



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE **Thursday, 9th February, 2012**

Place: Civic Offices, High Street, Epping

Room: Council Chamber

Time: 7.00 pm

Democratic Services Officer Gary Woodhall – Office of the Chief Executive
Tel: 01992 564470
Email: democraticservices@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 10 November 2011 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. CORPORATE GOVERNANCE GROUP - 14 DECEMBER 2011 (Pages 5 - 10)

(Director of Finance & ICT) To consider the attached minutes of the meeting of the Corporate Governance Group held on 14 December 2011.

7. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF CONSTITUTION & TERMS OF REFERENCE (Pages 11 - 30)

(Assistant to the Chief Executive) To consider the attached report (AGC-018-2011/12).

8. REPORTS FROM THE EXTERNAL AUDITOR (Pages 31 - 56)

(External Auditor) To consider the attached report (AGC-022-2011/12).

9. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDY - PROTECTING THE PUBLIC PURSE (Pages 57 - 102)

(Chief Internal Auditor) To consider the attached report (AGC-020-2011/12).

10. TREASURY MANAGEMENT STRATEGY STATEMENT & INVESTMENT STRATEGY 2012-15 (Pages 103 - 138)

(Director of Finance & ICT) To consider the attached report (AGC-021-2011/12).

11. Q3 INTERNAL AUDIT MONITORING REPORT 2011/12 (Pages 139 - 156)

(Chief Internal Auditor) To consider the attached report (AGC-019-2011/12).

12. ANY OTHER 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.

13. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

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

amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

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

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.

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

**WEDNESDAY, 14 DECEMBER 2011
(9.30 - 11.15 AM)**

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

**Apologies for
Absence:**

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

55. DECLARATIONS OF INTEREST

None for this meeting.

56. TERMS OF REFERENCE

Noted.

57. MATTERS ARISING

(a) Police Commissioner Elections – 2012 (Minute 43(b))

Noted that Mr S Packham, Chief Executive of Chelmsford Borough Council had been appointed as the Police Election Returning Officer for Essex.

(b) Senior Recruitment Task and Finish Panel – Scoping Report (Minute 49)

Noted that a further meeting of the Task and Finish Panel was due to take place on 15 December 2011 and that a meeting of the Committee for the appointment of a Chief Executive had now been agreed for 19 January 2012.

Noted that Counsel's Opinion on recruitment/redundancy and appeal processes had been received and that this would be reviewed over the coming weeks.

Noted that some advice received from Counsel indicated that changes would need to be made in the Employment Procedure Rules of the Constitution.

ACTION:

C O'Boyle/P Maginnis to review Counsel's Opinion.

I Willett to consider constitutional changes which were being recommended.

58. DRAFT ANNUAL AUDIT LETTER 2010/11

Noted that the draft annual audit letter 2010/11 had been received from the Council's external auditors.

Agreed that the draft letter be approved subject to the following comments:

- (a) Section 4 (Future Developments – Housing Revenue Account Reform) – ask for the progress achieved on HRA issues and interest rates to reflect better the Council's relatively advanced position as mentioned in discussions with the external auditor;
- (b) Paragraph 2.2 – amend reference to "24 parishes" and express number of staff in terms of full time equivalents as the figure quoted is misleading;
- (c) Paragraph 3.16 – clarify text to indicate that the scope of the review was not just Waste Management but also Grounds Maintenance; and
- (d) Paragraph 3.11 – ask for the figures quoted in this paragraph to be checked by the external auditors as they did not appear to apply to this Council.

Noted that at the next Audit and Governance Committee there would be a report on the external audit fee outturn showing that the previous fee reduction (£11,000) would now be offset by additional work undertaken in connection with the adoption of international financing standards and also additional work on benefits.

Noted that other reports for the next Audit and Governance Committee which were still in preparation included Government Grants and the Audit Plan for 2012/13.

ACTION:

R Palmer to discuss further changes to the audit letter with the external auditors.

R Palmer to finalise three additional reports for the next Audit and Governance Committee.

59. MINUTES OF THE PREVIOUS MEETING (19.10.11)

Agreed.

60. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT STUDIES

(a) Protecting the Public Purse (Fighting Fraud)

Agreed that a summary of the most significant issues raised in this publication be included on the agenda for the next Audit and Governance Committee, including recommendations concerning an action plan for any matters which this Council needs to address;

(b) "Tough Times" (Current Financial Climate)

Agreed that a report be submitted to the next Corporate Governance Group with a summary of this document and any points for this Council to pursue.

(c) "Work in Progress"

Agreed that no further action needed to be taken on this item.

ACTION:

S Tautz to draft report for next CGG (Tough Times).

B. Bassington to draft report for Audit and Governance Committee (Protecting the Public Purse 2011).

61. FREEDOM OF INFORMATION ACT - REVISED PUBLICATION SCHEME

(G Lunnun in attendance)

Agreed that the draft revision of the Freedom of Information Act Publication Scheme be approved subject to the following comments:

- (a) include a list of Directors;
- (b) extend the list of services for which Epping Forest District Council is not responsible (e.g. Town Councils and County Councils);
- (c) Classes of Information – delete item (x) E-Procurement Strategy; and
- (d) delete item (xv) (Investment Reports) and extend Section (XXII) (Expenditure) to give more information regarding data on the website relating to contracts valued over £500.

ACTION:

G Lunnun to pursue.

62. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF CONSTITUTION

Draft report to the next Audit and Governance Committee agreed subject to the following comments:

- (a) add reference to the effect of the Localism Act 2011 on the current Standards Committee model which is referred to in the report; and
- (b) include reference to the fact that there is no clear Government timetable for introducing statutory Audit Committees.

ACTION:

I Willett to revise report.

63. POLICY ON STAFF ACTING AS EXECUTORS OR BENEFICIARIES

(R Wilson in attendance)

Noted that recently a warden at a Council sheltered unit for the elderly had disclosed the fact of being a beneficiary in the will of an ex-tenant as well as being executor.

Agreed that further research be conducted with Essex County Council to establish whether there was a model form of policy governing the way in which staff,

particularly those employed in care settings or are on a "one-to-one" basis who are executors or beneficiaries should deal with their employers.

Agreed that the main issues to be addressed in the policy should be:

- (a) advice to Council staff who have a "one-to-one" relationship with customers, clients or tenants of the Council in regard to acting as an executor or being a beneficiary;
- (b) guidance to Council staff discouraging them from taking up the role of executor;
- (c) advice or instructions regarding staff being precluded from accepting any proceeds from being a beneficiary, ensuring that this equates properly with the current gifts and hospitality policy of the Council; and
- (d) precluding staff from accepting beneficiary status in any circumstance.

ACTION:

C O'Boyle to pursue.

64. GRANGE FARM TRUST

Noted that a question had been asked at the last Council meeting regarding grant aid being given by the Grange Farm Trust and that a further report had been requested at the next Council meeting.

Noted that a member of the Audit and Governance Committee had held informal discussions with the Leader of Council regarding trust affairs and a further meeting was likely to be held in the New Year.

ACTION:

C O'Boyle to pursue.

65. CARBON NETWORK EAST - UPDATE

Noted that a claim had been received from the representatives of Carbon Network East regarding payment of fees but that legal advice obtained on behalf of the partner authorities was not to pay.

Noted that the Council's liability at the present time was limited to £3,000 to £4,000.

ACTION:

C O'Boyle to monitor.

66. RISK REGISTERS - CONFIDENTIALITY

Noted that it had been reported to the PLP that recent decisions from the Information Commissioner had focused on the question of risk registers as the Commissioner had refused to support decisions of a local authority not to provide information from a Risk Register regarding a housing scheme.

Noted that the Commissioner had indicated that he would accept limited redaction of material from risk registers but not wholesale withholding of the contents.

Noted that the Commissioner had concerns about the manner in which recording in risk registers was undertaken and agreed that Service Directors should look carefully at the way in which these were recorded to ensure that they were in objective language.

Noted that Epping Forest District Council's Corporate Risk Register was already in the public domain and any person requesting information under FOI would simply be referred to the website.

Agreed that the Corporate Risk Management Group should review the situation regarding Risk Registers with a view to advising staff about how to respond to the Information Commissioner's recent rulings.

ACTION:

R Palmer to pursue.

67. STANDARDS COMMITTEE

(a) Complaints – Schedule of Current Discussions

Noted.

(b) Investigations under Reciprocal Arrangements on behalf of other Essex District Councils

Noted that one investigation by the Monitoring Officer in respect of Harlow District Council was likely to be concluded at a hearing in the near future.

Noted that the investigation on behalf of Basildon District Council by the Deputy Monitoring Officer was at a stage of draft report approval and the investigation was likely to be concluded early in the New Year.

Noted that under the PLP reciprocal arrangements income of approximately £3,000-£4,000 in terms of work undertaken by the Monitoring Officer and Deputy Monitoring Officer's would accrue to the Council as a result of this work.

ACTION:

R Palmer to note for budget.

(c) Localism Act 2011

(J Preston in attendance)

DCLG summary of the main provisions of the Act was noted.

Noted that some local authorities were expressing concern about the pre-determination provisions of the Act and the need to consider carefully the question of when pre-determination became bias.

Agreed that this should be followed up with Maldon District Council, which was the lead authority in Essex, so as to ensure that the advice received could be fed into the review of the planning protocol, etc. in the light of the Act.

ACTION:

J Preston to approach Maldon D.C.

68. PROGRESS REPORTS

(a) EFDC v Saundercock

Noted that negotiations concerning the settlement of the Council's outstanding claim were continuing.

(b) Deceased Member of Staff

Noted that issues surrounding the payment of funeral expenses in this case had been satisfactorily resolved following discussions between the family, the Council and the relevant Bank.

69. ANY OTHER BUSINESS

(a) Data Protection – Unencrypted Computer Discs

Noted that a complaint had been received from the Audit Commission regarding unencrypted transfer of electoral roll data to the Audit Commission which had also been directed to the wrong Audit Commission address.

Noted that written comments from the Audit Commission were awaited.

Noted that action had been taken against the staff concerned in connection with this incident and that a thorough review of procedures was now in progress in order to avoid any unencrypted discs being used for this purpose again.

Noted that arrangements were also being put in place to ensure that there was proper cover for the management of the IT electoral roll system to provide cover and approve release of data.

70. DATE FOR FUTURE MEETINGS

The schedule of future meetings was approved.

Agreed that the next scheduled meeting would be held on 15 February 2012 at 9.30 a.m. in the Acting Chief Executive's Office.

Report of Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-016-2011/12
Date of meeting: 9 February 2012

Portfolio: Finance & Economic Development.

