio and debt reduction) and the effect grows at only a modest pace.

- Consumer confidence and spending continues to be affected by modest wage increases, weak house price growth and a dearth of cheap credit. Unemployment is just under 2.5 million and will increase as the public sector shrinks but private sector employment grows at only a modest pace.
- The 2011 Budget is neutral in impact and maintains the Comprehensive Spending Review's framework of fiscal consolidation, reduction in the deficit and the debt-to-GDP ratio. The OBR is positive on these objectives being achieved. Gilt issuance of £169bn in 2011-12 should be easily absorbed by high investor demand.
- The economic impact of the disaster in Japan will be limited for the UK and Europe but more pronounced for Asian and Australasian economies.
- The European Central Bank raised rates in April in response to rising inflation despite the growing divergence in the business cycles and GDP outlook for the core and peripheral countries.
- S&P has revised its outlook on the long-term rating for the US to negative amidst fears that the government will not agree a medium and long term strategy to tackle their fiscal challenges. This has the potential to negatively impact US yields.

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APPENDIX C

Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills (LA Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council’s treasury advisor.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned).

Long-term minimum: A+(Fitch); A1 (Moody’s); A+ (S&P)

Short-term minimum: F1 (Fitch); P-1 (Moody’s); A-1 (S&P)

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

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New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterpart y Limits £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	10.0
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	10.0
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	10.0
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs	10.0
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	10.0

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB

Non-UK Banks - These should be restricted to a maximum exposure of 25-30% per country. This means that effectively all of Epping's investments can be made with non-UK institutions, but it limits the risk of over-exposure to any one country.

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Instrument	Country/ Domicile	Counterparty	Maximum Counterpart y Limit £m
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	10.0
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0
Term Deposits/Call Accounts	UK	Barclays Bank Plc	10.0
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	UK	HSBC Bank Plc	10.0
Term Deposits/Call Accounts	UK	Nationwide Building Society	10.0
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	10.0
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0
Term Deposits/Call Accounts	UK	Standard Chartered Bank	10.0
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	10.0
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	10.0
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	10.0

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Term Deposits/Call Accounts	Canada	Bank of Montreal	10.0
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	10.0
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	10.0
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	10.0
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	10.0
Term Deposits/Call Accounts	France	BNP Paribas	10.0
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0
Term Deposits/Call Accounts	France	Société Générale	10.0
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	10.0
Term Deposits/Call Accounts	Netherlands	ING Bank NV	10.0
Term Deposits/Call Accounts	Netherlands	Rabobank	10.0
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	10.0
Term Deposits/Call Accounts	Switzerland	Credit Suisse	10.0
Term Deposits/Call Accounts	US	JP Morgan	10.0

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

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APPENDIX D

Non Specified Investments

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-hous e use	Maximu m maturity	Maximu m amount	Capital expenditur e?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies and other local authorities ▪ CDs with banks and building societies 	<p>✓</p> <p>✓</p>	5 years	£20m	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments 	<p>✓ (on advice from treasury advisor)</p>	10 years	£10m	No
<p>Money Market Funds and Collective Investment Schemes, which are not credit rated</p>	<p>✓ (on advice from treasury advisor)</p>	<p>These funds do not have a defined maturity date</p>	£10m	No

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-004-2011/12.

Date of meeting: 23 June 2011.

Portfolio: Finance and Economic Development.

Subject: Reports from the External Auditor – Audit Fee Letter.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations:

(1) To consider and note the report of the external auditor.

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor.

The attached report is the Annual Audit Fee Letter for 2011/12, which provides an indicative fee for the 2011/12 audit. The letter also summarises what the external auditor currently views as the significant audit risks.

Reasons for Proposed Decisions:

To inform the Committee of the likely audit fee for 2011/12 and provide an update on significant audit risks.

Other Options for Action:

There are no other options for action.

Report:

1. The report will be presented to the Committee by Mr Richard Bint, Partner, and Ms Lisa Clampin, Director of Assurance & Advisory.

Resource Implications:

The fees for the 2011/12 audit year have been allowed for in the Council's budgets.

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:

None.

Impact Assessments:

Risk Management

Three risks have been identified by the external auditor:

- (i) Economic climate/financial pressures – a Medium Term Financial Strategy is in place and regular updates are provided to the Finance & Performance Management Cabinet Committee.
- (ii) Benefits Service – following the critical inspection, action plans have been put in place and progress is monitored by the Finance & Performance Management Scrutiny Panel and the Department for Work & Pensions.
- (iii) Potential developments at Langston Road and North Weald – these developments are being managed through the North Weald Airfield and Asset Management Cabinet Committee.

Equality and Diversity:

<i>Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications?</i>	No
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<i>Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?</i>	N/A
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What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

Derek McNab
Acting Chief Executive
Epping Forest District Council
Civic Offices
High Street
Epping
Essex
CM16 4BZ

Our ref: 4008927/2011-12/RSB/LJC

26 April 2011

Dear Derek

Annual Audit Fee Letter 2011/12

Indicative audit fee

We are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Epping Forest District Council. The indicative fee for the audit is £142,215, which is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11, this Letter and its underlying risk assessment focus primarily on risks in respect of our statutory value for money (VFM) conclusion audit. The audit planning process for 2011/12, including risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. A summary of the indicative fee, and how it compares to the 2010/11 planned and 2009/10 actual fees, is shown in the table below.

Audit area	Indicative fee 2011/12 £	Planned fee 2010/11 £	Actual fee 2009/10 £
Financial statements, including WGA	82,215	86,200	86,290
VFM Conclusion, including risk based work	31,500	35,000	34,900
Planning and reporting	28,500	28,500	28,100
Total Code audit fee	142,215	149,700	149,290
Certification of claims and returns*	62,000	62,000	69,994

* The indicative fee for 2011/12 and the planned fee for 2010/11 relate to the certification of grant claims and returns for the years ended 31 March 2012 and 31 March 2011 respectively. The certification fees for 2009/10 are the actual fees for the year ended 31 March 2010.

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The indicative audit fee excludes improvement work we may agree to undertake (outside of the Audit Code of Practice). Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The scale fee for 2011/12 has been determined by the Audit Commission as £142,215, which reflects a reduction in fees from implementing the new approach to VFM conclusion and a reduction to reflect the lower on-going audit costs after implementing IFRS. The full details are set out in the Audit Commission's [Work programme and scales of fees 2011/12](#).

The indicative audit fee has initially been set at the scale fee level as no significant audit risks have been identified at this stage.

The Audit Commission has stated that variations to the scale fee can be approved, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

A separate plan for the audit of the financial statements will be issued in December 2011. This will detail the significant financial statements risks identified, planned audit procedures to respond to those risks and any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Finance & ICT and, if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

As the risk profile of the Council is average and the indicative fee is at scale, there is little scope to reduce the audit fee in future years. However, there is scope for the Council to improve its overall control environment arrangements for the preparation of grant claims and supporting working papers for audit and to involve Internal Audit in substantive testing of larger grant claims. This may enable grant fee reduction.

Significant audit risks

Value for money

In 2010/11 the Audit Commission reviewed its approach to auditors' VFM work so that auditors give their statutory VFM conclusion based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for procuring resources within tighter budgets.

The focus of these criteria for 2011/12 continues to be:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant audit risks in relation to value for money from our initial assessment.

However, our updated risk assessment did identify a number of factors that whilst not significant, merit monitoring going forward. Accordingly we feel it appropriate to bring these to your attention at this stage:

- The current economic climate continues to cause financial pressures for the Council with the change in estimated revenue spending power in 2011/12 for the Council being a reduction of 5.5% overall (£1.1m). In real terms, this is actually a reduction of approximately 16% of revenue support grant which presents a notable financial management challenge. The Council currently benefits from an inherently strong financial position compared to other authorities, having built up its levels of reserves in previous years. This is enabling the Council to address its short and medium term financial challenges partially through the utilisation of reserves, without breaching its policy on the minimum levels of reserves to be retained. Consequently we have assessed that there is no significant audit risk at this stage. Nevertheless, the Council's financial position will be regularly monitored during the course of our planning and delivery of the audit, and we will assess the Council's financial resilience, including utilisation of reserves, and plans for delivering efficiencies as part of forming our value for money conclusion.
- The Council previously received a critical inspection report from the Audit Commission regarding the operation of the benefits service, in response to which a detailed action plan for improving the service has been developed. We will monitor the implementation of the action plan to determine whether any potential audit risks arise from implementation arrangements, or possible delays to them.
- Consideration is being given to the viability of the Council entering into a joint venture style of arrangement with a private sector company, to develop a retail park in Langston Road as an income generation opportunity. In addition, the Council is currently reviewing the potential development opportunities for North Weald Airfield. No decisions have yet been made on the way forward in either case, but we will monitor developments to determine whether any potential audit risks arise.

Financial statements

We have not identified any significant accounts audit risks that we wish to bring to your attention at this stage and in setting the indicative fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11.

Administration

The indicative audit fee will be billed in 4 equal instalments of £35,553.75

The key members of the audit team for 2011/12 are:

Engagement Partner – Richard Bint	Email: richard.bint@uk.pkf.com	Tel: 020 065 7851
Director - Lisa Clampin	Email: lisa.clampin@uk.pkf.com	Tel: 01473 320716
Supervisor - Neil Jenner	Email: neil.jenner@uk.pkf.com	Tel: 01473 320806
Senior - Edward Pink	Email: edward.pink@uk.pkf.com	Tel: 01473 320721

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Richard Bint in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Bint', written in a cursive style.

Richard Bint
Partner
PKF (UK) LLP

cc Bob Palmer, Director of Finance & ICT

cc Mrs M Peddle, Vice Chair of the Audit & Governance Committee

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-005-2011/12

Date of meeting: 23 June 2011

Portfolio: Finance and Economic Development

Subject: Internal Audit Monitoring Report - January - March 2011

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. The Committee is requested to note the following issues arising from the Internal Audit Team's fourth quarter monitoring report for 2010/11:
 - (a) The reports issued between January and March 2011 and significant findings (Appendix 1);
 - (b) The Outstanding Priority 1 Actions Status Report (Appendix 2);
 - (c) The Limited Assurance Audits follow up status report (Appendix 3);
 - (d) Risk Management and Insurance audit report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between January and March 2011, and details the overall performance to date against the Audit Plan for 2010/11. The report also contains a status report on previous priority 1 audit recommendations.

Reasons for Proposed Decision:

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

Other Options for Action:

No other options.

Report:

Work carried out in the Period

1. The audit reports issued in the fourth quarter are listed in paragraph 5 below.
2. A number of systems audits were carried out in the fourth quarter in which testing was substantially completed as at 31st March. Seven reports were at draft stage but were yet to be discussed with relevant Management.
3. The Audit Team have continued to provide advice and guidance on a range of subjects to management on the application of Contract Standing Orders and Financial Regulations.

4. The Chief Internal Auditor and Senior Auditor have continued to attend a number of Corporate officer groups including Corporate Governance, Risk Management, Data Management, Freedom of Information, Green Corporate Working Party and the Contract Standing Orders and Financial Regulations Working Party. Supervision and management time has included quality assurance of audit reports and working files, the administration of the outsourced element of the audit plan and liaison and support for the external auditors (PKF).