Subject: Audit and Governance – Review of Constitution and Terms of Reference

Responsible Officer: Ian Willett (01992 564243)

Democratic Services Officer: Gary Woodhall (01992 564470)

Decision Required:

(1) To consider the following review items identified at the meeting on 22 September 2011 and determine whether any should be pursued:

- (a) a majority of independent members;**
- (b) the number of Committee members;**
- (c) selection of Councillors by the Council and not by political groups;**
- (d) exclusion of the Committee from pro rata membership requirements;**
- (e) Committee to appoint its own Chairman;**
- (f) separation of the Audit and Governance functions into 2 Committees;**
- (g) a fixed term of office for independent members of the Committee; and**

(2) That any changes which require amendments to Article 11 of the Constitution be referred to the Constitution and Members' Services Standing Scrutiny Panel for detailed drafting.

Report:

1. When considering whether the Committee could support a proposal to allow Portfolio Holder Assistants to serve on this Committee, it was agreed that other matters relating to its terms of reference and constitution should be reviewed. (Minute 23 – 22.9.11 refers).

2. The report is drafted on the following broad assumptions:

- (a) that the current Committee is non statutory and can be changed as the Council thinks fit;**
- (b) that as Article 11, which governs the Committee, is part of the Constitution and can only be altered by the Council;**

- (c) that the Government intends to legislate to require statutory Audit Committees to be established, the basis of which is not entirely clear although there is, as yet, no clear timetable for this from the Government; and
- (d) that the most appropriate comparison for this review in the Council's Standards Committee,

3. This report is in the form of a discussion paper on the topics raised at that meeting and are discussed in turn below. The comparisons with the Standards Committee must be treated with a little caution in the Localism Act 2011 is changing the legal basis for those Committee. In future, they cannot have independent members or Parish representatives with voting powers and will become optional rather than mandatory in future.

A Majority of Independent Members

4. Article 11.5 of the Constitution prescribes that the Committee will comprise 3 Councillors and 2 co-opted (i.e. independent members).

5. In comparison, the Standards Committee currently has a membership of 9 persons as follows:

- Councillors: 3;
- Independents 3; and
- Parish Representatives 3.

6. Government consultation on statutory committees states that "there would be a majority of members of the Committee who were independent of the local public body". Other possibilities were identified, however, namely:

- (a) the Chairman and minority of members are independent; or
- (b) the Chairman and a majority of members are independent, all to be appointed separately from the Council.

Number of Committee Members

7. It is usual for Committee membership totals to be odd numbers to ensure that majority votes can be achieved if needed. If more independent members are to be appointed, further recruitment exercises will be necessary. The Constitution and Member Services SSP expressed the informal view that the Audit and Governance Committee should have more members.

8. In the Government consultation, there appears to be no guideline number for membership of a statutory Audit Committee.

Selection of Councillors by the Council, not political groups; excluding the Committee from pro rata requirements

9. The legislation allows the Council to waive pro rata requirements provided no member of Council votes against the proposal. This is a decision which only the Council could make, either annually or as a policy that would operate until altered.

10. If the Committee were excluded from the pro rata requirements then this would allow appointment of the Councillor members to be on a different basis. Although the pro rata requirements could be waived, this would not stop political group nominations coming

forward. It might be possible to link nominations to relevant experience or other criteria relevant to membership of the Committee.

11. The Government consultation foresees that:

- (a) the elected members on an Audit Committee should be non executive, (non Cabinet) members; and
- (b) at least one of those Councillors should have “recent and relevant financial experience” but it is recommended that if possible, one third of those members should have that experience.

12. The current policy for nominations for the office of Vice Chairman of the Council is based on cross-party support for the most suitable candidate. Previously there had been a system based on Party nominations in various forms, all designed to ensure that the Chairman's office was not associated with just one political group.

Committee to Appoint its Own Chairman

13. This arrangement already operates for the Standards Committee Chairman and Vice Chairman. These positions are to be filled by independent members.

14. Government consultation on a statutory Audit Committee states that the Chairman “should be independent of the local public body”. The same should apply to the Vice Chairman.

Separation of the Current Committee into Two Separate Committees

15. Government consultation is based on a statutory Audit Committee. A number of options were included ranging from an Audit Committee with only one statutory function (engagement or removal of an auditor) to a wider range of responsibilities including:

- (a) advice to Councils on procurement/selection of their external auditor;
- (b) provision of non audit work by the external auditor;
- (c) audit reports and follow up;
- (d) advising Councils regarding quality of service;
- (e) relationship between internal and external audit*; and
- (f) annual report*.

(* covered in current terms of reference.)

16. Matters which are included in the Committee's terms of reference but are not audit-related are:

- (a) risk management;
- (b) environmental control, anti fraud, risk management and anti corruption arrangements;
- (c) the statutory Statement of Accounts; accounting policy and priorities;

- (d) Treasury Management; and
- (e) the Annual Governance Statement.

17. The Committee need to consider whether these roles are sufficient to warrant a separate committee. Some aspects of governance are dealt with by the Standards Committee mainly involving elected members.

Fixed Terms of Office for Independent Members of the Committee

18. Independent members of the Standards Committee serve for 3 years and are eligible for re-appointment. Council and Parish representatives serve for 1 year and are eligible for re-appointment.

19. This Committee expressed concerns about continuity and the need for “fresh blood” from time to time. This could be assisted by independent members having overlapping terms of office. For instance, all terms could be of 3 year's duration but initial appointments might be split between 4 years and 2 years (50% of seats each). After the initial appointment term, those appointed for 2 years would then be eligible for re-appointment for a further 4 years.

20. There is no reference to suggested terms of office in the Government consultation document.

Possible Conflicts of Interest

21. A review of the last 18 months is set out in Appendix 1.

Other Councils

22. The current position is set out in Appendix 2.

LIST OF ITEMS POTENTIALLY CREATING A CONFLICT OF INTEREST

June 2010

Benefits Inspection Report

September 2010

Food Standards Agency – Audit
Waste Management Stock Control

November 2010

Waste Management Stock Control
Benefits Service – Improvement Plan

February 2011

Benefits Service – Anti Fraud Strategy and Investigation Team

Audit and Governance Committee – Draft Annual Report (any relevant item)

Audit Plan 2011/12 (any relevant item)

June 2011

Olympics/Paralympic Games – Legacy
Former Chief Executive – Contract of Employment

November 2011

Nil

NOTES

- (1) The Internal Audit Monitoring Report would normally refer to individual reviews of services for which the Cabinet may be responsible. Those elements might create a conflict of interest for any Portfolio Holder Assistant who is a member of the Audit and Governance Committee. The same applies to the Committee's Annual Report and Audit Plan.
- (2) Pure Financial Items have been excluded from the list as the intention is to exclude the Finance Portfolio Holder and Assistant from membership of the Committee.

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ESSEX DISTRICT COUNCILS – SURVEY OF AUDIT/GOVERNANCE COMMITTEES**BASILDON DISTRICT COUNCIL****1. Does your Council have an Audit Committee?**

Yes, Basildon Council has an Audit and Risk Committee.

2. If so, does the Committee have a brief to deal with governance matters?

Yes, the Terms of Reference include the responsibility to seek assurance on the Council's Governance arrangements.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) and (b) No, see above. Routine reports are presented to the Committee on the Council's Corporate Governance Action Plans and annually the Committee reviews the Council's Governance Framework and Annual Governance Statement.

4. What is the membership of these Committee(s)?

Councillors 5 Members, balance to the political make-up of the authority.

Independents: None

Others: None

5. If there are independent members, what are their terms of office?

N/A

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) The Audit and Risk Committee is chaired by a Councillor from the administration.

(b) Full Council appoints the Chairman and Vice-Chairman at the annual meeting.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) and (b) Councillor representatives are appointed by the Council on the nomination of political groups, proportionate to the political make-up.

BRENTWOOD DISTRICT COUNCIL

1. Does your Council have an Audit Committee?

Yes

2. If so, does the Committee have a brief to deal with governance matters?

No, the Terms of Reference are all around proper administration of the Council's financial affairs

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) No.

(b) Currently via the Standards Committee, constitution, protocols etc

4. What is the membership of these Committee(s)?

Councillors – Audit Committee is made up of 5 Councillors. There are no other members of the Committee.

Independents: -

Others: -

5. If there are independent members, what are their terms of office?

N/A

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) Councillor

(b) ?

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) Yes

(b) N/A

(c) -

CASTLE POINT DISTRICT COUNCIL

1. Does your Council have an Audit Committee?

Yes.

2. If so, does the Committee have a brief to deal with governance matters?

Yes.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) No.

(b) Governance dealt with through Audit Committee.

4. What is the membership of these Committee(s)?

Councillors: 3

Independents: None

Others: None

5. If there are independent members, what are their terms of office?

N/A

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) Chaired by Councillor.

(b) Appointment by Cabinet (although individuals chosen by the Leader).

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) By Cabinet and approved by Council.

(b) Proportional representation.

CHELMSFORD BOROUGH COUNCIL

1. Does your Council have an Audit Committee?

Yes.

2. If so, does the Committee have a brief to deal with governance matters?

Yes.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) and (b) No but do have Standards and they jointly agree the Annual Governance Statement with Audit and Governance Committee.

4. What is the membership of these Committee(s)?

Audit and Governance all CBC members - 9 in total.

5. If there are independent members, what are their terms of office?

No independents.

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) Chair of Committee is lead party.

(b) Vice Chair from opposition.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) and (b) Council agree membership each group puts forward their reps.

MALDON DISTRICT COUNCIL

1. Does your Council have an Audit Committee?

Yes currently a Sub Committee of Finance and Corporate Services. Governance review is looking at elevating it to full Committee status.

2. If so, does the Committee have a brief to deal with governance matters?

Yes it does, but because its a Sub-Committee its often dealt with by Finance because of timing issues etc (External audit report etc).

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

See above

4. What is the membership of these Committee(s)?

Councillors Sub Committee of 5 plus Chair of Finance – new Audit Committee will have 8.

Independents:

0 – but the idea is to add them to the new Committee if required by new regulations

Others: 0.

5. If there are independent members, what are their terms of office?

N/A.

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

Chairman appointed from within Finance and Corporate Services – with the new Committee the Council will appoint Chairman/Vice Chairman.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

Any volunteers from Finance (struggle getting volunteers). The new Committee will need a political balance.

ROCHFORD DISTRICT COUNCIL

1. Does your Council have an Audit Committee?

Yes.

2. If so, does the Committee have a brief to deal with governance matters?

Terms of Reference include: Review of the adequacy of governance and risk management arrangements and internal control.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) No.

(v) For members – Standards Committee. Constitution is reserved to Council.

4. What is the membership of these Committee(s)?

Councillors 11

Independents: 0

Others: 0

5. If there are independent members, what are their terms of office?

N/A.

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) Councillor.

(b) Full Council.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) Yes.

(b) Pro rata.

TENDRING DISTRICT COUNCIL

1. Does your Council have an Audit Committee?

Yes.

2. If so, does the Committee have a brief to deal with governance matters?

Terms of Reference are as follows:

“Audit Committee - Terms of Reference

1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment;
2. To provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and
3. To oversee the financial reporting process.

Delegation to Committee

The overall responsibility for the effective and efficient delivery of the Council's audit function including:-

Audit Activity

1. Considering the Head of Internal Audit's annual report and opinion and a summary of internal audit activity (actual and proposed), and the level of assurance it can give over the Council's corporate governance arrangements.
2. Considering reports on the operation of internal audit and summaries of specific internal audit reports where requested.
3. Considering reports from internal audit on agreed recommendations not implemented within a reasonable timescale.
4. Considering external auditor and inspection reports and providing comments on these to Cabinet as appropriate.
5. Commenting on the scope and depth of external audit work and ensuring it gives value for money.
6. Liaising with the Audit Commission in regard to the appointment of the Council's external auditor.

Regulatory Framework

7. Reviewing significant issues referred by the Chief Executive, Cabinet or any Council Committee (subject to the availability of resources within the approved audit plan).
8. Monitoring the effective development and operation of risk management and corporate governance.
9. Monitoring Council policies on 'Raising Concerns at Work', the whistleblowing policy and the anti-fraud and corruption strategy.
10. Overseeing the production of the Code of Corporate Governance, including the Statement of Internal Control.
11. Considering the arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
12. Considering the Council's compliance with its own and other published standards and controls (other than those covered by the Standards Committee).

Accounts

13. Reviewing and approving the annual statement of accounts.
 14. Considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
 15. Receiving the external auditor's report to those charged with governance".
- 3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?**
- (a) No.
- (b) N/A.
- 4. What is the membership of these Committee(s)?**
- Councillors Five
- Independents: None
- Others: None
- 5. If there are independent members, what are their terms of office?**
- N/A

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?
- (a) Councillor.
- (b) Appointed at Annual Council.
7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?
- (a) Five
- (b) Yes
- (c) Yes

THURROCK BOROUGH COUNCIL

1. Does your Council have an Audit Committee?

Yes – Performance and Audit Committee.

2. If so, does the Committee have a brief to deal with governance matters?

Yes – remit includes Risk Management, Performance Management, Annual Governance Statement, Internal Audit, External Audit.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) no.

(b) at Performance and Audit Committee.

4. What is the membership of these Committee(s)?

Councillors: 10 District Councillors, politically balanced.

Independents: None.

Others: None.

5. If there are independent members, what are their terms of office?

N/A.

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) District Councillor from the majority political party.

(b) The Political Group Leader.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) By the political group leader.

(b) Council ratifies all nominations made by the Group Leaders.

(c) The Committee is politically balanced.

UTTLESFORD COUNCIL

1. Does your Council have an Audit Committee?

Yes – Performance and Audit Committee

2. If so, does the Committee have a brief to deal with governance matters?

Yes – remit includes Risk Management, Performance Management, Annual Governance Statement, Internal Audit, External Audit.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

(a) No

(b) at Performance and Audit Committee

4. What is the membership of these Committee(s)?

Councillors: 10 District Councillors, politically balanced

Independents: None

Others: None

5. If there are independent members, what are their terms of office?

N/A

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) District Councillor from the majority political party

(b) Full Council

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) by the political group leader

(b) Council ratifies all nominations made by the Group Leaders

(c) The Committee is politically balanced

SOUTHEND BOROUGH COUNCIL

1. Does your Council have an Audit Committee?

See Terms of Reference attached.

2. If so, does the Committee have a brief to deal with governance matters?

See Terms of Reference attached.

3. (a) Do you have a separate Governance Committee? (b) If not, how are governance issues dealt with?

See Terms of Reference attached.

4. What is the membership of these Committee(s)?

See Terms of Reference attached.

Councillors -----

Independents: -----

Others: -----

5. If there are independent members, what are their terms of office?

See Terms of Reference attached.

6. (a) Who chairs the Committee(s)? Is it independent member or a Councillor? (b) Who appoints the Chairman/Vice Chairman?

(a) See Terms of Reference attached.

(b) See Terms of Reference attached.

7. How are the Councillor representatives appointed? (a) by the Council on the nomination of political groups or by some other criteria? (b) Are the appointments made in accordance with pro rata rules?

(a) See Terms of Reference attached.

(b) See Terms of Reference attached.

Extract from the Council's Constitution

8.1 Membership

9 Members of the Council (to include not more than one Executive Councillor, who should not be the Support Services Portfolio Holder) and one non-voting co-opted member.

At least 1 member should have financial expertise.

The Chairman shall not be an Executive Councillor.

Substitutes: Permitted in accordance with Standing Order 31.

Proportionality: Applies.

8.2 Quorum

As per Standing Order 38.1

8.3 Terms of Reference

8.3.1 The purpose of the Audit Committee is to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- provide independent scrutiny of the Council's financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and
- oversee the financial reporting process.

8.3.2 The Audit Committee will maintain a work plan that is reviewed at least annually, agreed by Council and provides the outline audit agenda for each meeting in the annual cycle. It should demonstrate that the Audit Committee is receiving sufficient and appropriate information to discharge its responsibilities and ultimately recommend adoption of the Annual Governance Statement.

8.3.3 The work plan will cover;

- the effectiveness of the Council's governance arrangements, including the approval of the Council's Annual Governance Statement;
- the adequacy of the Council's financial framework, including approval of the annual Statement of Account;
- the scrutiny of the Council's Treasury Management Strategy and Policies;

APPENDIX 1: AUDIT COMMITTEE TERMS OF REFERENCE

- the performance and effectiveness of external and internal audit, including consideration of the respective annual reports;
- consideration of any inspection reports produced and whether reliance will be placed on work of any other committee in specialist areas; and
- the functions and effectiveness of the Audit Committee, including the production of its annual report.

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

8.3.5 The Head of Finance & Resources (S151 Officer), the Head of Internal Audit and the Council's External Auditors will be invited to attend every Audit Committee meeting. As well as reviewing documentation, the Audit Committee exercise the right to invite any other officers, Chairs of other Committees or Cabinet Members to attend before it, as and when required. This would be to provide assurance in relation to the adequacy of the governance arrangements pertaining to their area of activity / responsibility.

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

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

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

8.4 Status of Meetings

Open to the public

8.5 Reports To

Council

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-022-2011/12.

Date of meeting: 9 February 2012.

Portfolio: Finance and Economic Development.

Subject: Reports from the External Auditor.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

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

Executive Summary:

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

The first report is the Annual Audit Letter for 2010/11, which summarises the key issues arising from PKF's work during the year. The detailed findings from the audit work have already been reported to this Committee and there are no additional recommendations in this report.

The second report is the Fee Outturn Summary for 2010/11, which sets out the final costs of the audit. The total code audit fee was £160,700, compared to an estimate of £149,700, and the claims and returns fee is still to be confirmed. Both the Annual Audit Letter and the Fee Outturn Summary were circulated to Members of the Committee before Christmas, to comply with Audit Commission requirements.

The third report is the Annual Audit Plan 2011/12, which provides an update on the 2011/12 Fee Letter issued in April 2011. This report updates PKF's risk assessment and sets out the audit strategy and scope of work.

The final report is on Grant Claim Certification for the year ended 31 March 2011. This report will summarise the main issues arising from the grant claim certification work and include recommendations and an agreed action plan. However, the report is still being concluded and so will be issued later as a supplementary item.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure the proper consideration of these reports.

Other Options for Action:

There are no other options for action.

Report:

1. The reports will be presented to the Committee by Mr Richard Bint, Partner, and Ms

Lisa Clampin, Director of Assurance & Advisory.

Resource Implications:

The additional fees for the 2010/11 audit year have been allowed for in the Council’s revised estimates for 2011/12.

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

An action plan will be agreed to address any areas of risk identified in the preparation of grant claims.

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

Epping Forest District Council

Annual Audit Letter 2010/11

Report to Members

December 2011



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Appendix

Reports issued in relation to the 2010/11 audit

<http://www.pkf.co.uk/>

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

Key findings

- 1.3 A summary of key conclusions is included in the table below:

Area	Conclusion
Financial statements	<p>Some presentational misstatements of a material amount were identified by our audit work and corrected by management, none of which had an effect on the Council's reported outturn.</p> <p>The restatement of prior years' balances required for implementation of International Financial Reporting Standards was dealt with appropriately.</p> <p>We issued an unqualified opinion on the financial statements on 30 September 2011.</p>
Value for money conclusion	<p>We issued an unqualified value for money conclusion on 30 September 2011.</p>

Acknowledgement

- 1.4 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

- 2.1 Epping Forest District Council is in south west Essex and most of the 131 square miles of the district are green and rural. The population of Epping Forest is around 123,000, with about half living close to its boundary with London and there are six main centres of population.
- 2.2 The Council comprises 58 elected Members representing 32 wards. It employs approximately 520 full time equivalent staff, and spends approximately £112m per annum, providing a range of public services to the residents of the District. The Council's spend is funded by Central Government Grants, Council Tax, fees and charges (including housing rents) and other sources of income.
- 2.3 Further information on the activities of the Council is detailed in its eAnnual Reports and the Corporate Plan 2011-2015 which are publicly available on the Council's website at <http://www.eppingforestdc.gov.uk>.

The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.eppingforestdc.gov.uk.

Responsibilities of the auditors and the Council

- 2.5 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.6 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.7 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements (including the Whole of Government Accounts return)
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
 - certification of grant claims (as an agent of the Audit Commission).

3 Key findings

Accounts

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on the 30 September 2011 and therefore within the statutory deadline. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year then ended.
- 3.2 Misstatements were identified and corrected during the course of the audit, five of which were material in value but related only to disclosures meaning that there was no impact on the Council's reported outturn position as a result of amendment. These matters, along with a number of other immaterial misstatements were reported in detail in our *Annual Governance Report*.
- 3.3 These ranged from £782,000 to £96,380,000 the latter being incorrect inclusion of investment principle in the Cash Flow statement adjustment lines, and associated notes, with a nil net effect on correction. The other amendments related to the accuracy of the financial instruments note and disclosures in respect of Housing Revenue Account assets.
- 3.4 There was one uncorrected misstatement reported to Those Charged with Governance of £69,000 in respect of the incorrect treatment of the upward revaluation of guest rooms within the Council's housing stock. Members accepted that this misstatement would remain uncorrected on the basis that it was not significant to the accounts.

Whole of Government Accounts

- 3.5 The Whole of Government Accounts return was also certified on the 30 September 2011 which was the deadline date. The complexity of the implementation of IFRS and the number of corrected misstatements arising from the audit, even though these did not affect the reported outturn, resulted in the Whole of Government Accounts return requiring amendment and extended audit work.