Reports Issued

5. The following audit reports were issued, or work substantially completed in the fourth quarter:

- (a) Full Assurance:
- Housing Rent Collection and Arrears;
 - Cash receipting and Income Control;
 - Pest Control Contract (follow up audit); and
 - Verification of Cash Floats.
- (b) Substantial Assurance:
- Risk Management and Insurance;
 - Bank Reconciliation;
 - Creditors;
 - Treasury Management;
 - Budgetary Control;
 - General Ledger;
 - Cash Receipting ICT System;
 - ICT Procurement;
 - Asset Management;
 - National Non Domestic Rates;
 - Network Operating System Security;
 - Car Parking;
 - Housing Lettings; and
 - Recruitment and Selection.
- (c) Limited Assurance:
- Housing Maintenance Stores Stock Take (31 March 2011).
- (d) No Assurance:
- None.
- (e) At Draft Report Stage:
- Payroll;
 - Corporate Procurement;
 - Housing Benefits;
 - Building Control;
 - North Weald Airfield;
 - Housing Maintenance Depot; and
 - Waste Management and Recycling.

6. The externalised portion of the audit plan staffed by Deloitte and Touche Public Sector Internal Audit Limited included six financial audits, two ICT audits and a Corporate Procurement audit, of which eight audits had been completed by 31 March and one, the Procurement audit was being reviewed by the Deloitte quality control process before issue of the draft report.

Outstanding Priority 1 Actions Status Report (Appendix 2)

7. This report is now monitored by the Corporate Governance Group on a monthly basis and Directors asked to report on action planned and taken to address the recommendations.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

8. Attached at Appendix 3 is a summary schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management. The table shows the situation as at 31 March 2011.

Audit Plan 2010/11

9. The status of the 2010/11 Audit Plan is attached to the Internal Audit Annual Report elsewhere on this agenda.

Risk Management and Insurance Audit Report (Appendix 4)

10. The full report on the Risk Management and Insurance audit as requested at the Audit and Governance Committee on 4 April 2011 is attached.

Performance Management

11. The Internal Audit Team has local performance indicator targets to meet in 2010/11, as set out below:

	Actual 2007/08	Actual 2008/09	Actual 2009/10	Target 2010/11	Actual 2010/11 Quarter 4	Outturn 2010/11
% Planned audits completed	89%	95%	87%	90%	82%	82%
% chargeable "fee" staff time	68%	71%	69%	72%	69%	66%
Average cost per audit day	£307	£309	£300	£320	£333	£307
% User satisfaction	81%	85%	94%	85%	80%	86%

12. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan as amended for additional work (e.g. investigations) during the year.

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system.

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system.

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

13. The fourth quarter has seen a shortfall in the planned audits completed and an increase

in the average cost per productive day, principally due to the unavailability of a member of staff who has been on long term sickness as from the last week of January. This sickness is being monitored through the Absence Management Policy with guidance from Occupational Health.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Audit Assurance Levels and Priority Ratings

Priority Ratings

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

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

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

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

Assurance levels:

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

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

Approved by the Audit and Governance Committee 15th November 2010

**Summary of Audits completed during Quarter 4
January - March 2011**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Rent Collection and Arrears	Housing Services	<p>Full Assurance There is a sound system of control designed to achieve the systems objectives and based on the samples reviewed, the controls are being consistently applied.</p>	The sample tested did not identify any evidence of non compliance of internal controls within the Housing Directorate systems and therefore it is considered that risks have been minimised.
Cash Receipting and Income Control	Finance and ICT	<p>Full Assurance Based on an evaluation of the system of key controls in place designed to achieve the objectives relating to the cash receipting and income control function within Finance & ICT; and the verification, through sample testing from April 2010 to January 2011, of the consistent application of these controls, this audit has been given 'full assurance'</p>	The systems and controls surrounding cash receipting and income control are operating effectively. Only one priority 3 recommendation has been raised.
Pest Control Contract (follow up audit)	Environment and Street Scene	<p>Full Assurance Based on an evaluation of the system of key controls in place designed to achieve the objectives relating to the recording and reconciliation of the income due under the pest control contract; and the verification, through sample testing from April 2010 to January 2011, of the consistent application of these controls, this audit has been given 'full assurance'.</p>	The systems and controls surrounding the recording and reconciling of income due to the Authority under the Pest Control contract are operating effectively.
Verification of Cash Floats	Finance and ICT	<p>Full Assurance Satisfactory controls are in place for the control of cash, cheque and debit card payments</p>	The petty cash balances and cash floats held at the locations included in this audit were verified as correct. All cash is held securely.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Risk Management and Insurance	Finance and ICT	<p>Substantial Assurance Risk management is fully embedded and championed both at Directorate level and at a corporate level. The process is proactive in identifying risk and is efficient in ensuring the risk register remains current. Insurance policies are monitored and claims recorded accurately.</p>	<p>It is clear to see Risk Management is well embedded into the corporate structure and at a management level, the importance of this is clearly understood. There is value in evaluating, communicating and educating risk awareness more widely, within the Authority, to ensure all staff are aware of the importance of risk management and the role everyone can play.</p> <p>This high level of working practice needs to be maintained and it is important that risk awareness remains high on the priorities of management, to protect against the pitfalls that could potentially have negative impact on the Authority and its objectives.</p>
Cash Receipting ICT System	Finance and ICT	<p>Substantial Assurance While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.</p>	<p>Control weaknesses have been identified and therefore we have raised two Priority 2 recommendations to address these issues.</p>
Creditors	Finance and ICT	<p>Substantial Assurance The Creditors function from audit's review demonstrated an excellent understanding of the role it plays within the authority, processes are tight and understanding of the functions responsibility in averting potential fraud is encouraging. A clear segregation of duties, where appropriate, is evident. Authorised staff are committing the organisation to expenditure and a value for money mindset is shown by clear compliance to Contract Standing Orders.</p>	<p>Official orders are raised generally in accordance with policy, although audit has highlighted occasions where the invoice pre-dating the order. There is evidence of the need to remind authorisers to ensure full completion of approval slips, budget holders to only commit expenditure within and where a budget exists and directorates to maintain good administration of invoice approval processes. Authorised signatory lists are still in the process of being updated to reflect the current authority structure and ensure not outdated and would benefit from an added prompt.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Treasury Management	Finance and ICT	<p>Substantial Assurance While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk</p>	<p>A small number of control weaknesses were identified in the following areas: Policies and Procedures; Investment Transactions and Repayments and Interest Payments. As a result we have raised two Priority 2 recommendations and one Priority 3 recommendation to further improve control in these areas.</p> <p>In addition we also identified one instance of over control in the following area: Investment Transactions. One Priority 3 recommendation has been raised.</p>
Budgetary Control (Capital and Revenue)	Finance and ICT	<p>Substantial Assurance There is a basically sound system, but there are weaknesses that put some of the system's objectives at risk.</p>	<p>The Financial Regulations set out clear policies and procedure notes, which must be complied with in respect of financial planning and budgetary control. While there is a general adherence to the Council's Financial Regulations, we have identified two issues. We found that the procedure notes in the Financial Regulations relevant to budget planning require updating to reflect current practice (this was raised in our previous report and is due to be implemented by February 2011 so no further action is recommended here). In addition, we found that forecasts to year-end are not included in quarterly budget monitoring reports. We have raised one priority 2 recommendation to further improve control.</p>
General Ledger	Finance and ICT	<p>Substantial Assurance While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.</p>	<p>A small number of control weaknesses were identified in the following areas: Policies and Procedures; and Completeness and Accuracy of records. We have raised two priority 2 recommendations to further improve control in these areas.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
ICT Procurement	Finance and ICT	<p>Substantial Assurance While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.</p>	Control weaknesses have been identified and therefore we have raised two Priority 2 recommendations to address these issues.
Asset management	Corporate Support Services	<p>Substantial Assurance The controls surrounding the recording and strategic management of assets are operating effectively. Full implementation of the new asset register should ensure compliance with IFRS.</p>	<p>The Authority has an Asset Management Plan, setting out the Corporate Asset Policy, which is reviewed regularly by the Asset Management Coordination Group.</p> <p>The Asset Management Coordination Group continues to meet regularly, providing a corporate review of the Authority's key sites.</p> <p>The new asset register database, AssetManager.net holds data in the format required by IFRS. However, the excel spreadsheets are also still being used as the new system has not yet been closed down for 2009/10 or 2010/11 due to resource issues.</p> <p>The Land Terrier system is currently being updated to provide a complete and accurate record of the Authority's land and buildings.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Network Operating System Security	Finance and ICT	<p>Substantial Assurance While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.</p>	<p>As a result of our work we can provide management with assurance regarding the system of internal control over the corporate active directory, backup and recovery and physical and environmental controls at the two data centres. A number of control weaknesses have been identified and therefore we have raised sixteen Priority 2 and two Priority 3 recommendations to address these issues.</p>
Car Parking	Environment and Street Scene	<p>Substantial Assurance The controls surrounding the verification and reconciliation of car parking income are operating effectively. However, these will be improved by checking internet and telephone payments to SiDem, and by the EFDC parking team (rather than Vinci) processing PCN and permit refunds, thereby ensuring that income due to the Authority is accurately recorded.</p>	<p>All parking enforcement income due to the Authority is identified, collected and paid into the Authority's account promptly, with the exception of the pay and display income, which is now transferred monthly to the Authority's bank account. Although there is a delay in EFDC receiving the income under this new arrangement, any banking discrepancies can now be investigated by Vinci.</p> <p>There is adequate separation of duties between cash collection, banking and income reconciliations, which has been improved by the introduction of regular spot checks of income by the Parking Manager.</p> <p>The monthly contract payments to Vinci Park Services UK Ltd are authorised and in accordance with the contract.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Lettings	Housing Services	<p>Substantial Assurance There are good controls in place for processing Housing Applications and the allocation of Social Housing within the Epping Forest District, although improvement areas have been identified. The implementation of a policy for investigation and identification of tenancy fraud will support the good practices in place for the management of the Council's housing stock and minimise the risk of fraud.</p>	<p>The audit concludes that there are sound processes in place for tenancy allocations. The following areas of good practice were identified: Procedures are in place for tenancy allocations and lettings, Adequate documentary evidence is retained to support all applications and lettings, Tenancy allocation and letting of properties is legitimate and appropriate, Property records are complete and up to date for all tenancies.</p> <p>The following recommendations have been made : A tenancy fraud prevention strategy should be implemented to promote awareness to residents that the Council will not tolerate tenancy fraud. Application verification processes should be consistent. The declarations register should be completed by all officers in future.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Recruitment and Selection	Corporate Support Services	<p>Substantial Assurance Recruitment and selection procedures are operating satisfactorily. All previous audit recommendations have been implemented.</p>	<p>All short listing pro forma's were completed correctly</p> <p>Job descriptions and person specifications were up to date and on file</p> <p>All relevant documentation was retained on file for new starters</p> <p>HR should ensure that pre employment checklists are completed in all cases.</p>
National Non Domestic Rates	Finance and ICT	<p>Substantial Assurance There are effective controls in place for NNDR, from billing to collection and recovery of debts. The agreed actions from the previous audit have been implemented. This audit has identified that the number of accounts with a credit balance has increased since the previous audit, however Management are regularly monitoring these accounts.</p>	<p>This audit has concluded that there are sound procedures in place for the billing and collection of NNDR.</p> <p>Valuation Office amendments are completed correctly, reliefs and allowances claimed by ratepayers are valid, and revised bills are sent promptly.</p> <p>The liability is correctly calculated as the system parameters on Academy have been set up correctly.</p> <p>Payments are posted to the NNDR account in a timely manner and income is reconciled to the general ledger monthly.</p> <p>Arrears and recovery processes are in place for overdue accounts.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Maintenance Stores Stocktake	Housing Services	<p>Limited Assurance Based on the unreliability of the stock records.</p>	<p>Proper procedures were followed for the year end stocktake, and the accuracy of the stores count could be relied upon. However, there were a significant number of discrepancies between the ledger stock and the physical stock, both under and over, which means that the Authority cannot rely on the system to provide an accurate record of stocks held.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS 2010/11 – STATUS AS AT May 2011**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Building Maintenance Unit</p>	<p>Stock Check Regular stock checks will be carried out by Housing Customer Repairs staff throughout the year, to cover all stock lines at least once during the year. Management will review the results of the stock checks and any discrepancies will be investigated.</p>	<p>Assistant Director (Property)</p>	<p>June 2010</p>	<p>Stock control has been included as a "Key Deliverable" as part of the Repairs Management Contractor tender.</p> <p>Marketplace has been introduced during 2010/11, whereby all materials are now procured via that route.</p> <p>The new "Access" database for stores materials has been launched and is now managing the stock control (until RMC contract commences in May 2011)</p> <p>Director's Governance Statement is included in the Corporate Governance Statement elsewhere on this agenda.</p>	<p>In progress</p>	<p>Audit attendance at end of year stocktake.</p> <p>Further Limited Assurance report issued for March 2011 stocktake.</p> <p>Systems audit planned for early 2011/12</p> <p>Use of Marketplace for all orders confirmed by Audit.</p> <p>Access database in use at time of stocktake.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Reprographics	Value for Money In recognition of the under-utilisation of staff under the current arrangements, Management should review the role of the Print Section and the functions of the staff.	Director of Corporate Support Services	Dec 2009	Reported to Finance and Performance Management Cabinet Committee 17 th January 2011.	Actioned	Completed.
Licensing	Licensing Administration Reconciliations should be carried out in a timely fashion by a Senior Independent Officer.	Assistant Director (Legal)	October 2009	Problems identified with resourcing adequately trained staff plus financial reports need amendment to assist reconciliation.	In progress	To be included in 2010/2011 audit plan, quarter 4
Pest Control	Contract Monitoring Management should review and monitor performance on a regular basis, in line with the agreed contract terms.	Assistant Director of Environment & Street Scene (Environment and Neighbourhoods)	October 2009	Substantial assurance. The systems and controls surrounding the recording and reconciling of income due to the Authority under the Pest Control contract are operating effectively.	Actioned.	Follow up audit completed. Full Assurance given.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Decorating Allowances	Storage of Cards A stocktake/reconciliation of cards should undertaken on a quarterly basis whereby the cards spreadsheet should be reconciled to the number of cards issued, ensuring that the void property is valid and if not a void property that authorisation to issue a card has been received. A record should be maintained and monitored by management.	Assistant Housing Director (Property)	October 2010	Stock reconciliation taken place. New work instruction in draft form, which will include a separation of card stock from the repairs team who are the authorisers for crediting the cards.	In progress	To be reviewed.
Decorating Allowances	Orders and Invoicing While it was recommended that a blanket official order should be raised at the start of each financial year and an official order for 2010/11 was raised during the audit, Housing Management have proposed raising individual orders for each card activation which increases the level of control by improving separation of duties.	Assistant Housing Director (Property)	September 2010	This has been completed. A blanket order has been raised for the year and then individual orders are now raised for each void where decoration allowances have been allocated.	Actioned	To be reviewed.
Overtime and Committee Allowances	Overtime Authorised Signatories Up to date list to be circulated as agreed action in Car Mileage Audit.	Director of Finance & ICT	October 2010	Action has been implemented.	Actioned	To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Car Mileage Claims	Authorised signatories Up to date list must, as a matter of importance be provided, showing current signature specimens and schedules of authorisation levels. This list must be updated annually with any changes to list documented and distributed.	Director of Finance & ICT	October 2010	Action has been implemented. Opportunity also taken to standardise forms and Directors now required to update lists at no more than 6 monthly intervals.	Actioned	To be reviewed.
Grounds Maintenance	Inventories The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.	General Manager, Grounds Maintenance	March 2011	I can confirm that all Priority 1 recommendations as detailed in your e-mailed list were completed within the agreed time scales.	Actioned	To be reviewed.
Grounds Maintenance	Agency Staff Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.	General Manager, Grounds Maintenance	October 2010	As above.	Actioned	To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Licensing Enforcement	Taxi Licensing Higher prioritisation of enforcement, with responsibility given over Licensing enforcement. Minimum service levels to be identified and implemented within working procedures.	Environment & Neighbourhoods Manager	April 2011	Agreed – Identifying minimum service level will assist with confirming the priority for this aspect of enforcement work, provide measurable targets and impetus for pro-active enforcement operations.	Actioned	To be reviewed
Bed and Breakfast Contracts	Invoices for Bed and Breakfast accommodation Management will ensure that, in future, the correct amount is paid to the Park Hotel and will attempt to obtain a refund in respect of the overpayments.	Housing Options Manager	November 2010	Completed. However Park Hotel not willing to pay refund (approx £1,025). Incorrect rate included in official order. Invoiced to order.	Actioned	To be reviewed
Norway House	Petty Cash Claims should be reimbursed monthly. Copies of Petty cash claims will be retained and all transactions will be recorded in future for reconciliation purposes.	Assistant Housing Needs Manager	December 2010	Completed. Monthly claims now being submitted and copies retained.	Actioned	To be reviewed
Norway House	Office hours Management will introduce a daily record of working hours for each officer. Timesheets will be signed off by Management at the end of each four weekly period.	Assistant Housing Needs Manager	January 2011	Completed. All forms will be stored in Housing Admin at end of each 4 weeks.	Actioned	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Norway House	<p>Cash Summary sheets Income is banked, however cash summaries should be certified by a second officer to ensure income is banked correctly. All documentation should be sent to the civic offices in a timely manner to ensure cash is correctly posted. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly.</p>	Assistant Housing Needs Manager	December 2010	Completed. As banking now arranged on regular basis requests to put returns on suspense account have reduced.	Actioned	To be reviewed
Norway House	<p>Banking procedures Cash summaries should be certified by a second officer prior to collection to evidence income is banked correctly. Management should ensure there is sufficient office coverage on the day of collection and income is collected weekly. Cash summaries should be sent to the Civic Offices at the earliest opportunity for income reconciliation to the Council's bank account.</p>	Assistant Housing Needs Manager	December 2010	Completed.	Actioned	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	Income reconciliation Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.	Assistant Director (Development)	April 2011	Training agreed and set for end of March 2010. Director reported to Audit and Governance Committee 14th February 2011	In progress and hopefully target date will be achieved.	The Clerical assistant has started reconciling the spreadsheet of monies received to the general ledger. However, a report needs to be produced from M3-Northgate and training is required before this can be produced. Crystal report training is being lined up for the end of March.
Planning Fees	Planning Portal Applications Daily transaction reports (Capita) of online payments will be retained with income records.	Assistant Director (Development)	Actioned during the audit.	Yes Director reported to Audit and Governance Committee 14th February 2011	Operating	Development Control Procedure Note updated in February 2011. Process in place and being carried out by Technical Officer (Registration)

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Freedom of Information Act</p>	<p>The system should be maintained and monitored by the Anite FOI System Monitoring Officer to ensure that all requests are processed within the time scale and that the correct information has been provided. All requests should initially be processed by the Anite FOI System Monitoring Officer who will input the information on to the Anite system then distribute the request accordingly. Status updates and returns should be continue to be processed by the FOI Officers within Directorates. In the event of an exemption, the Directorate will send the return via the Anite FOI System Monitoring Officer to ensure that the information has been checked for appropriateness.</p> <p>This system will be reviewed during the first FOI team meeting to ensure that FOI representatives are updating the Anite effectively and any need for additional training and support on the Anite system can then be identified at this time.</p>	<p>Assistant to the Chief Executive</p>	<p>January 2011</p>	<p>Meeting of FOI representatives held on 17.2.11. The following are being pursued:</p> <p>(a) requirement for all directorates to utilise Anite at Work reporting system for all FOI requests;</p> <p>(b) additional training to be arranged in June 2011 for Anite at Work for all FOI representatives;</p> <p>(c) refresher training in FOI and Data Protection to be provided in June 2011 to FOI representatives;</p> <p>(d) informal guidance to be given on the conduct of FOI reviews within Directorates, where requested;</p> <p>(e) further advice to be given on FOI requests to Councillors and appointment of service representatives on DPA;</p> <p>(f) disclosure log to be progressed;</p>	<p>In progress</p>	<p>A training course was held on 2 June 2011 for FOI deputies on using the Anite monitoring system - as a result the majority of Directorates now have at least one deputy able to use the system in the absence of the Directorate FOI rep.</p> <p>There is a meeting of FOI reps to be held on 24 June 2011 which will include a presentation on FOI generally.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				(f) disclosure log to be progressed; (g) FOI reps meetings to be held quarterly		

Follow up of Limited Assurance Audits as at 31st March 2011

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Commercial Property	Corp. Support	Dec 09	P1. 1 P2. 3	P2. 1	Q1 2011/12	One long term aim, acquisition of the property module – completion by March 2011
Building Maintenance (Works Unit)	Housing	June 10	P1. 1		Q4 2010/11	Subject to major review by Assistant Head of Housing
Waste Management	Environment/ Street Scene	July 2010	P1. 3 P2. 1		Q4 2010/11	Need for written quotes and retention of documentation. Improved stock records.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q1 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.
Norway House	Housing	Nov 2010	P1. 4		Q4 2010/11	See Quarter 3 report for details.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q1 2011/12	Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion.
Freedom of Information Act	Office of the Chief Executive	Dec 2010	P1. 1 P2. 3	P1. 1 P2. 2	Q1 2011/12	See Quarter 3 report for details.