Internal controls

- 3.6 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.7 We identified some control weaknesses from our review of the Council's accounting and internal control systems, and we took account of these in our audit approach and levels of testing. These were reported in our *Annual Governance Report* and related to the housing and council tax benefit system, specifically in respect of controls to check the accuracy of benefit calculated and awarded. Our additional testing confirmed that failure to operate these controls effectively did not result in a material misstatement in the financial statements.

Use of resources

- 3.8 We were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 30 September 2011.

Value for money conclusion

- 3.9 Our principal work in arriving at our value for money conclusion was comparing the Council's financial governance arrangements against characteristics specified by the Audit Commission, reviewing financial resilience and the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

- 3.10 Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control.
- 3.11 Along with all other Councils, Epping Forest District Council was notified of a reduction in central government revenue funding of 16.8% (or £1,706K)¹, with further reductions in the subsequent years. Forecast spending reductions are 13.1% (or £3,154K)² in 2011/12 which is a higher reduction than other District Councils across the Country that are all facing similar financial pressures. Although the Council is intending to utilise some reserves to rectify budgeting shortfalls, it has also transferred Housing Revenue Account assets to the General Fund with an annual rental income of £1.4m as well as restricted historically underspent budgets, in order to fund the finance gap in the short term.
- 3.12 The Council has a good track record of achieving its budgets, putting it in the fortunate position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the financial pressures now faced. From review of current documentation, the Council is on track to deliver its 2011/12 budget and is now focusing on its medium term financial strategy.

Challenging economy, efficiency and effectiveness

- 3.13 Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity.
- 3.14 2010/11 has been a period of review and consolidation in respect of VFM although the Council's baseline arrangements remain adequate.
- 3.15 The implementation of the VFM Strategy action plan and the Data Quality Strategy action plan has been monitored but some of the proactive VFM actions have been consciously put on hold primarily due to:
- the need for all of the baseline budgets to be reviewed and challenged in detail to underpin the Council's response to the challenges presented by funding reductions
 - the contracting of consultants to undertake a series of specific reviews in 2011/12 with a VFM aspect, the results of which will be used to target specific areas for more detailed challenge.
- 3.16 There has been focus on improving the Council's housing and council tax benefits administration processes during the year, which was previously subject to a critical inspection report. In addition, a proactive, independent evaluation of the Council's waste management contract and grounds maintenance service was conducted by specialist consultants who concluded that both had been providing good value for money.

Grants

- 3.17 Our work on the 31 March 2011 grant claims remains on-going at the time of issuing this Letter. We will issue a detailed report on the findings from our work in January 2012, once all claims have been certified.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commission Financial Resilience Survey

4 Future developments

Housing Revenue Account Reform

- 4.1 From 2012/13, the government intends to replace the current method of financing the Housing Revenue Account (HRA) with a system of self funding. Councils will no longer receive housing subsidy, instead they will be expected to fund all HRA revenue and capital expenditure from existing resources.
- 4.2 The impact for the Council is the need to borrow, after several years of being a debt free authority, up to £186m which will be finalised in the next budget setting round ready for 1 April 2012 when self-financing will go live.
- 4.3 We consider the Council to be at the forefront in determining the most appropriate way forward and have already been involved in proactive, early discussions with the Council's finance staff regarding borrowing options and accounting treatment.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit Fee Letter	April 2010
Annual Audit Plan	December 2010
Annual Governance Report	September 2011
Annual Audit Letter	December 2011

Epping Forest District Council

Fee outturn summary 2010/11

December 2011

1 Fee outturn

- 1.1 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Fee Letter, as updated in your Annual Audit Plan (issued in December 2010). We have now concluded the audit and agreed with officers further additional fees in respect of the accounts audit and the final outturn fee for 2010/11 is set out in the table below:

Audit area	Planned Fee per Annual Audit Plan £	Outturn Fee £	Variance £
Planning and Reporting	28,500	28,500	-
Financial Statements, including WGA	86,200	97,200	11,000
VFM Conclusion (including risk based work)	35,000	35,000	-
Total Code audit fee	149,700	160,700	11,000
Work outside of our Code audit fee	£	£	£
Certification of claims and returns	62,000	See 1.3	See 1.3

- 1.2 The additional fees in respect of the accounts audit were as a result of:
- specific issues arising from implementation of IFRS that required a significant amount of audit time to resolve that could not have been anticipated in advance. These related primarily to treatment of componentisation, grant income, cash and cash equivalents and the IFRS restatement note. (£6,500)
 - additional substantive procedures having to be completed to address deficits in assurance arising from internal control deficiencies in respect of housing and council tax benefit expenditure and car parking income. (£3,500)
 - additional time spent on the Whole of Government Accounts (WGA) which was necessary due to the number of changes required to the draft WGA return that needed to be processed and re-agreed to revised accounts. Additional liaison time during the final stages of audit was also required. (£1,000)
- 1.3 At the time of issuing this paper, our work on the 31 March 2011 grant claims remains on-going. We will issue a detailed report on the findings from our work in January 2012, once all claims have been certified, and this will include the final outturn fee for certification work completed as an agent of the Audit Commission.



Accountants &
business advisers

Epping Forest District Council

Audit Plan 2011/12

January 2012

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- B Audit requirements

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members of the Audit and Governance Committee. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

1.1 The purpose of this Audit Plan is to:

- ensure that there is mutual understanding of the respective responsibilities relating to the audit of the financial statements
- provide you with an overview of the planned scope of the audit for the year ended 31 March 2012
- ensure that the areas of potential risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

1.2 In addition, we are required by ISAs (UK & Ireland) to communicate certain matters to you in connection with our audit.

Significant audit risks

1.3 Our audit is designed to respond to significant risks where we intend to focus additional audit effort in providing our opinion on the accounts and our value for money conclusion. These are set out in detail in section 3 and Appendix A. In summary they are:

Financial statements

- **Self financing of the Housing Revenue Account (HRA):** There is a risk of incorrect accounting in the General Fund and the HRA going forward, arising from the cessation of the current housing subsidy system.
- **Implementation of the new property management system (asset register):** There is a risk that there may be a loss of data or incorrect data entry in the transfer, leading to a material misstatement.

1.4 Additionally, there is a presumption in the ISAs that there is a significant risk of management override of controls. This risk is “non-rebuttable” (cannot be mitigated).

Value for money conclusion

- No significant audit risks identified.

Fees

1.5 The audit fee for the year is £142,215. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2011. The assumptions we have made in setting the audit fee are set out in section 4.

1.6 We anticipate fees for the certification of claims and returns for the year ended 31 March 2012 to be approximately £58,000.

Key outputs

1.7 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
Financial statements	
Report on significant deficiencies in internal controls (if necessary)	June 2012
Annual governance report on the financial statements (also includes key findings from our value for money work)	September 2012
Audit opinion covering the financial statements	September 2012
Opinion on the Whole of Government Accounts return	September 2012
Value for money	
Value for money conclusion	September 2012
Annual audit letter	October 2012
Grants	
Grants report to Those Charged With Governance	February 2013

2 Introduction

- 2.1 This Audit Plan sets out the audit work that we propose to undertake for the 2011/12 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit and Governance Committee.
- 2.2 Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are as set out in Appendix B. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by the Council. Our audit of financial statements does not relieve you of your responsibilities.

Planned scope of the audit

- 2.3 We will plan and perform procedures designed to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, thereby enabling us to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 2.4 Our approach to the audit is risk based. We will obtain an understanding of the Council and of the environment in which it operates, including the Council's internal control and this, together with information obtained from discussions with management, provides a basis for identifying and assessing the risks of material misstatement.

Assessing risks

- 2.5 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.6 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

3 Risk assessment

Significant financial statement audit risks

3.1 Summarised below are the significant financial statement risks that are likely to impact on our audit of which we are currently aware. More detail on our response to these risks can be found in Appendix A:

- **Self financing the Housing Revenue Account (HRA):** The current housing subsidy system will cease to operate at the end of 2011/12. There is a risk of incorrect accounting in the General Fund and the HRA going forward, arising from this change which will necessitate the Council taking on debt in the region of £186m in order to make a one off payment to the Government. The significance of this to the current year's financial statements is not clear at this stage, although it is likely to be material going forward. The issue is therefore considered to pose a significant audit risk in respect of compliance with the accounting requirements related to accounting for and disclosing this change in the financial statements.
- **New property management system (asset register):** A new property management system is being implemented in 2011/12 and there is a risk that there may be a loss of data or incorrect data entry in the transfer, leading to a material misstatement. The new system will enable the Council to account for its revaluation reserve on an asset by asset basis.
- **Management override of controls:** International Standard on Auditing (UK & Ireland) 240 presumes that a significant risk of management override of controls is present in all entities and requires us to respond by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear unusual.

Updated value for money conclusion risk assessment

3.2 We have updated our value for money conclusion risk assessment for 2011/12 to take into account:

- matters arising from the completion of the 2010/11 audit
- additional audit knowledge gained since our initial risk assessment which was included in our 2011/12 Audit Fee Letter, presented to the Audit and Governance Committee in June 2011.

3.3 We did not identify any additional significant audit risks from our updated risk assessment.

4 Fees

- 4.1 The audit fee for the year is £142,215 plus VAT. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2011.

Audit area	Planned fee 2011/12	Actual fee 2010/11
Financial statements, including WGA	82,215	97,200
VFM Conclusion	31,500	35,000
Planning and reporting	28,500	28,500
Total Code audit fee	142,215	160,700

- 4.2 If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Finance and ICT and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

Questions and objections

- 4.3 Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Grants certification

- 4.4 Fees billed are based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred.

- 4.5 At the time of issuing this paper, our work on the 31 March 2011 grant claims remains on-going as we have one residual technical issue to resolve regarding the Housing Revenue Subsidy claim. We will issue a detailed report on the findings from our work in January 2012, once all claims have been certified, and this will include the final outturn fee for certification work. Based on our knowledge of the work completed to date we estimate that the fee for certification of claims for the year ending 31 March 2012 will be £58,000.

- 4.6 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard so that we are able to place full reliance on this work.
- you will keep us informed of any significant changes to your main financial systems, procedures or internal controls.
- you will provide the information requested in our records required listing in accordance with the agreed timetable and that there will be no significant departures from the timetable.
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored.
- there are no major changes to the content of government department grant instructions.

- 4.7 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2011/12 and our consideration of your annual governance statement in your 2010/11 financial statements.

Billing arrangements

- 4.8 Your audit fee is being billed in 4 equal quarterly instalments of £35,553.75. Fees for grants certification and time spent dealing with any questions and objections from local electors will be billed when the work is complete.

5 Audit arrangements

Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

	Role and Responsibility
Engagement Partner Richard Bint Email: richard.bint@uk.pkf.com Tel: 0207 065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit and Governance Committee.
Manager Lisa Clampin Email: lisa.clampin@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and VFM Conclusion work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Assistant Manager Neil Jenner Email: neil.jenner@uk.pkf.com Tel: 01473 320806	Responsible for managing our audit fieldwork on site for systems, accounts and VFM Conclusion.

Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing	Report
Financial statements		
Review of internal controls	April 2012	June 2012
Audit opinion covering the financial statements	July- September 2012	September 2012
Opinion on the Whole of Government Accounts return	July- September 2012	September 2012
Value for money		
Value for money conclusion	February - August 2012	September 2012
Grants		
Grants report for claims and returns for the year ended 31 March 2012	June to November 2012	February 2013

- 5.3 As set out in the table above we have brought forward, with the agreement of the Director of Finance and ICT, the timetable for completion of the audit of the financial statements.
- 5.4 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

Communication

- 5.5 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you. Communication may take the form of discussion or, where appropriate, be in writing.
- 5.6 If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as is practicable.
- 5.7 Our contact for communications will be the Director of Finance and ICT. When communicating with the Director of Finance and ICT we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Findings from the audit

- 5.8 We will communicate the following matters to you, where applicable:
- Significant deficiencies in internal control identified during the audit
 - Significant qualitative aspects of the entity’s accounting practices including the application of the applicable financial reporting framework
 - Significant matters discussed, or subject to correspondence with management or other employees
 - Uncorrected misstatements
 - Material misstatements that have been corrected by management
 - Other significant matters relevant to the financial reporting process
 - Material uncertainties relating to going concern
 - Written representations that we are requesting from you or from other parties
 - Expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor’s report
 - Significant difficulties that we have encountered during the course of the audit.

Materiality

- 5.9 Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.
- 5.10 For reporting purposes we consider misstatements of less than £33,000 to be trivial, unless the misstatement is indicative of fraud.

Uncorrected misstatements

- 5.11 We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial.
- 5.12 We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements be corrected.

Independence and objectivity

- 5.13 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice and Standing Guidance for Auditors which include the requirement to comply with the International Standards on Auditing (ISA). ISA (UK and Ireland) 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.
- 5.14 In relation to the audit of the financial statements for Epping Forest District Council for the financial year ending 31 March 2012, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with.
- 5.15 Under the requirements of ISA (UK & Ireland) 260 – Communication with those charged with governance, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff that require disclosure.

Quality of service

- 5.16 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, 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.
- 5.17 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 5.18 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website [http://www.audit – commission.gov.uk/complaints/](http://www.audit-commission.gov.uk/complaints/)

Appendix A

Financial statements risk assessment matrix

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Financial statements			
1	<p>Self financing the HRA</p> <p>The current housing subsidy system will cease to operate at the end of 2011/12. There is a risk of incorrect accounting in the General Fund and the HRA going forward, arising from this change which will necessitate the Council taking on debt in the region of £181m in order to make a one off payment to the Government. The significance of this to the current year's financial statements is not clear at this stage, although it is likely to be material going forward. The issue is therefore considered to pose a significant audit risk in respect of compliance with the accounting requirements related to accounting for and disclosing this change in the financial statements</p>	Appropriateness of accounting entries related to this change	We will review the Council's revised capital financing requirement calculations to ensure that they comply with the Department for Communities and Local Government's Item 8 determination. We will also review the Council's allocation of interest charges and income between the General Fund and the HRA and ensure that these transactions comply with the Code of Practice on Local Authority Accounting and any applicable Government requirements.
2	<p>New property management system (asset register)</p> <p>A new property management system is being implemented in 2011/12 and there is a risk that there may be a loss of data or incorrect data entry in the transfer, leading to a material misstatement. The new system will enable the Council to account for its revaluation reserve on an asset by asset basis.</p>	<p>Non current assets - Property, plant and Equipment:</p> <p>Completeness, Existence</p> <p>Valuation and Allocation.</p>	<p>We will review the controls that the Council has put in place to ensure the accuracy of the data transfer.</p> <p>The system will be reviewed to ensure the revaluation reserve is appropriately created.</p>
3	<p>Management override</p> <p>International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p>	<p>All Areas of the financial statements:</p> <p>Completeness</p> <p>Existence/Occurrence</p> <p>Accuracy</p> <p>Cut-Off</p> <p>Valuation</p> <p>Rights and Obligations</p>	We will test the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. Should further audit procedures be required, we will notify management and the Audit Committee.

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements “are true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- consider the robustness of your financial statements preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable preparation of financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Internal controls and significant financial systems

As part of our audit we obtain an understanding of the entity’s system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

We will report to management any deficiencies in internal control identified during the audit under the requirements of ISA (UK & Ireland) 265 – Communicating deficiencies in internal control to those charged with governance and management. Where we identify significant deficiencies in internal control identified during the audit we will also report those to those charged with governance.

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input. We will seek to rely on the work of Internal Audit to provide assurance over key controls within the financial systems.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

We have discussed possible risk of material misstatement arising from fraud at Strategic Liaison meetings throughout the year attended by the Acting Chief Executive, Director of Finance and ICT and the Monitoring Officer. At these meetings it was confirmed that they are not aware of any actual, suspected or alleged instances of fraud during the financial year to date.

Please let us know if there are any actual, suspected or alleged instances of fraud of which you are, or become aware.

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited financial statements and the consolidation pack, and the agreement of balances with other bodies.

Value for money conclusion

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will plan a programme of VfM audit work based upon our risk assessment.

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-020-2011/12

Date of meeting: 9 February 2012

Portfolio: Finance and Economic Development

Subject: Audit Commission National Local Government Study - Protecting the Public Purse 2011.

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To note the recent publication by the Audit Commission of a national report relevant to the Council's areas of service provision, and any actions or implications for the Council arising from the report.

Executive Summary:

This report provides a summary of a national local government study recently published by the Audit Commission relevant to the Council's areas of service provision. Arrangements for the reporting of local government studies issued by the Commission were agreed by the Committee at its meeting on 24 September 2009.

Reasons for Proposed Decision:

At the meeting of the Committee held on 22 June 2009, members requested that details of all Audit Commission national reports and publications received by the Council be reported to the Committee for information. To meet the request of members, the publication of national local government studies by the Audit Commission are reported to the Committee on an ongoing basis, with each report having first been considered by the Corporate Governance Group. This report summarises the Commission's report 'Protecting the Public Purse 2011'. A full copy of the document is attached.

Other Options for Action:

None. This report is presented at the request of the Audit and Governance Committee.

Report:

Introduction

1. The Audit Commission Publication "Protecting the Public Purse 2011" published in November 2011 focuses on fighting fraud against local government and is written for Councillors and senior officers responsible for governance.

2. In 2011, the National Fraud Authority (NFA) estimated that public, private and third sector organisations as well as individuals lost over £38 billion to fraud, equating to £765 a year for every adult in the country. The NFA also estimated that fraud against public sector

organisations cost £21.2 billion, with fraud against councils costing more than £2 billion a year.

3. The Audit Commission's 2010/11 survey of fraud against councils and related bodies identified that councils detected more than £185 million worth of fraud, involving 121,000 cases. The total value of detected fraud losses for 2010/11 increased by 37% compared with 2009/10. Councils recovered nearly 1,800 homes from tenancy fraudsters which had a total replacement value of over £266 million.

4. Of the £185 million worth of fraud identified in the survey more than half (£110 million) was housing and council tax benefit related. Council tax discount fraud amounted to £22 million with the six largest fraud types in the remaining £53 million consisting of procurement, payroll and expenses, abuse of position, false insurance claims, social care and disabled parking concessions (in descending value).

Key Fraud Risks

5. **Housing Tenancy Fraud** - Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. This fraud includes unauthorised subletting for profit to people not allowed to live there under the conditions of the tenancy, using false information to gain a tenancy and wrongful tenancy assignment or succession where no longer occupied by the original tenant.

6. **Council Tax Fraud** - Council tax payers can claim various discounts, many of which may be fraudulent applications. The two main discounts where fraud has been identified are Single Persons Discount and Students Discount. In Protecting the Public Purse 2010 the Audit Commission identified that between 4 and 6 per cent of Single Persons Discount claims were fraudulent.

7. **Procurement Fraud** - Fraud may occur at any stage in the procurement cycle. The key areas include collusion among bidders, work not to specification and then falsely claimed, inferior goods or services provided and the presentation of false, inflated or duplicate invoices.

8. **Housing and Council Tax Benefit Fraud** - In 2010/11, there were 59,000 detected fraud cases with a total value of £110 million, which represents almost half of the total number of frauds detected by councils.

Emerging Fraud Risks

9. The Audit Commission surveys collect the opinions of counter-fraud and senior finance officers on emerging fraud risks and the following risks have been identified in 2010/11:

- (a) the expansion of personal budgets in Social Services;
- (b) the impact of the current economic climate putting pressure on individuals' finances and tempting people to commit fraud;
- (c) reduced staff numbers, which may weaken councils' internal controls; and
- (d) fraudsters abusing the expenditure information that councils are now asked to publish, in order to defraud councils, which have included change in bank details fraud.

Department for Communities and Local Government (DCLG)

10. Ten actions to tackle fraud against councils:

- (i) measure exposure to fraud risk;
- (ii) more aggressively pursue a preventative strategy;
- (iii) make better use of analytics and credit reference agency checks to prevent fraud;
- (iv) adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse;
- (v) follow best practice to drive down housing tenancy and single person discount fraud;
- (vi) pay particular attention to high risk areas such as procurement and grant awards;
- (vii) work in partnership with service providers to tackle organised fraud across local services;
- (viii) maintain specialist fraud investigative teams;
- (ix) vet staff to a high standard to stop organised criminals infiltrating key departments;
and
- (x) implement national counter fraud standards developed by CIPFA.

Checklist for those Responsible for Governance

11. A 26 point checklist is included as an appendix to the document which has been reviewed against relevant council strategies, existing fraud prevention and detection controls and Internal Audit findings during 2011/12. Of the 26 questions, the Council meets the requirements of 19, partially meet 4, score a NO on 1 and 2 are not relevant to this Council as they relate to personal budgets for adult social care.

12. We score a NO on the question of whether we have aligned our strategy with the NFA publication “Fighting Fraud Locally”. This action will be taken when the document is published.

13. We partially meet the following requirements:

(a) The checklist asks if we have dedicated counter-fraud staff and if yes, do they review all the work of the organisation? We currently have dedicated fraud staff for housing benefits and housing lettings frauds but not for other fraud types.

(b) Do we have arrangements in place that encourage our staff to raise their concerns about money laundering? Our confidential reporting policy does not specifically mention money laundering but is shortly to be updated. Legal and revenues staff have received training and established reporting procedures are in place.