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PRIVATE AND CONFIDENTIAL

EPPING FOREST DISTRICT COUNCIL

INTERNAL AUDIT REPORT No. 607

Subject: Risk Management & Insurance 2010

Client: Finance & ICT

Auditor: Nick Fanning

Date: March 2011

Signed Auditor:

Chief Auditor:

Distribution:

Full Report

Bob Palmer	Director of Finance & ICT
Peter Maddock	Assistant Director of Finance (Accountancy)
Edward Higgins	Senior Finance Officer
John Preston	Director of Planning and Economic Development
Colleen O'Boyle	Director of Corporate Support Services
Alan Hall	Director of Housing Services
John Gilbert	Director of Environment & Street Scene

Management Summary

Richard Bassett	Portfolio Holder
Derek Macnab	Acting Chief Executive

Report No. Issued March 2011
Management Summary

1.0 Introduction

An audit of Risk Management & Insurance has been carried out as part of the approved Audit Plan for 2010/11, covering the period April 2010 to January 2011 and has looked in depth at the systems and controls as well as the policy and procedures currently adopted. Audit also reviewed the previous audit findings. Risk Management is a key aspect of the Authority's internal control framework. Risk Champions are established within the individual Directorates, leading their functions in risk management and feeding into the Risk Management Group (RMG). The subject of risk is a regular item on the Corporate Governance Group (CGG) agenda, a quarterly item on the Finance and Performance Management Cabinet Committee Agenda and is promoted on a Directorate level in all management meetings.

Reports are issued to Finance and Performance Management Cabinet Committee in relation to insurance trends and assurance that insurance policies are being monitored. In June 2010 the Council entered into a new 3 year agreement with Zurich Municipal (ZM), with the option of a 2 year extension. The Authority has an agreement with Uttlesford District Council to manage their Insurance claims, which has been in place since mid January 2010. Uttlesford has an agreement with ZM until the end of August 2013 and it is felt that this insurance claims handling service will continue until this time. Currently a charge of £1,000 a month is received for this service; this fee from April 2011 will be increasing to £1,500 to incorporate an extra charge for providing an insurance advice service.

2.0 Assurance Rating

Substantial Assurance, owing to the sound systems in place, good reporting chains and understanding and commitment to risk management, on a Directorate and Corporate level.

3.0 Audit Approach and Methodology

Audit review began with discussion with key persons within the process, to gauge opinion and gain understanding of the current systems and controls in place. A full review into the policies adopted and procedures followed was undertaken, focusing on the risk management process, insurance monitoring and the effectiveness of the current approach.

4.0 Opinion

Risk management is fully embedded and championed both at Directorate level and at a corporate level. The process is proactive in identifying risk and is efficient in ensuring the risk register remains current. Insurance policies are monitored and claims recorded accurately.

5.0 Implications for Governance Statement

Risk Management is a key element in the councils system of internal control and it is necessary to demonstrate sound processes that are embedded in service planning, delivery and monitoring.

6.0 Acknowledgements

We would like to take this opportunity to thank the Directorate Risk Champions, the Senior Finance Officer (Insurance & Income Control) and the Finance Officer (I&I) for their assistance during the audit.

1.0 Objectives

To establish if;

- Risk management processes are in place and fully embedded within the Authority.
- Each Directorate has risk management awareness within its structure.
- RMG represented by a 'Risk Champion' from each Directorate.
- Insurance Policies are in place and monitored to cover highlighted risk areas.
- Insurance claims are processed correctly
- Insurance trend analysis undertaken and trends monitored.

2.0 Scope

- Discussions with relevant officers
- Study of available material and documentation
- Sample of insurance claims from April 2010 – January 2011

3.0 Assurance Given

Substantial Assurance, owing to the sound systems in place, good reporting chains and understanding and commitment to risk management, on a Directorate and corporate level.

4.0 Findings

Audit review of the Risk Management and Insurance process, highlighted several areas showing good practice;

- **Risk Management is embedded within the individual Directorates and is monitored effectively.** Through conversation and written responses audit is confident in the understanding and importance given to risk management within their individual Directorates. Each Directorate has shown a good process and regular review to their risk registers is identified. The Directorates also are feeding risks up to a corporate level by means of initial discussion within Directorate, followed by the proposal of upgrading risks to this Corporate level.
- **Risk Management built into Directorate Business plans.** All Directorates have Risk Management as part of their Business Plans. A number of Directorate risks were linked to the Corporate Risk Register, risk matrices compiled and action plans for managing the risks have been created.
- **Risk Management Group well coordinated and represented in bringing Directorate risk to a Corporate level.** The RMG consists of each Directorate's Risk Champion, the Insurance & Income Control Manager and the Chief Internal Auditor. Also in attendance is the Business Continuity Manager. The group meets quarterly to discuss risk management and each Champion updates the group the specifics of each Directorate. The Corporate Risk Register is reviewed and any additional risk or amendments are proposed and discussed. Insurance and Business Continuity planning is also discussed.

- **Risk Management is shown to be embedded within the Authority's management framework and the Corporate Risk Register is being monitored effectively.** Risk Management is a regular item on the CGG agenda and is a quarterly agenda item on the Finance and Performance Management Cabinet Committee. Adjustment to the risk tolerance line is conversed and alterations and additions to the Risk Register are contemplated and passed through committee. Decisions made by the Risk Champions at RMG are discussed and fed into the CGG who then report up to Committee level.
- **Insurance claims are processed in a timely and accurate manner.** All claims were processed correctly and had been accurately recorded in the Insurance claims spreadsheet. There is efficient and timely processing of claims by the Finance Officer.
- **Good audit trail of claim progressions is stored.** Documentation and evidence of dialogue is kept together with the claims, both settled and ongoing.
- **Insurance policies are monitored effectively.** Claims trends are monitored regularly by the Senior Finance Officer and reported to the Director of Finance & ICT on a quarterly basis. The Council entered into an agreement with Zurich Municipal (ZM) which started on 30 June 2010. The insurance policies are consistently monitored throughout the year and reported into committee. The authority has achieved a net saving of £169,933 over the five years from 30th June 2005 – 29th June 2010, through the decision to increase the excess on Public Liability claims from £500 to £5,000, this saving continues to be monitored.

Findings	Risks Identified	Recommendations	Priority	Responsibility
4.1 Risk awareness training for key individuals to ensure awareness and effective management of current risk.	Outdated view on risk potentially causing damage to the financial and reputation image of Authority.	Evaluate need for training for key individual within the process and set into PDR's as appropriate. Also evaluate need to offer training on risk further down the scale to ensure, risk management's importance is recognised Authority wide.	2	Management Board -
Management Response				Deadline - 31/03/2011

5.0 Conclusion & Advisory Statement

Audit review of Risk Management and Insurance showed the systems and controls currently in place satisfactory in ensuring the process runs well and are compliant with Council Policy. There has been improvement from the previous Audits findings with the processes now efficient and management of risk at both Directorate and corporate level is excellent.

It is clear to see Risk Management is well embedded into the corporate structure and at a management level, the importance of this is clearly understood. There is value in evaluating, communicating and educating risk awareness more widely, within the Authority, to ensure all staff are aware of the importance of risk management and the role everyone can play.

Cost savings have been identified within the Insurance function due mainly to the increase in excess decision taken at Committee level in 2005. The insurance policies are consistently monitored and claims are dealt with effectively.

This high level of working practice needs to be maintained and it is important that risk awareness remains high on the priorities of management, to protect against the pitfalls that could potentially have negative impact on the Authority and its objectives.

6.0 Value derived from this audit

The audit has reviewed the systems, controls and policy in relation the Risk Management and Insurance processes. Recommendations have been made to ensure best practice is attained and systems are fully utilised.

EFDC - Definition of Levels of Assurance

Assurance levels:

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

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

Priority Ratings

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

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

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

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

Reference Materials

M3 system data
ESS Enforcement Policy

Persons Interviewed

Edward Higgins	Senior Finance Officer (I&I)
Jyoti Kanji	Finance Officer

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-006-2011/12

Date of meeting: 23 June 2011

Portfolio: Finance and Economic Development

Subject: Internal Audit Annual Report 2010/11 and Review of the Effectiveness of the System of Internal Audit

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. The Committee is requested to note the following report for 2010/11 and the assurance level given:

(a) The 2010/11 Audit Plan status report as at 31st March 2011(Appendix 2);

(2) To note the review of the effectiveness of the system of internal audit, undertaken by the Corporate Governance Group for 2010/11, in the context of the Council's Governance Statement; and

(3) To scrutinise the review and consider the effectiveness of the system of Internal Audit in 2010/11.

Executive Summary:

This report is presented in support of the Internal Audit opinion on the adequacy of EFDC's internal control environment, provides a summary of the work undertaken by the Internal Audit Unit between April 2010 and March 2011 and details the overall performance against the Audit Plan for 2010/11.

The Accounts and Audit Regulations include a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance.

This report summarises the review undertaken for 2010/11 by the Corporate Governance Group, to assist the Committee in assessing the effectiveness of the system of internal audit on behalf of the Authority.

Reasons for Proposed Decision:

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

To provide the Committee with the opportunity to scrutinise the review of effectiveness.

Other Options for Action:

No other options.

Report:

Introduction

1. The Internal Audit Annual Report for 2010/11 is based on the "Code of Practice for Internal Audit in Local Government" produced by CIPFA. The work referred to in this report was carried out as part of the agreed Audit Plan for the period from 1 April 2010 to 31 March 2011.

2. The purpose of the report is to support the Internal Audit opinion on the adequacy of Epping Forest District Council's (EFDC) internal control environment as a contribution to the proper, economic, efficient, and effective use of resources. This report provides part of the evidence that underpins the Corporate Governance Statement published in the Council's Statutory Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2006.

External Audit

3. The Authority's External Auditor has a statutory responsibility to express an independent opinion on EFDC's accounts, performance management and the financial aspects of corporate governance. The Audit Commission, who moved all principal audited bodies on to a "fee for audit" basis several years ago, appoints the External Auditor. The Audit Commission has to be confident in the processes and procedures at EFDC to produce the accounts by the statutory deadline each year, as well as being able to place reliance on the work of Internal Audit.

4. Internal and External Audit work closely together to avoid duplication of audit effort and to ensure that the Council receives comprehensive audit coverage.

The Role of Internal Audit

5. Internal Audit is provided in the context of the Council's statutory responsibility to make arrangements for the proper administration of its financial affairs. It is an assurance function that primarily provides an independent and objective opinion to the Council on the adequacy of the control environment, as a contribution to the proper, economic, efficient and effective use of resources.

6. The main elements of the work are to:

- (a) audit and report on the core financial controls throughout the authority;
- (b) provide advice during the development of new systems;
- (c) provide advice on financial, contractual and IT controls, including Financial Regulations and Contract Standing Orders;
- (d) review computer and network security;
- (e) investigate suspected fraud, corruption, bribery and other irregularities;
- (f) monitor the Anti-fraud strategy and participate in the National Fraud Initiative;
- (g) keep Management Board and the Corporate Governance Group informed of key issues;
- (h) liaise with the Audit Commission and their appointed External Auditors; and
- (i) report to the Audit and Governance Committee on key issues arising from audits and on the performance of the Audit team.

Performance against the Audit Plan

7. Whilst the majority of planned audits, including all of the key audits of financial systems, were completed by 31 March 2011 a small number have been rolled forward into the 2011/12 plan due primarily to staff sickness during quarter 4. The prioritisation of Audits was based on a risk evaluation and the audits that were rolled forward were considered to be of a lower priority.