(c) Have we reallocated staff as a result of reassessing our fraud risks since the change in the financial climate? No, but we have created a post of Housing Officer (Fraud).

Conclusions

14. The Council currently has an effective benefits fraud team providing prevention and detection services relating to housing and council tax benefit fraud and assisting and advising on non benefit related fraud.

15. With the government proposal to set up a single fraud investigation service to combat

benefit fraud, resulting in the probable loss of the Council's benefit fraud investigation team to that service, it is important that the capability to investigate fraud unrelated to housing benefit is retained by the Council.

16. The Council is developing its capability to tackle housing tenancy fraud with the creation of a fraud officer post during last year and a fraud action plan. A report is being submitted to the Housing Scrutiny Standing Panel on 31 January and Cabinet on 12 March on the current position within housing, which it is understood will recommend altering the fraud officer post to a permanent full time position.

17. The following areas identified in this report are not specifically covered by dedicated fraud staff:

(a) Council tax discount fraud;

(b) Procurement Fraud;

(c) NFI data matching – currently carried out by audit staff plus staff in relevant directorates in addition to their normal duties as and when time allows (report on the current data matching position to follow); and

(d) the use of data analytics to prevent fraud in the specific areas identified in this report and combat emerging fraud risks due to the current economic climate.

Recommendations

18. Consideration should be given to the risk to the Council of the areas not covered by dedicated fraud staff. To address this, the Chief Internal Auditor is looking at a possible specialist post within internal audit.

19. The increased risk to the Council by the loss of trained fraud staff to the single fraud investigation service should be considered and an action plan drawn up to mitigate the risk. This will be monitored by the Corporate Governance Group.

Resource Implications:

Within the report.

Legal and Governance Implications:

There are governance implications should no further action be taken.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit Commission report – Protecting the Public Purse 2011.

Impact Assessments:

Risk Management

The risks identified in the Audit Commission publication will be discussed at the next Risk Management Group for possible inclusion in the risk register.

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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Protecting the public purse 2011

Fighting fraud against local government

November 2011



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Summary and recommendations

Summary

***Protecting the Public Purse 2011 (PPP 2011)* focuses on fighting fraud against local government. We have written it for councillors and senior officers responsible for governance. In addition, government departments, other national organisations and counter-fraud specialists will find this report is relevant to them.**

Fraud is a significant problem. It affects everyone in the UK. In 2011, the National Fraud Authority (NFA) estimated that:

- each year public, private and third sector organisations, as well as individuals, lose over £38 billion to fraud;
- fraud costs every adult in the country £765 a year; and
- fraud against public sector organisations costs £21.2 billion, with fraud against councils costing more than £2 billion a year.

The Audit Commission's 2010/11 survey of fraud against councils and related bodies shows that:

- councils detected more than £185 million worth of fraud, involving 121,000 cases;
- the total value of detected fraud losses for 2010/11 increased by 37 per cent compared with 2009/10, with the number of fraud cases also increasing; and
- councils recovered nearly 1,800 homes from tenancy fraudsters. These homes had a total replacement value of over £266 million.

In *PPP 2011*, we highlight some emerging fraud issues and review councils' progress in tackling the significant risks described in our 2009 and 2010 *PPP* reports. We show that:

- housing tenancy fraud could cost the public purse £900 million each year (NFA estimate);
- councils detected more than £22 million of false claims for student and single person council tax discounts;
- housing and council tax benefits fraud losses accounted for more than half of the total fraud losses detected by councils;

- counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils; and
- councils detected 145 cases of procurement fraud amounting to £14.6 million.

Councils are having to make reductions in spending. They can make significant savings by reducing fraud. This can help protect frontline jobs and services.

Recommendations

Councils should:

- ensure they keep the capability to investigate fraud that is not related to housing benefit;
- improve their use of data, information and intelligence to focus their counter-fraud work;
- review their counter-fraud arrangements in the context of the NFA's strategy for local government, *Fighting Fraud Locally*, to be published shortly;
- work with other registered social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters;
- use the Audit Commission's council tax single person discount (SPD) fraud predictor toolkit to assess the potential level of such fraud locally;
- review their performance against the NFA's good practice on tackling housing tenancy fraud and council tax fraud;
- ensure the National Fraud Initiative (NFI) data matches are followed up effectively, including those targeting council tax discount abuse (next data release due in February 2012);
- review personal budgets arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk;
- follow good practice and match the successes of others; and
- use our checklist for those charged with governance (Appendix 1) to review their counter-fraud arrangements.

The Department for Communities and Local Government (DCLG) should consider:

- what arrangements will be required to collect and publish data on detected fraud against local public bodies, after the Audit Commission's abolition;
- collecting and publishing information on properties recovered from tenancy fraudsters by housing associations;
- how best to encourage housing associations to tackle tenancy fraud; and
- with registered social housing providers, how best to use the knowledge and skills of the Chartered Institute of Housing Making Best Use of Stock (MBUS) team (see Paragraph 70).

Background

This chapter provides an overview of the purpose and focus of *PPP 2011*.

1 Councils need a culture that supports action against fraud and their counter-fraud specialists need accurate information about levels and types of fraud. They need to know the size and frequency of the fraud risks they face. Good data and information means councils can:

- develop focused plans and strategies for tackling fraud; and
- target resources on areas where prevention and detection can have the most impact.

2 The Audit Commission's annual fraud survey is still the sole source of evidence about the levels of detected fraud in local government and related bodies. The survey results and our *PPP* publications focus on local government and can help councils and other local public bodies by providing the data and information they need to tackle fraud effectively.

3 Our reports are designed to help councillors and senior officers responsible for governance in councils and local public bodies, and particularly members of audit committees. The reports are also relevant to the work of government departments, other national organisations and counter-fraud specialists.

4 *PPP 2011* concentrates on the results of our 2010/11 survey and councils' progress in tackling significant fraud risks highlighted in *PPP 2009* and *PPP 2010*.

5 Alongside the annual fraud survey, the Audit Commission has run the NFI data-matching exercise every two years since 1996. NFI compares data sets and identifies inconsistencies or circumstances that might suggest fraud or error. Organisations taking part follow up the data matches they receive from NFI. The Audit Commission will publish the results of the NFI 2010/11 exercise in Spring 2012.

Detected fraud against councils and related bodies

In this chapter we report our survey results of detected fraud committed against councils and other local public bodies.

6 In January 2011, the NFA reported that fraud costs the UK more than £38 billion each year. It estimates that fraud against councils cost more than £2 billion a year (Ref. 1).

7 *PPP 2010* included details of fraud detected by councils and other local public bodies, including police and fire authorities and probation trusts, drawn from our 2009/10 fraud survey.ⁱ In *PPP 2011* we review changes in the survey results between 2009/10 and 2010/11.

8 More than 480 public sector organisations responded to our 2010/11 survey (a 99 per cent response rate). The survey results, therefore, provide a comprehensive picture of detected fraud across local government over the last year. These results:

- enable us to report the amount of different types of detected frauds in local government;
- provide information about emerging and changing fraud risks; and
- help identify good practice.

9 Our 2010/11 fraud survey found the following.

- Local public bodies detected about 121,000 frauds, valued at £185 million (Figure 1). This compares with 119,000 detected frauds valued at £135 million in 2009/10.
- There were about 59,000 housing benefit and council tax benefit fraud cases, resulting in losses of £110 million to the public purse. These fraud cases represent more than half the total value of frauds detected by local public bodies in 2010/11. In 2009/10, there were 63,000 cases with losses of £99 million.
- There were about 56,000 detected council tax discount frauds costing more than £22 million, compared with 48,000 frauds costing £15 million in 2009/10.

ⁱ In this report, we define fraud as any intentional false representation, including failure to declare information or abuse of position which is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where civil, criminal or management action such as disciplinary action has been taken.

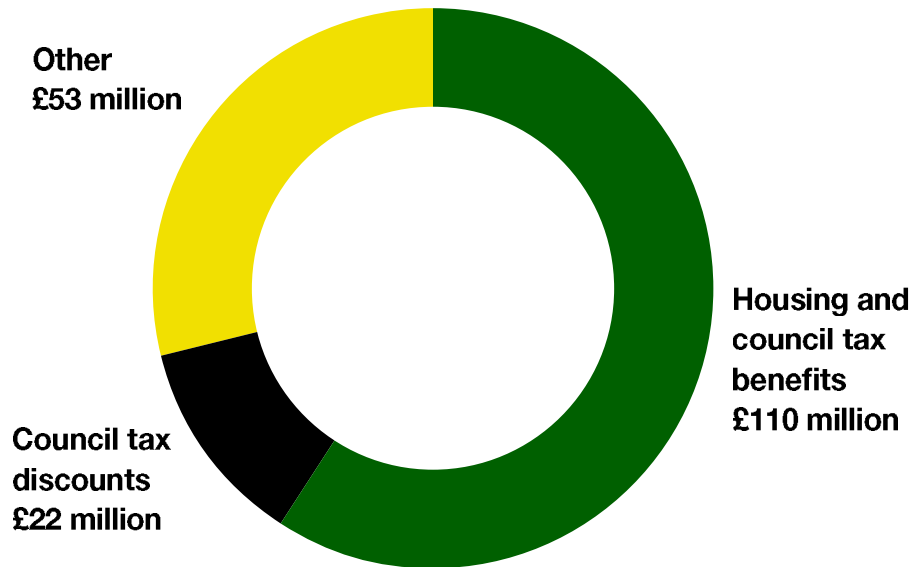
99%
of public sector
organisations
responded to
our 2010/11
fraud survey

£185m
of fraud was
detected by
local public
bodies,
according to
our 2010/11
survey

- Other frauds totalled around 5,600 and were worth £53 million. This compares with 7,000 other frauds worth £21 million in 2009/10 (See Table 1 for a breakdown and comparison of the six largest fraud types in this category).

Figure 1: **£185 million of detected fraud 2010/11**

More than half of detected fraud losses relate to housing and council tax benefits.



Source: Audit Commission

10 Councils also recovered nearly 1,800 homes, with a total replacement value of over £266 million, from tenancy fraud. This compares with some 1,600 homes recovered in 2009/10, with a replacement value of around £240 million.

11 In all organisations there is always a risk of fraud by staff. Our surveys show the number of frauds perpetrated by councils' own staff is low. In 2010/11, there were 1,581 cases (1.3 per cent of total cases). But they involved £19.5 million, which represents 10.5 per cent of the total value of detected frauds.

Table 1: **Other frauds against councils (excluding council tax and benefits fraud)**

The six largest fraud types within the other frauds category by value for 2010/11 compared with 2009/10.