8. During the year, 49 reports were issued to Management with the following assurance levels:

Assurance Level	2010/11	2009/10
Full (formerly Substantial) Assurance	4	11
Substantial (formerly Satisfactory) Assurance	37	27
Limited Assurance	7	9
No Assurance	0	0
Awaiting Deloitte report	1	5

9. Due to the externalisation of a proportion of the audit plan to Deloitte and Touche Public Sector Internal Audit Limited, a number of financial and ICT audits were scheduled for completion during March. While the work had been carried out by 31st March, one report had not been received as it was within the contractor's quality control process. This contract ended on the 31st March 2011 and the audits covered will be carried out using in house resources.

10. The assurance classifications and priority levels were reviewed during the year and assessed against those applied throughout the public sector and by commercial organisations including Deloitte and Touche. A revised set of classifications were agreed by the Audit and Governance Committee in November 2010 and have been applied to the audit opinions given from that point. These classifications are detailed at appendix 1.

11. The recommendations made within the audit reports are given a priority rating of 1 to 3, with priority 1 being the highest. These priority 1 recommendations are now monitored by the Corporate Governance Group monthly to ensure that action is taken and these actions are reported quarterly to the Audit and Governance Committee. The recommendations are included in detail as appendices to the four quarterly reports to the Audit and Governance Committee.

Priority Level	Number Issued	
	2010/11	2009/10
Priority 1 - High	29	39
Priority 2 - Medium	80	86
Priority 3 - Low	18	14

Opinion

12. Although work continues to improve awareness of governance requirements and to promote improvement in systems, overall full assurance cannot be given and risks cannot be totally minimised. On this basis, the opinion given in this report provides a reasonable level of assurance that there are no significant weaknesses in the Council's control environment as the audits carried out during 2010/11 concluded that systems were generally operating satisfactorily, and appropriate follow up action had been taken where required to reduce risk of error or fraud.

13. No material errors were identified from Internal Audit work carried out on the Council's major financial systems during 2010/11. Reviews of the Council's overall systems of internal control identified some weaknesses in the application of Financial Regulations, Contract Standing Orders

and internal controls. These have been referred to in reports to the Audit and Governance Committee, and in the Council's Governance Statement.

14. To assist non financially trained managers' understanding of finance and governance issues, advice is regularly given by the Audit team and training has been provided by an external supplier supported by the Director of Finance and ICT and the Chief Internal Auditor. Work continues on a summary of Contract Standing Orders which will simplify the process to be followed during procurement exercises.

15. The level of assurance on the Council's systems of internal control that can be given by the Chief Internal Auditor takes into account:

- All audit work completed during 2010/11;
- Follow up actions from previous years audits;
- Management's response to findings and recommendations;
- The resources available to deliver the audit plan;
- The certification of Service Directors in their assurance statements;
- Internal Audit performance in 2010/11;
- The reliance placed on the work of Internal Audit by the External Auditor; and
- Relevant information in Audit Commission reports, such as Protecting the Public Purse.

16. Taking all of the available information into account, in particular the audit work completed, it is considered by the Chief Internal Auditor that the Council has in place a satisfactory framework of internal control, which provides reasonable assurance regarding the efficient and effective achievement of its objectives in 2010/11.

Performance Management

17. The Internal Audit Team has local performance indicator targets to meet in 2010/11, as set out below:

	Actual 2007/08	Actual 2008/09	Actual 2009/10	Target 2010/11	Actual 2010/11
% Planned audits completed	89%	95%	87%	90%	82%
% chargeable "fee" staff time	68%	71%	69%	72%	66%
Average cost per audit day	£307	£309	£300	£320	£307
% User satisfaction	81%	85%	94%	85%	86%

18. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan as amended for additional work (eg investigations) during the year.

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system.

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system.

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up

by the client's comments on a range of issues related to the audit.

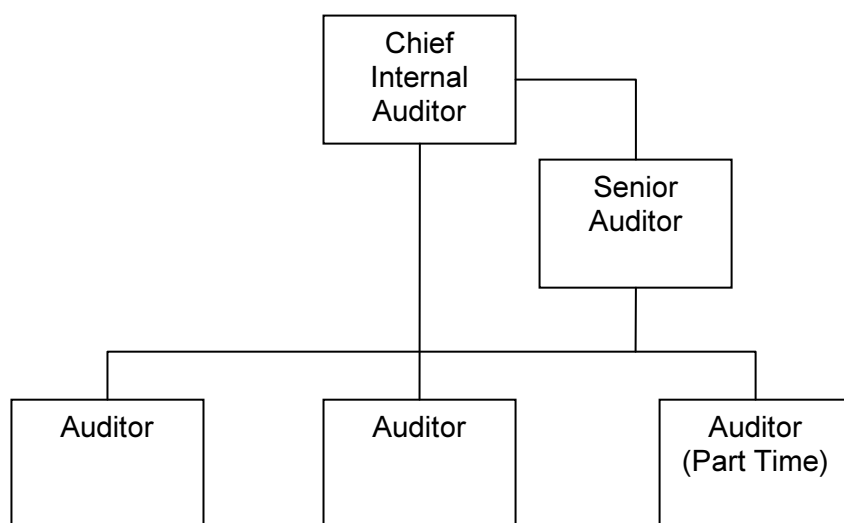
19. The figures for planned audits completed of 82% (target 90%) and the percentage of chargeable staff time of 66% (target 72%) being below target are both due to a vacancy during the first seven weeks of the year, study days for a member of staff studying for the Institute of Internal Auditors professional qualification and the long term sickness of a member of staff in the fourth quarter of the year.

20. With the vacancy now filled and the new auditor studying for a professional audit qualification, staff receiving specialist ICT training and further development in the use of specialist audit software, it is planned that the performance of the team will improve and become more focussed on data analysis, IT systems and risk management.

The Audit Team

21. Following the appointment to one of the posts of Auditor the team has had a period of stability in staffing assisted by Deloitte and Touche Public Sector Internal Audit Limited who were contracted to carry out audits of a technical nature (ICT and procurement) and to cover for the vacancy that occurred in the previous year. The Team currently has an establishment of 4.3 full time equivalent (fte) Internal Auditors.

22. The establishment throughout 2010/11 is set out below:



Review of Effectiveness of Internal Audit

23. Regulation 6 of the Accounts and Audit Regulations requires the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. In EFDC the system of internal audit consists of the work of the Internal Audit Team, although supervisory processes in all Directorates provide a control and risk management function that could be defined as contributing to the system of audit. For this purpose, however, the work of the Internal Audit Team is seen as the focus of the review of effectiveness.

24. The Council is required to carry out an annual review of the effectiveness of its system of internal audit, as part of a wider review of the effectiveness of the system of governance. It is the responsibility of the Authority to undertake the review, and not the External Auditor. The Audit and Governance Committee is the most appropriate body to oversee the review of the system of

Internal Audit, as it is independent of the management of the Authority.

25. The framework for the review should demonstrate that the Internal Audit service is:

- (a) meeting its aims and objectives;
- (b) compliant with the CIPFA Code of Practice;
- (c) effective, efficient and continuously improving; and
- (d) adding value and assisting the Authority in meeting its objectives.

26. The framework must also include, but not be limited to:

- (a) a comprehensive set of targets to measure performance;
- (b) user feedback for each individual audit and periodically for the whole service;
- (c) internal quality reviews to be conducted periodically to ensure compliance with the CIPFA Code of Practice; and
- (d) an action plan to implement improvements.

27. The objective of these measures is to ensure that the performance and effectiveness of the Internal Audit service improves over time, in terms of both the achievement of targets and the quality of service provided to the user.

28. Along with compliance with the Code of Practice, the review is to agree the effectiveness of the service. The outcome of the review is independent confirmation that the opinion in the annual report of the Chief Internal Auditor may be relied upon as a key source of evidence in the Governance Statement.

29. Measures of effectiveness put in place by the Chief Internal Auditor are based on existing reports and performance indicators, generally designed to measure outputs and outcomes. The key effectiveness measures are:

- (i) completion of the annual audit plan (Local Performance Indicator);
- (ii) productive audit time as a percentage of total time (LPI);
- (iii) cost per audit day (LPI);
- (iv) achieving client service satisfaction (LPI);
- (v) completion of audits within budgeted days; and
- (vi) finding improvements in control during each audit.

30. The measures referred to in the previous paragraph are monitored by Senior Management and Members via the following reporting processes:

- Preparation of the Annual Internal Audit Plan;
- Periodic monitoring reports by the Chief Internal Auditor, including:
- Quarterly Monitoring reports including Audit Plan progress;
- Reports on significant findings;
- Local performance indicators as referred to above; and
- Results of customer satisfaction surveys; and

- Annual report and opinion of the Chief Internal Auditor.

31. The Council's Internal Audit Team issue a survey sheet after each main audit, and these are used in calculating one of the Team's local performance indicators, as well as providing feedback on Directorates' perception of the quality of the work and professionalism of the audit staff. An overall score of between 1 (poor) and 5 (excellent) is requested from the clients and of the questionnaires returned, 43% were scored at 5, 50% at 4 and 7% at 2, from a return rate of 26% (27% 2009/10). Additional comments on the work of Internal Audit were invited, and where provided were constructive and showed a good level of understanding of the audit process. To address the low return rate the survey sheet will be issued with the final report and a reminder sent after two weeks if not returned completed.

32. The Council's External Auditors, PKF (UK) LLP, conduct a thorough review of the quality of Internal Audit's work on financial systems each year, in assessing the extent of reliance that can be placed on the work, in the context of their audit of the Council's Statutory Accounts. The Annual Governance Report 2009/10, issued by PKF in September 2010 stated:

"The Council outsourced the audit of some of their key financial systems to Deloitte. Where possible, we have placed reliance on Internal Audit's and Deloitte's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:

- (a) reviewed Internal Audit's and Deloitte's working papers and reports;*
- (b) considered the robustness of the key financial systems on the evidence of this work; and*
- (c) re-performed Internal Audit's and Deloitte's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.*

We were able to place reliance on Internal Audit's and Deloitte's work for the testing of the effectiveness of specific controls."

33. The review of effectiveness does not specifically include any aspect of value for money of the Internal Audit Team. Whilst this is an important issue in itself (and is a local performance indicator for the Team), the focus of this review is on the delivery of the internal audit service to the required standard in order to produce the required outcome i.e. a reliable assurance on internal control and other governance arrangements, and the management of risks in the authority.

34. The Council's Corporate Governance Group has undertaken the review of the Internal Audit Service in 2010/11 utilising the following main sources of evidence:

- The annual report and opinion of the Chief Internal Auditor;
- A review of the Internal Audit Service against CIPFA standards using a check list provided in the guidance and now included in the CIPFA Benchmarking return;
- A review of Internal Audit monitoring reports for 2010/11;
- Any comments from the Acting Chief Executive following consideration of individual audit report summaries;
- The role of the Corporate Governance Group monitoring the work of Internal Audit and any significant internal control issues raised in their reports;
- Consideration of significant corporate control issues highlighted in audit reports, discussed within the Management Board;
- Performance by Internal Audit against local performance indicators;
- The Internal Audit section of the Office of the Chief Executive Business Plan and work plans; and

- Corporate Assessment by the Audit Commission.

Summary of Findings

35. The Internal Audit Section can demonstrate that it has a good understanding of the functions of the Council and has achieved the Council's objective to identify improvements to its control systems. The performance of the Unit has remained close to its key targets and while the actual audits achieved (82%) fell short of the target (90%) for completion of the audit plan due to a vacancy and sickness during the year, all fundamental financial systems were examined and reported on. The Council's External Auditors were able to place reliance on the work of Internal Audit when conducting their formal review of the Team's work as part of their review of the 2009/10 accounts.

36. The CIPFA Code of Practice checklist has now been included in the CIPFA Benchmarking return as a required data set. This Good Practice Questionnaire returns an automated compliance score, of which the Internal Audit Section have scored 186 out of a maximum of 192 (97%). The areas of non or partial compliance will be reviewed over the coming year and action taken to address any weaknesses.

37. The work of the Audit and Governance Committee, with independent membership, makes an important contribution to the independent review of internal and external audit processes, as part of the Council's arrangements for securing further improvements in its systems of governance, including internal control. The Annual Report of the Audit and Governance Committee for 2010/11 demonstrated the range of issues addressed during the year.

38. It is felt that the Audit Committee throughout 2010/11 has complied with the key features of an Audit Committee as expressed by CIPFA, specifically that the Committee had:

- (i) a strong Chairman displaying depth of skills and interests;
- (ii) an unbiased approach to its work;
- (iii) The ability to challenge the Executive when required; and
- (iv) A membership that is objective, independent and knowledgeable.

39. In the opinion of the officers attending the Audit and Governance Committee, the continued support given by Members, in particular by insisting on responses to audit recommendations being timely, is invaluable in reinforcing the message of sound governance.

40. Having considered these issues, the Corporate Governance Group is satisfied that the Authority's system of Internal Audit was effective during 2010/11.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Priority Ratings

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

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

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

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

Assurance levels:

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

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

Approved by the Audit and Governance Committee 15th November 2010

**Audit Plan 2010/11
Status Report at 31st March 2011 Appendix 2**

AUDIT PLAN 2010/11

Audit area	Audit type	Days allocated	Completed	Auditor
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	in house
Sundry Debtors	system/follow up	20	Completed	in house
Creditors	system/follow up	20	Completed	in house
Treasury Management	system/follow up	15	Completed	contractor
Budgetary Control (capital and revenue)	system/follow up	10	Completed	contractor
Risk Management and Insurance	system/follow up	15	Completed	in house
Main Accounting and Financial Ledger	system/follow up	15	Completed	contractor
Housing Benefits	system/follow up	25	In Progress	in house
Council Tax	system/follow up	25	Completed	contractor
National Non Domestic Rates	system/follow up	15	Completed	in house
Cash receipting and Income control	system/follow up	15	Completed	in house
Cash receipting IT system	IT	5	Completed	contractor
Provision for 'top up' testing	systems	15	Completed	in house
Cash Office spot checks	verification	5	Completed	in house
ICT				
Environmental controls/backup procedures *	IT	10	Completed	in house
Data and Network Security * one report	system/follow up	20	Completed	contractor
IT Procurement	system/follow up		Completed	contractor
Disaster recovery/business continuity *	IT	10	Completed	in house
IT System Logs	follow up	Reserve		in house
TOTAL		255		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	system	20	Completed	in house
Countrycare	system	10	Completed	in house
Building Control	follow up	5	In Progress	in house
Environmental (use of natural resources)	system	reserve		in house
TOTAL		35		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	In Progress	in house
Public Health	system	10	C/F	in house
Licensing Enforcement	system	15	Completed	in house
Car Parking	system	20	Completed	in house
Grounds maintenance	system	20	Completed	in house
North Weald airfield	establishment	15	In Progress	in house
Leisure contract	contract	15	C/F	in house
TOTAL		115		

OFFICE OF THE CHIEF EXECUTIVE				
Electoral services – data quality		15		in house
TOTAL		15		
Audit area	Audit type	Days allocated	Completed	Auditor
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	Completed	contractor
Housing Lettings	system	20	Completed	in house
House Sales and Leaseholder Services	system	20	Completed	in house
Depot	system/follow up	15	In Progress	in house
Norway House	establishment	15	Completed	in house
Bed and breakfast contract	contract	5	Completed	in house
Homelessness prevention unit	VFM	10	Completed	in house
Stores - Depot stock take	stocktake	5	Completed	in house
Housing Repairs Working Group	management review	5	Completed	in house
Decorating allowance	system	5	Completed	in house
External Funding	system		Completed	in house
TOTAL		125		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15		in house
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	In Progress	in house
Recruitment and Selection	Follow up	5	Completed	in house
Management of Sickness absence	Follow up	5	Completed	in house
Overtime and Committee Allowances	verification	10	Completed	in house
Car Mileage claims	verification	10	Completed	in house
Lease Car Scheme	system	15	C/F	in house
Health and Safety Policy	system	5	C/F	in house
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	in house
Licensing	system	15	C/F	in house
Asset Management system	system	15	Completed	in house
Non-HRA Repairs	verification	5	Q4	in house
Fleet Operations income	system	5	Completed	in house
Reprographics	Follow up	5	Q4	in house
Legal				
TOTAL		140		

Audit area	Audit type	Days allocated	Completed	Auditor
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	in house
Business Plans	verification	10	Completed	in house
CONTRACTS				
Contract Compliance	System/follow up	15	Q4	in house
CORPORATE				
Corporate Procurement	system/follow up	10	In Progress	contractor
Gifts and Hospitality (Officers)	system/follow up	10	Completed	in house
Gifts and Hospitality (Members)	system/follow up	10	Completed	in house
Data Protection Act	system	5	Q4	in house
Freedom of Information Act	system	5	Completed	in house
Follow up of Priority 1 Audit recommendations	follow up	7	Completed	in house
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	in house
Use of Resources work plan	management review	5	Completed	in house
Review of financial regulations and internal controls	management review	3	Completed	in house
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15	In Progress	in house
TOTAL		115		
TOTAL DAYS ALLOCATED		805		
Contingency/Spot checks/Minor investigations		30		in house
Corporate/Service Advice		65		in house
TOTAL		900		

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Report to the Audit and Governance Committee



Report reference: AGC-2011/12-007
Date of meeting: 23 June 2011

**Epping Forest
District Council**

Portfolio: Finance and Economic Development

Subject: Bribery Act Policy

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

1. The Committee is requested to consider the draft Bribery Act Policy for implementation by the Council.

Executive Summary:

The Bribery Act 2010 comes into force on the 1st July 2011 and requires action by organisations to ensure that due diligence procedures are applied, taking a proportionate and risk based approach to mitigate the risk of bribery.

Reasons for Proposed Decision:

To comply with legislation and reduce the risk of bribery to the Council.

Other Options for Action:

No other options.

Report:

1. The Bribery Act 2010 includes a corporate offence under Section 7 of failure by the Council to prevent bribery. The Council will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the Council. As part of these requirements the Council should seek to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation, the first stage of this is the adoption of a policy document (appendix 1).
2. Following adoption of the policy all Members and employees will be made aware of their responsibilities to adhere strictly to this policy at all times and training will be included within the finance training currently given. Consideration will be given to the development of an e-learning module as resources allow.
3. Members and staff will be encouraged to report breaches and suspected breaches of this policy through the Council's Confidential Reporting Policy.
4. The Council's standard forms of contract will be reviewed to include appropriate clauses to prevent bribery.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Bribery Act 2010 and CIPFA Better Governance Forum Members Briefing document.

Impact Assessments:

Risk Management

The introduction of the Bribery Act Policy will put in place a further risk reduction process within the Council and the requirement for a periodic risk assessment, which includes financial risks but also other risks such as reputational damage will enhance the Council's risk management procedures.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

CORPORATE

BRIBERY ACT POLICY

Version History

Version No	Release Date	Author	Updated By	Approved By	Changes
1.0	June 2011	Brian Bassington		Audit & Governance Committee	



Policy Statement - Anti Bribery

Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance "business as usual", rather than as a one-off exercise.

Bribery

Is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy.

Objective of this policy

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

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

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

Scope of this policy

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

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

This policy covers all staff, including all levels and grades, those permanently employed, temporary agency staff, contractors, agents, Members (including independent members), volunteers and consultants.

The Council's commitment to action

The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date
- Making all employees aware of their responsibilities to adhere strictly to this policy at all times
- Training all employees so that they can recognise and avoid the use of bribery by themselves and others
- Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery
- Provide information to all employees to report breaches and suspected breaches of this policy
- Include appropriate clauses in contracts to prevent bribery.

Facilitation payments

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

Gifts and hospitality

This policy is not meant to change the requirements of our gifts and hospitality policy (e-intranet/CSS/Human Resources/Staff Handbook). This makes it clear that:

Sample tokens of modest value bearing the name or insignia of the organisation giving them (for example, pens, diaries or calendars) whether given personally, or received in the post, may be retained unless they could be regarded as an inducement or reward. You should refuse the offer or invitation (or return the gift) unless your Service Director has advised you that it may be accepted or retained.

Public contracts and failure to prevent bribery

Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. There are no plans to amend the 2006 Regulations for this to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council has the discretion to exclude organisations convicted of this offence.

Staff responsibilities

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

You must:

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

As well as the possibility of civil and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in summary dismissal for gross misconduct.

Raising a concern

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

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

There are multiple channels to help you raise concerns. Please refer to the Confidential Reporting Policy (e-intranet/OCE/Policies/Anti Fraud Policies/) and determine your favoured course of action. Staff who do not have access to the intranet should contact the Chief Internal Auditor of their Service Director.

Preferably the disclosure will be made and resolved internally (e.g. to your Section Manager/Assistant Director/Director). Secondly, where internal disclosure proves inappropriate, concerns can be raised with the External Auditor or relevant professional bodies or regulatory organisations. Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

Concerns can be anonymous. In the event that an incident of bribery, corruption, or wrongdoing is reported, we will act as soon as possible to evaluate the situation. We have a clearly defined Anti Fraud Strategy (e-intranet/OCE/Policies/Anti Fraud Policies/) which set out procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Staff who refuse to accept or offer a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. We aim to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

We are committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

If you have any questions about these procedures, please contact the Chief Internal Auditor.

Appendix 1

The Bribery Act

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

The Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1) makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of failure by a commercial organisation (EFDC is a commercial organisation under the Act) to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- On conviction in a magistrates court, to imprisonment for a maximum term of 12 months, or to a fine not exceeding £5,000, or to both
- On conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

Bribery is a serious offence against the Authority and employees will face disciplinary action if there is evidence that they have been involved in this activity, which could result in summary dismissal for gross misconduct. Disciplinary action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case.

Adequate procedures

Whether the procedures are adequate will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the Council. It is for individual organisations to determine proportionate procedures in the recommended areas of six principals. These principles are not prescriptive. They are intended to be flexible and outcome focussed, allowing for the different circumstances of organisations. Small organisations will, for example, face different challenges to those faced by large multi-national enterprises. The detail of how organisations apply these principles will vary, but the outcome should always be robust and effective anti-bribery procedures.