Fraud type	Cases 2010/11	Value 2010/11 (£m)	Cases 2009/10	Value 2009/10 (£m)	% change in value
Procurement	145	14.6	165	2.7	+441
Payroll, pensions, expenses	556	5.6	873	3.3	+70
Abuse of position	395	4.3	252	2.0	+115
False insurance claims	149	3.7	72	2.8	+32
Social care	102	2.2	131	1.4	+57
Disabled parking concessions (blue badges)	3,007	1.5	4,097	2.0	-25
TOTAL	4,354	31.9	5,590	14.2	+125

Source: Audit Commission

12 Detected procurement fraud showed the largest increase in 2010/11, and totalled £14.6million. The number of detected false insurance claims has more than doubled. Values of payroll, pensions, expenses and abuse of position frauds have also increased significantly. This information can help councils to use their counter-fraud resources more effectively.

13 Table 2 shows the regional breakdown of detected frauds for 2010/11, compared with local government spending in those regions. Table 3 compares the numbers and values of frauds in 2009/10 and 2010/11 by region.

14 The increase in detected fraud over the past few years does not necessarily mean that fraud locally is getting worse. The figures reflect a combination of factors. These include:

- the level of fraud locally;
- the resources applied to identify and investigate such fraud;
- the successful detection by councils within a region; and
- improved methods of recording fraud.

15 Most local public bodies have improved fraud detection since the first PPP in 2009. They are also classifying more incidents correctly as fraud rather than error. Our surveys show that councils continue to take tackling fraud seriously and are playing their part in protecting the public purse despite financial pressures.

Table 2: **Detected frauds and losses by region compared with regional spend by councils**

Region	Council spending by region 2010/11 (% of total)	Detected frauds value (% of total)	Detected frauds number of cases (% of total)
East Midlands	7.5	8.4	10.5
East of England	9.7	11.6	13.1
London	21.8	29.3	19.5
North East	5.2	4.7	7.3
North West	13.8	11.5	13.1
South East	13.8	12.1	11.6
South West	8.7	8.2	9.2
West Midlands	10.1	8.1	7.2
Yorkshire and Humber	9.4	6.1	8.5
TOTAL	100	100	100

Source: Audit Commission

Table 3: **Comparison of detected frauds and losses by region in 2010/11 compared with 2009/10**

Region	2010/11 reported losses (£m)	2009/10 reported losses (£m)	Change (%)	2010/11 reported cases (000)	2009/10 reported cases (000)	Change (%)
East Midlands	15.6	10.1	+ 54	12.6	9.0	+ 40
East of England	21.5	8.8	+ 144	15.9	9.5	+ 67
London	54.2	34.6	+ 57	23.6	22.3	+ 6
North East	8.7	5.0	+ 74	8.9	7.7	+ 16
North West	21.2	17.6	+ 20	15.8	23.3	- 32
South East	22.3	24.0	- 7	13.9	15.0	- 7
South West	15.2	8.2	+ 85	11.1	7.7	+ 44
West Midlands	15.1	12.9	+ 17	8.7	8.3	+ 5
Yorkshire and Humber	11.2	13.4	- 16	10.3	15.9	- 35
TOTAL	185	134.6	+ 37	120.8	118.7	+ 2

Source: Audit Commission

Key fraud risks

This chapter sets out the progress made in tackling significant fraud risks highlighted in our 2009 and 2010 reports. We also describe emerging fraud risks identified by our 2011 survey.

16 In *PPP 2009* and *PPP 2010* we highlighted the growing risks associated with unauthorised housing tenancies; false claims for council tax discounts; abuse of personal budgets; procurement fraud; and housing benefits fraud. We drew attention to the innovative work that some councils were doing to tackle these frauds (Ref. 2). This section reviews councils' progress since *PPP 2010*.

Housing tenancy fraud

17 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

- the unauthorised subletting of a property for profit to people not allowed to live there under the conditions of the tenancy;
- using false information in a housing application to gain a tenancy; and
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant.

18 There are nearly four million social housing properties in England, with an estimated asset value of more than £180 billion. Over half of all social housing in England is managed by housing associations. In 2010, nearly two million families were waiting for a council house (Ref. 3).

19 Where councils do not have enough social housing, they place homeless families in temporary accommodation. Nationally, it costs councils on average £18,000 a year for each of the families they place in temporary accommodation (Ref. 4). The total cost to the public purse of housing these families is nearly £1 billion each year. The NFA estimates that social housing fraud costs the public purse at least £900 million each year. This is the single largest category of fraud loss across local government.

Social housing fraud is the largest category of fraud loss across local government

20 In *PPP 2010*, we estimated that it costs around £150,000 to build just one new unit of social housing.

21 Tackling housing tenancy fraud is one of the most cost-effective means of making social housing properties available to match the demand from those in genuine need. It also reduces the significant financial loss to the public purse caused by this fraud.



Recovering wrongfully occupied properties frees up homes for those in genuine need.

22 In our previous *PPP* publications, we estimated that registered social housing providers may have lost control of the allocation of at least 50,000 social housing properties in England because of housing tenancy fraud. We assumed a 2.5 per cent level of tenancy fraud in London (where the difference between social and private rents is greatest) and 1 per cent in all other parts of the country.ⁱ

23 Our *PPP* reports have previously suggested there are moral reasons but few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread.

24 The recent successful application of both civil and criminal legal action to tackle tenancy fraud has the potential to create an important deterrent to this type of fraud. All registered social housing providers should consider, on a case-by-case basis, whether to apply civil and criminal legal action against tenancy fraudsters. Case studies 1 and 2 highlight successful recent actions.

ⁱ In *PPP 2009*, we noted that no accurate measure of the extent of housing fraud in different parts of the country existed. Housing professionals had told us they thought unlawful subletting could be as high as 5 per cent of the social housing stock in London and other metropolitan areas. The Commission's estimate of housing tenancy fraud is based on a prudent assessment of those views, informed by the data we have collected on proven tenancy frauds.

Case study 1

Housing tenancy fraud

Use of civil action to recover unlawful profit

Housing officers discovered that a tenant was offering one of the council's homes for rent through a local letting agency. The council was charging about £50 a week rent for the property. The officers visited the address and found the tenant was unlawfully subletting the property to a subtenant. He was charging the subtenant £300 a week rent. The council took civil action against the tenant. The court ordered him to pay £7,000 to the council. This included around £3,000 for unjust enrichment from the unlawful profit made by subletting the property.

Source: Audit Commission

Case study 2

Housing tenancy fraud

Use of the Fraud Act to prosecute tenancy fraud

Acting on information received about a suspected housing benefit fraud, one London council also uncovered a case of housing tenancy fraud. The tenant claimed to be unemployed and living alone in a housing association property. She was actually employed at a school and lived in, and jointly owned, a separate property elsewhere. Interviewed under caution, the tenant admitted unlawfully subletting the housing association property for profit and committing several benefit-related frauds. The tenant pleaded guilty in court to several benefit offences totalling £25,000. The tenant also pleaded guilty to the offence (under Section 3 Fraud Act) of failing to disclose information and subletting the housing association property. The court sentenced the tenant to three months imprisonment, suspended for two years, with a requirement to undertake 150 hours of work in the community. The court also placed a restraining order on the property jointly owned by the tenant. The council and police are pursuing confiscation proceedings.

Source: Audit Commission

25 In 2008/09, we reported that councils recovered nearly 1,000 properties from fraudsters. In 2009/10, almost 1,600 properties were recovered and in 2010/11, councils recovered about 1,800 properties. The vast majority of these properties were recovered by London councils.

75%
more properties
were recovered
in 2010/11 than
in 2008/09

26 However, the problem of tenancy fraud is not restricted to London. Although the number of properties that councils outside London have recovered has increased in recent years, recovery by councils outside London is still significantly less than half of that achieved in London. More than half the councils outside London with housing stock did not recover any properties from tenancy fraudsters in 2010/11 (see Table 4).

Table 4: **Homes recovered by region**
Numbers of social homes recovered by councils.

Region	2010/11 No. of properties recovered	2009/10 No. of properties recovered	Councils with housing stock recovering at least one property in 2010/11 (%)	Total housing stock 2010/11	Recovered properties as a proportion of total council housing stock (%)
East Midlands	54	10	64	202,973	0.027
East of England	82	12	32	182,007	0.046
London	1,337	1,349	93	437,431	0.306
North East	3	53	29	121,112	0.002
North West	57	86	27	131,588	0.043
South East	56	30	40	166,278	0.034
South West	35	5	46	90,153	0.039
West Midlands	101	6	54	188,251	0.054
Yorkshire and Humber	53	26	43	242,800	0.022
TOTAL	1,778	1,577	51	1,762,593	0.1

Source: Audit Commission

27 PPP 2009 raised awareness of the problem of housing tenancy fraud. Since then, good practice guidance (Ref. 5) and DCLG funding for councils have helped councils tackle these frauds. The number of properties recovered has increased by more than 75 per cent between

2008/09 and 2010/11. Registered social housing providers, however, still have more opportunities to recover homes from fraudsters, especially outside London where about 75 per cent of all council properties are situated (Ref. 6).

28 Some councils outside London have shown what specialist fraud investigators can achieve by tackling tenancy fraud:

- Hull City Council recovered 21 properties in 2010/11 (none reported in 2009/10);
- Bristol City Council recovered 22 properties in 2010/11 (none reported in 2009/10);
- Wolverhampton City Council recovered 57 properties in 2010/11 (four reported in 2009/10);
- Basildon Borough Council recovered 12 properties in 2010/11 (none reported in 2009/10);
- City of York Council recovered six properties in 2010/11 (one reported in 2009/10); and
- Bolton Council recovered 19 properties in 2010/11 (three reported in 2009/10).

29 Some district councils show what they can achieve even with modest resources. In 2010/11, Ashford Borough Council spent £10,000 on an initiative to tackle housing tenancy fraud. This included a whistleblowing campaign and investigation time. In the first six months of this initiative, residents referred 15 suspected cases of tenancy fraud to the Council. The Council recovered eight homes from tenancy fraud, uncovered two housing benefit frauds, one SPD fraud and one housing application fraud.

30 Some housing associations have also taken action. Gallions Housing Association provides homes for rent and shared ownership in London and the South East. In 2010, it recovered 51 homes from fraudsters after employing a dedicated housing investigator. Before that, it typically recovered about four properties each year.

31 These organisations have shown a clear commitment to tackling tenancy fraud, making more properties available for those in genuine need. Other registered providers of social housing, especially those outside London, should follow their example.

32 We believe that publishing information on the number of council properties recovered from tenancy fraudsters has had an impact, when combined with recent government initiatives, in the fight against tenancy fraud. Information on the number of homes recovered by housing associations from tenancy fraudsters is not available at all. The government should consider how it will address this information gap. It also needs to consider how best to encourage housing associations to tackle tenancy fraud.