Proportionate procedures

An organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced.

Top level commitment

The top-level management (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

Risk Assessment

The organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage.

Due diligence

The organisation applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

Communication (including training)

The organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

Monitoring and review

The organisation monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

This Council is committed to proportional implementation of these principles.

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Anti Bribery Information for the Audit Committee

Briefing from the CIPFA Better Governance Forum

This paper provides a template note to go to those charged with governance explaining why action is required and the initial actions that can be taken.

Purpose of this paper: To

- Highlight bribery as a risk
- Summarize how this organisation is addressing bribery
- Demonstrate links to other anti-fraud initiatives and policies
- Consider policy and procedures for approval.

Policy Statement - Anti Bribery

Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance "business as usual", rather than as a one-off exercise.

Policy and procedure

We have already produced a draft anti bribery policy and procedure document ([link](#)). Other actions taken are:

The Bribery Act

The Bribery Act comes in to force 1 July 2011 and may have an impact on the activities of the organisation.

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

The offences carry criminal penalties for individuals and organisations. For individuals, a maximum prison sentence of ten years and/or an unlimited fine can be imposed; for organisations, an unlimited fine can be imposed.

We have reviewed our anti-bribery policy and procedures and need to ensure they are sufficiently robust to prevent bribery and to mitigate the risk of committing a bribery offence.

Risk

Some of the organisation's activities present risks of breaches and the need to make decisions on the action to take. We have identified the following risks:

(Examples)

- Procurement – if a supplier is convicted of bribing another person, accepting a bribe or bribing a foreign official they are debarred from carrying out public contracts. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts, but we have the discretion to exclude organisations convicted of this offence.
- Gifts and hospitality – the provision or acceptance of disproportionate, unreasonable or overly lavish gifts and hospitality
- Etc

Action

The action we take needs to be proportionate to the risk the organisation is exposed to. We need firstly to carry out an organisation-wide risk assessment. Dependent on those results we can then determine the activity required to implement, review or change procedures with a view to achieving the correct level of:

- Up-to-date and regular risk assessment
- Procedures proportionate to the risk
- Top-level commitment
- Due diligence
- Communication and training
- Monitoring and review

Breaches

The legislation includes severe penalties. Individuals can receive unlimited fines and a ten year prison sentence and organisations can receive unlimited fines. Senior officers can also be convicted of an offence where they are deemed to have given their consent or connivance to giving or receiving a bribe or bribing a foreign public official.



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Report to the Audit & Governance Committee



Report reference: AGC-008-2011/12
Date of meeting: 23 June 2011

**Epping Forest
District Council**

Portfolio: Leisure and Wellbeing
Subject: Legacy Benefits of the 2012 Olympics and Paralympic Games
Responsible Officer: Derek Macnab (01992 564051).
Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To note the work undertaken with a range of partners, to maximise the legacy benefits for the District, of the 2012 Olympic and Paralympic Games.

Executive Summary:

The East of England was one of the foremost supporters of the London 2012 Olympic Bid, with Essex being a strong contributor in helping the Region to register the highest level of public support across the whole of the United Kingdom. The Economic Impact Study prepared as part of the Olympic Bid submission, projected that the benefit to the County could be in the region of £139M.

In addition to the economic benefits, the experience of other host cities, indicate that there are equally significant social benefits to be realised. This is with respect to increased sports participation, volunteering, tourism and cultural opportunities and the inspirational effect of the games, in particular, for young people.

This report summarises the range of initiatives that Epping Forest District Council, along with partners, are engaged in, to ensure that the legacy benefits of the Games are maximised.

Reasons for Proposed Decision:

Audit and Governance Committee at their previous meeting requested a report on what the District Council was doing, to maximise the benefit from the Olympic Games.

Other Options for Action:

None.

Report:

1. Epping Forest is well placed geographically in terms of access to the main Olympic Park in Stratford and, in particular, the Lee Valley White Water Centre, located only some 150 metres across the County border between Waltham Abbey and Waltham Cross. Essex will also host the Olympic Mountain Bike Event at Hadleigh Castle in Castle Point. Therefore, whilst there are a number of ongoing concerns around congestion, particularly in relation to the Central Line, (where officers are liaising with the London Underground), the District is well placed to take advantage of the 2012 Games.

2. Whilst Epping Forest from the outset, has been involved in a pan Essex approach to Olympic and Paralympics Legacy, through the work of the Essex Working Group and the Nation and Regions East Group, (the Acting Chief Executive is a Member of the Essex Legacy Board) inevitably due to its close proximity, much of the focus has been around the Lee Valley White Water Centre, which will be hosting the Canoe Slalom Events.

3. The following sections of the report, which have been broken down under a number of thematic headings are intended to give an insight into current Olympic related initiatives across the District.

Construction and Procurement Opportunities

4. The Olympic Delivery Agency (ODA) are responsible for the provision of all the Olympic Games Venues whereas the London Organising Committee for the Olympic Games (LOCOG) are responsible for the organisation and management of the event. The ODA therefore has let the majority of construction and infrastructure contracts, whilst the LOCOG are still focusing on procuring services for the needs of the event itself, from sports equipment to catering.

5. In January 2008, the District Council in conjunction with Business Link East, organised a well attended Business Breakfast to introduce local companies to the CompeteFor website. This key website is where games related contract opportunities are advertised, as well as the means of expressing interest in ongoing opportunities through the supply chain and registering as a sub-contractor. A number of West Essex Companies have been successful in winning Olympic construction contracts for example, Camfaud Concrete Pumps based in Thornwood, Blockwork Manufacturer Lignacite, in Roydon and Hoppings Softwood Products in Harlow. Other companies such as LCDR Ltd in Brentwood/Ongar have been successful in winning Management Consultancy Services.

6. In terms of capitalising on the remaining opportunities becoming available through LOCOG for games time related services, the Council's Town Centre Manager in liaison with officers from Herts, Essex and Broxbourne, recently organised a Business Seminar on the 16 March at the Waltham Abbey Marriott. At the event local businesses were able to participate in a range of seminars designed to assist them, not only in competing for Olympic related opportunities, but also on how to capitalise on any post games legacy opportunities.

7. A further event "London 2012 and Essex Procurement Business Breakfast", is scheduled for 30 June. This event is being run in partnership with Harlow and Uttlesford District Councils, Essex County Council, the Federation of Small Businesses and Essex Chamber of Commerce.

Employment and Training

8. The ODA has given a commitment to all the host Boroughs, that employment and training opportunities would be made available for local people. This has been true of the Lee Valley White Water Centre, where the main contractor, Morrisons Construction, has offered a number of apprenticeships to young people. The White Water Centre, uniquely amongst Olympic Venues, has been opened for use by the public pre-games, primarily for White Water Rafting, where currently approximately 500 people per week are participating. A range of full time and part-time workers are employed at the Centre ranging from rafting guides to administration and catering staff.

Volunteering

9. In addition to paid employment, the management of the 2012 Olympic Games will involve in the region of 70,000 volunteers. A number of these volunteers will need to have specific skills, such as medical staff etc, but the majority will be trained to undertake a wide range of roles from marshalling to general welcome guides. Many of the volunteering opportunities will not necessarily be in the Olympic Park but in Central London and at the major

gateways to the Country. For example, Essex volunteers will meet and greet visitors to Stansted Airport and Harwich Port. It is the intention that a number of specific event volunteers will be recruited locally to support the actual operation of the Olympic Canoe Event at Waltham Abbey. This will provide an excellent experience for local people to become engaged. Further details are awaited from LOCOG.

Economic Development and Regeneration

10. The Lee Valley White Water Centre, constructed at a cost of some £33M represents a significant investment in the local economy, and should have ongoing economic benefits to the local area, given the anticipated 70,000 visitors per annum and the potential to act as a catalyst for further regeneration. In order to ensure that the potential of the Centre will be maximised, an Olympic Legacy Board has been established. This multi-agency partnership, Chaired by the Leader of Broxbourne Borough Council, has membership from Epping Forest District Council (Olympic Champion Councillor Elizabeth Webster and the Acting Chief Executive), Essex County Council and Hertfordshire County Council Members and Lead Officers, the Chairman and key Officers of the Lee Valley Regional Park Authority, East of England Development Association, Enfield Council and Waltham Abbey Town Council.

11. The main Board has a number of active sub-groups namely Community Engagement and Consultation, Environmental Regeneration, Economic Development, Tourism and Visitors and Sports Development. The Groups are responsible to the Board and report regularly on progress against their work programmes.

12. In order to provide focus and capacity, the Board created a temporary 2 year Olympic Officer post, to maximise the legacy potential and development opportunities created in the area by the hosting of the Olympics, and the building of the Lee Valley White Water Centre. Funding for the post was provided by Broxbourne Borough Council £20,000 p.a. Hertfordshire County Council £20,000 p.a. and Epping Forest District Council £10,000 p.a. The Olympic Officer, Max Houseago, took up the position on the 13 December 2010. The officer is based within Broxbourne Council, but works collaboratively across all funding partners and with other partner agencies, to ensure delivery of a number of key projects, as outlined below.

Lee Valley White Water Centre Economic Development Study

13. An Economic Development Study has been commissioned to identify the regeneration and economic legacy benefits that could be provided by the Lee Valley White Water Centre. As owners of the facility, the Lee Valley Regional Park Authority were given the lead in procuring consultants, along with the Olympic Officer, representatives from Epping Forest District Council, Essex County Council, and Hertfordshire County Council, coming together as members of a steering group.

14. A brief with invitation to tender was sent out to 15 consultants in November 2010. The responses were evaluated by the steering group and four consultants were short listed. Following interviews on the 17 December 2010, Nathaniel Lichfield and Partners were appointed.

15. Nathaniel Lichfield & Partners have been looking explicitly at how the White Water Centre can be part of, and contribute to, a popular visitor destination. They will be providing advice on the opportunities of attracting further leisure attractions into the area. They also are looking at ways in which to maximise visitor numbers and spend in the area, and how local people can benefit from this through job and training opportunities. They have also been tasked to establish where the development opportunities are, both physically and sector wise, for business that will support the development of the area economically.

16. With regard to consultation the consultants have engaged with relevant local council economic development departments, commercial property agents, chambers of commerce that can provide avenues for inward investment, tourism, sports and business organisations (i.e.

Gunpowder Mills) which could provide potential pointers to future potential. Contact has also been made with operators of similar sports/leisure venues/developments elsewhere to identify planned initiatives or experience of developments linked to the venues.

17. The Olympic Regeneration Officer has been providing updates to key parties such as Town Centre Partnerships and Town Councils on the progress of the Study.

18. The consultants Nathaniel Lichfield were also present at the business seminar event at Waltham Abbey on the 16 March, where local businesses and Members had the opportunity to put forward their ideas about how development and regeneration opportunities might be created for the wider area.

19. The consultants have produced some initial research findings. However, the draft final report will not be presented to the Legacy Board until the 30 May 2011.

20. It is not anticipated that the completed report will be published before mid June, although a verbal update can be given, if required, to the Audit and Governance Committee on the latest position.

World Championships 2015

21. The Olympic Officer has been supporting the British Canoe Union in their successful bid to host the 2015 World Slalom Canoe Championships. The Centre is now recognised as the premier facility in the world and has the distinct advantage in that it can guarantee an event being run as it is not weather dependent. This international event, which has far greater multi-national participation than the Olympics, will be hosted in September 2015, with the ensuing international media coverage. A number of training camps will proceed the event with a number of teams re-locating to the area. The British Canoe Union estimate the value to the local economy of the event as some £1.7M.

Waltham Abbey Regeneration

22. The District Council has already agreed to grant Waltham Abbey Town Council £160K to undertake amenity improvements in the Town, largely geared towards making Waltham Abbey more attractive to visitors. This will build on the existing attractions such as the Royal Gunpowder Mills, Abbey Church and the Museum. Waltham Abbey is well placed to capitalise on the 70,000 visitors per annum anticipated at the White Water Centre. The District and Town Councils are keen to encourage these visitors to visit Waltham Abbey and other parts of the District, to benefit traders and businesses.

23. The Olympic Officer in liaison with other District Council staff is developing a bid to the Heritage Lottery Fund, Townscape Heritage Initiative, for Waltham Abbey. If successful, this could result in some £2M of funding to improve the environment and street scene in the Town. It is considered that the Olympic Venue will be a unique selling point for the bid.

Sports Participation

24. A number of Olympic and Paralympic athletes, hopeful of being selected for the Games, are based in the District. The Council has supported these young athletes through the Leisure Bursary and Grants Schemes. In addition, it is anticipated that there will be a general increase in participation throughout London who are hosting the Games. The Council's Sports and Health Development Team in conjunction with the Schools Sports Partnership have been engaged in a number of initiatives, utilising the Olympics to encourage people to be more active.

Cultural Olympiad

25. The Cultural Olympiad is a celebration of the games through arts and festival events

that will be running up to the Games. The District Council's staff have been encouraging local groups to get involved and register their events on the Cultural Olympiad.

26. In addition, the Council's staff is promoting a number of Cultural Olympiad Events. Details of some of these currently are listed below:

Open Weekend 2011

27. Epping Forest District Council's Community Services, in partnership with Waltham Abbey Town Council, will be organising a festival event for young people aged 11 to 19 years on Sunday 24 July 2011.

28. The W Fest has been registered via the Open Weekend website and will be held at the Town Mead Recreation Ground in Waltham Abbey, close to the Olympic White Water Centre. W Fest will be widely publicised via social media sites, locally distributed flyers and through the Council's Summer Activities brochure.

29. The free event will include a skate and BMX jam, sessions with Tottenham Hotspur Foundation football coaches and freestylers, screenings of the films "Street Dance" and "Lords of Dog Town", dance workshops, henna, hair braiding and DJs.

Limes Farm Hall Art Project 2011

30. Artists are working with local residents at Limes Farm in Chigwell to create artworks for their new community centre. The work, which is inspired by Chinese cultural artefacts, will also create pieces made by the community for inclusion in the China in the East travelling exhibition in 2012.

Cultural Olympiad 2012

31. Leap Festival is a 7 month celebration of the people and places, and events happening in West Essex and East Hertfordshire, and around the Lee Valley White Water Olympic Venue during 2012. The festival aims to highlight the diversity of cultural activities for Hertfordshire and Essex residents as well as visitors to the London 2012 Olympic and Paralympic Games. The programme, inspired by the London 2012 Festival, will include small scale community events, specially commissioned performance pieces, touring exhibitions and family days.

Make a Move! 2011-12

32. Epping Forest Arts (EFDC) will be working with a wide range of community and dance groups throughout 2011 and 2012 to create a mass community dance event which will take place at the Waltham Abbey Town Show in June 2012, linking into the Sparks will Fly event.

Sparks Will Fly 2012

33. Waltham Abbey Town Show in June 2012 will be visited by one of the large creatures, created by Walk the Plank, and commissioned by Essex County Council. The two creatures will be travelling across Essex meeting local residents and communities in the summer of 2012 before meeting up for a large scale event in Chelmsford. EFDC and WATC are working in partnership in the Waltham Abbey event.

Conclusion

34. The Olympic and Paralympic Games have been called the greatest shown on earth. The financial and social benefits of other previous Games pay testimony to what can be achieved. A key selling point of the London Bid was Legacy. This report has sought to give an insight, not only into what work is being undertaken prior to the 2012 Games, but also some of the ongoing potential Legacy benefits for the District.

Resource Implications

The District Council has co-funded the appointment of the Olympic Officer post and the Regeneration Study is detailed within the report.

Although the LOCOG will not be paying a licence fee for the use of North Weald Airfield for park and ride for the White Water Canoe Event, the council will recover its costs.

There may be a need to seek additional funding “for Look and Feel” i.e. branding and dressing the Olympic route, although details are still awaited.

Legal and Governance Implications:

No specific implications identified, although there has been risks identified with respect to potential commuter congestion during the period of the Games.

Safer, Cleaner and Greener Implications:

London 2012 has aimed to be the most sustainable Games ever held with a number of initiatives undertaken to reduce their Carbon Footprint.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Minutes of Legacy Board, Sub Groups and Internal Working Party.

Impact Assessments:

Risk Management

None.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-009-2011/12

Date of meeting: 23 June 2011

Portfolio: Finance and Economic Development.

Subject: Consultation – Future of Local Public Audit

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To consider what response, if any, the Committee wishes to make to the Government consultation on the future of local public audit.

Executive Summary:

The Government have issued a consultation paper entitled “Future of local public audit”, which has a closing date for responses of 30 June 2011. The consultation is over sixty pages and has fifty detailed questions, most of which are either not relevant to the Council or are too complex to easily form a view on. However, there is a proposal about the future structure of audit committees that is relevant and would impact on the Council.

Reasons for Proposed Decisions:

To determine if a response is to be made to the consultation.

Other Options for Action:

Members could decide to not respond, to respond in part or to respond in full to all fifty questions.

Report:

1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and refocus audit on helping local people hold their Councils and other public bodies to account for local spending decisions. The Secretary of State’s announcement on 13 August contained the following overall intentions and policy aims.

- (a) to disband the Audit Commission and transfer the work of the Commission’s in-house audit practice to the private sector;
- (b) to enable local authorities to appoint their own independent external Auditors;
- (c) to provide a new framework for the audit of local health bodies who are also currently audited via the Audit Commission; and
- (d) to ensure that all local public bodies would still be subject to robust auditing.

2. The consultation paper sets out the Government's vision for the future of local audit. The consultation is wide ranging and both provides details of the Government's proposals to change the audit of local councils and other local bodies and also consult on a range of potential options where the Government has yet to establish its intentions. The Government's vision for local public audit is based on four principals.

(a) Localism - local public bodies should be free to appoint their own independent external Auditors from a more competitive and open market;

(b) Transparency - local public bodies will become increasingly accountable for their spending decisions to the people who provide their resources;

(c) Lower audit fees; and

(d) High standards of auditing - External audit should remain both robust, efficient and follow the established principals of public audit.

3. The consultation document runs to more than sixty pages and includes a list of fifty questions, which are copied at Annex 1. A full copy of the consultation can be obtained either from the Director of Finance and ICT or the CLG website using the address below:

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

4. Many of the questions are about the overall system of audit and regulation and as such are either not relevant to the Council or are too complex to easily form a view on. Rather than attempting to provide a very detailed paper to promote an understanding of the wider issues, it was felt a more focused paper on the potential effect on the structure of the Audit and Governance Committee would be more useful. Page 26 of the consultation includes detail of the Government's preferred structure for audit committees. This paragraph states:

"We envisage that in the new system an Audit Committee could be structured in the following way.

(a) The Chair should be independent of the local public body. The Vice Chair would also be independent to allow for the possible absence of the Chair.

(b) The elected Members on the Audit Committee should be non executive, non Cabinet Members, sourced from the Audit body and at least one should have recent and relevant financial experience.

(c) There would be a majority of Members of the Committee who are independent of the local public body."

5. These proposals would require significant change to the current Audit & Governance Committee structure. Presently the Chair is an elected Member and the Vice Chair is independent, they would now both be required to be independent. There are also currently a majority of elected Members on the Committee, that position would now be reversed and it would be the independent Members who would be in the majority.

6. This report is being presented to the Finance and Performance Management Cabinet Committee on 20 June and an oral update will be provided on their views. Whilst a jointly agreed response, or decision not to respond, would be preferable it would be possible to make two different responses if necessary.

Resource Implications:

The consultation includes the possibility of paying independent Members to encourage

sufficient suitable candidates to come forward. If this was to become a requirement there would be some additional costs.

Legal and Governance Implications:

This is only a consultation, but because of the potential impact on the Audit and Governance Committee the officer Corporate Governance Group have considered the consultation and their view is set out below.

Safer, Cleaner, Greener Implications:

None.

Consultation Undertaken:

The Corporate Governance Group (CGG), which comprises of the Acting Chief Executive, the Chief Finance Officer, the Monitoring Officer, the Assistant to the Chief Executive and the Chief Internal Auditor, has considered the consultation and the key issue of the future composition of the Audit and Governance Committee. CGG agreed with the proposal that the Audit and Governance Committee should be independent from the Council and so endorsed the recommendations that the majority of Members on Audit and Governance should be independent and also that the Chairman should be independent. This is a model that has been used for the Standards Committee, which has discharged its functions effectively.

Background Papers:

CLG Consultation document – Future of local public audit.

Impact Assessments:

Risk Management

With audit committees taking on the responsibility for the appointment of the external auditor, there is a greater need for such committees to be, and be seen to be, independent. A risk exists that the credibility of the external auditor and the audit committee could be called into question.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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List of consultation questions

1. Have we identified the correct design principles? If not, what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities'. Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to co-operate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence.
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?
13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described below seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

- a) only the chair and perhaps a minority of members are independent of the local public body.
 - b) a chair and a majority of members independent of the local public body.
 - c) as for (b) but with independent selection of the members independent of the local authorities.
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
 17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
 18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
 19. Is this a proportionate approach to public involvement in the selection and work of auditors?
 20. How can this process be adapted for bodies without elected members?
 21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
 22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
 23. If notification of auditor appointment is required, which body should be notified of the auditor appointment / failure to appoint an auditor?
 24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
 25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?
 26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
 27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independent and audit quality? If not, what additional safeguards should be in place?
 28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
 29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
 30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
 31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'.
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?
39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor / audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county / unitary authorities to:
 - a) Appoint independent examiners for the smaller bodies in their areas?
 - b) Outline the annual return requirements for independent examiners?
 Who should produce and maintain this guidance?
45. Would option 2 (see below) ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Option 2

The small body would be required to make arrangements for the appointment of the independent examiner, **including** the involvement of an audit committee. This would give the body the freedom to make all necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee.

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county / unitary authority?
47. Is the four level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate, method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

By virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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