Providers of social housing outside of London need to show a clearer commitment to tackling tenancy fraud

33 In May 2011, the government set up a team of specialists – the MBUS team – to offer free advice to help registered providers of social housing tackle tenancy fraud. Our survey results show that councils have made significant progress in recent years by working with others to tackle tenancy fraud. However, the scale of loss is such that the government and housing providers should consider what more they could do to quicken the pace of improvement, increase the number of properties recovered and make best use of the knowledge and skills of the MBUS team.

34 All social housing providers should recognise the problem of tenancy fraud and commit resources to tackling it, using the research on good practice published in 2011 by the NFA. A link to this can be found at the end of this report.

Council tax fraud

35 In 2011/12, councils in England will raise about £26 billion from council tax (Ref. 7). Council tax payers can claim various discounts. For example, council tax payers are eligible for an SPD of 25 per cent where they are aged 18 or over and are the only occupier of a household. However, they can also apply for this discount if anyone else living at that address falls into certain categories that allow them not to be counted as ‘other occupiers’. Other discounts include a student discount where a student who is the sole occupier of a property may claim 100 per cent exemption from council tax.

36 In *PPP 2010*, we drew attention, for the first time, to the potentially significant risk of fraudulent claims for student discount. Council tax student discount fraud could represent a financial loss similar in scale to SPD fraud. Bristol City Council undertook exercises to detect both student and SPD frauds. The Council reviewed a sample of student exemptions. Of the 4,500 cases examined, 1,500 (34 per cent) were fraudulent claims worth £1.9 million. Data matching by the Council, including NFI matches, also identified an extra £1.9 million of SPD fraud.

37 Other councils have taken action to address council tax fraud, sometimes with unexpected results. In 2010/11, the London Borough of Havering spent £40,000 to target high-risk SPD claimants. Credit reference data helped them save £300,000 and highlighted potential tenancy frauds, leading to the recovery of five properties from unlawful subletters.

38 Councils have noted a sharp increase in the number of people claiming council tax discounts in recent years and an increasing number of fraudulent applications. In *PPP 2010* we showed that

between 4 and 6 per cent of SPD claims are fraudulent costing taxpayers at least £90 million each year.



Council tax student discount fraud could represent a financial loss similar in scale to SPD fraud.

39 *PPP 2010* provided councils with an online tool to compare recorded levels of SPD with the predicted levels for their area. Councils have used this tool extensively to identify fraud risks. At the request of many councils and professional bodies, we have updated the toolkit this year. A link to this toolkit can be found at the end of this report.

40 Councils should review their performance against the NFA's good practice guidelines on tackling council tax fraud. The NFA aims to publish the guidelines in December 2011.

Personal budgets (direct payments) fraud

41 Adult social care currently costs around £16 billion a year in England (Ref. 8). Councils increasingly use personal budgets to manage and deliver adult social care. Personal budgets can help personalise adult social care services – users can decide how to spend the funds available for their care. This increases users' choice and control.

42 Councils can assign personal budgets to adults in need of social care in various ways, including by direct payments. After a council has assessed a person as needing this care, the council may make a direct payment of funds, usually in advance, to those managing the budget. The council may manage the budget, as can the person receiving the care, independent care providers, a family member, a friend, or a mixture of these.

43 The number of personal budgets has increased by 55 per cent in the last year alone (Ref. 9). The Department of Health is urging councils to provide personal budgets for everyone eligible for continuing social care, preferably as a direct payment, by April 2013 (Ref. 10). Such a significant change in the way adult social care is delivered, though clearly providing improved choice and control for users, also increases the risk of fraud. It is important that councils adopt a proportionate response, balancing the risk of fraud against the benefits for users that personal budgets provide.



Social care fraud can hurt the most vulnerable in society.

44 Fraud risks include:

- a person falsely claiming that they need care – the risk of this type of fraud is not new, but the access to funds through direct payments is likely to be more attractive to potential fraudsters than traditional care packages;
- fraud by someone managing the personal budget of the person in need; and
- fraud by an organisation or someone providing care to the person in need.

45 In *PPP 2010*, we recognised that financial abuse of personal budgets is difficult to detect and prove. Our 2010/11 survey shows that counter-fraud professionals consider the fraud risks associated with personal budgets as significant. Councils have reported 102 cases of proven social care fraud to us this year. They involved over £2.2 million of loss to the public purse – an average of over £21,000 for each case.

46 Public Concern at Work, the whistleblowing charity, reports that, historically, the single largest proportion of referrals received by their hotline is from the care sector. They account for 15 per cent

of all concerns raised (Ref. 11). Concerns about financial abuse in all its forms account for six in every 100 calls from the care sector. Information on whistleblowing good practice can be found by following the link at the end of this report.

47 Enfield Council has reduced the risk of personal budget fraud. In 2010, it created a team whose remit includes safeguarding the finances of those with some form of personal budget. The Council states that financial abuse is now the most common abuse reported to them. It has put in place processes to detect and respond to concerns raised.

48 Other councils have also taken action to raise staff and public awareness about the potential impact of financial abuse, resulting in some significant early successes. As part of the response to an initial public referral of a concern about personal budget fraud, Croydon Council undertook fraud awareness training for social services staff. As a result, care workers referred ten more cases with a value of nearly £300,000. Case study 3 highlights one case where the Council took legal action. Of the remainder of cases, half are subject to court proceedings or further investigation for fraud. These cases show why early intervention is important and how heightened fraud risk awareness can identify savings to the public purse.

Case study 3

Direct payments fraud

Son diverted direct payments intended to pay for care of elderly mother

In March 2011, the court found a man guilty of two counts of fraud and sentenced him to 20 weeks imprisonment for defrauding the public purse of over £12,000. In what the judge described as a 'very serious matter', the man had fraudulently diverted the money received from the council by direct payments. The payments were to provide a carer for the fraudster's elderly mother. Council investigators proved the fraudster had diverted the money instead for his own purposes.

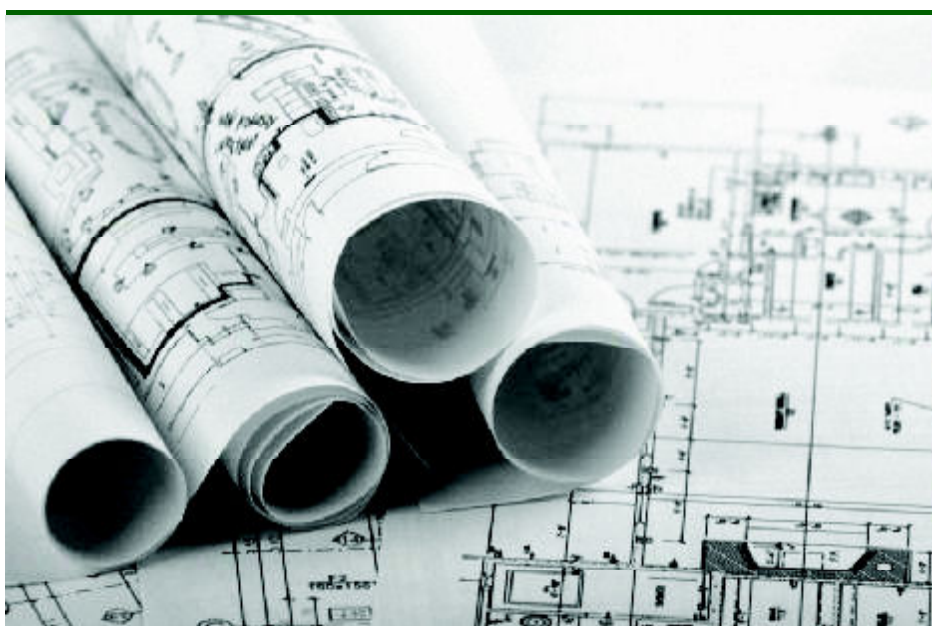
Source: Audit Commission

49 Personal budget fraud can have a potentially damaging impact on the health, safety and wellbeing of those receiving care, as well as representing a financial loss to the public purse. When internal audit, finance and care staff work together, supported by effective whistleblowing arrangements, it can help to reduce this risk of fraud.

50 Councils should consider reviewing the fraud risks associated with personal budgets to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk.

Procurement fraud

51 Councils spend over £50 billion each year, buying goods and services from suppliers and funding major construction projects (Ref. 12). Fraud may occur at any stage in the procurement cycle, from the first business case to the award and management of the contract. External providers or internal parties can carry out procurement fraud which may take various forms.



Procurement fraud can result in huge one-off losses.

52 The key areas of external fraudulent activity include:

- cartels involving collusion among some bidders to agree that they will not bid competitively for a particular contract;
- applicants tendering, but not in accordance with contract specifications, and then submitting false claims for extra costs under the contract;
- contractors providing inferior goods or services;
- contractors intentionally overriding minimum statutory pay and health and safety regulations for financial gain;
- contractors presenting false invoices; and
- contractors providing inflated performance information to attract greater payments than are due.

53 The NFA estimates that procurement fraud costs councils about £855 million a year (Ref. 13). It believes that councils need to do more to obtain accurate figures on this fraud. The NFA is working on a new way of quantifying these losses.

54 Our 2010/11 survey found that councils had detected 145 cases of procurement fraud involving losses of £14.6 million, an increase of over 400 per cent in value compared with 2009/10. Losses in individual cases can be large. The total value of just two cases in 2010/11 amounted to £6 million. Councils should continue to treat procurement fraud as high risk, with significant potential financial impact.

Housing and council tax benefit (HB/CTB) fraud

55 In 2010, councils in England paid out over £21.5 billion of HB/CTB (Ref. 14). The NFA reports that housing benefit fraud losses (excluding council tax benefit) in the UK are about £260 million each year (Ref. 15).

56 The Audit Commission's fraud surveys show there are more detected HB/CTB fraud cases than any other type of fraud against councils. For the three years covered by our surveys (2008/09, 2009/10 and 2010/11), councils have detected almost 210,000 cases of HB/CTB fraud worth more than £310 million.

57 In 2010/11, there were 59,000 cases of HB/CTB fraud, which represents almost half the total number of frauds detected by councils. The total value of HB/CTB frauds detected was £110 million – an average of nearly £1,900 for each case. There has been a 6 per cent drop in the number of detected cases since 2009/10, but an 11 per cent increase in the value of detected losses.

58 The government is proposing major welfare reforms which include localising council tax support and the transition to Universal Credit – due to start in 2013. The changes will have a significant impact on councils' benefit services. The government also proposes to set up a single fraud investigation service (SFIS). At this stage, the government has not decided on the organisational design or geographical structure of the service. However, the government intends that councils' housing benefit fraud investigators become part of the SFIS when it is formed in 2013.

59 Many district and smaller unitary councils have a benefit fraud investigative capability that they also use to combat other frauds. When the switch to the SFIS is made, it will be important for these councils to ensure they retain the capability to investigate fraud unrelated to housing benefit.

60 DCLG's ten-point plan for countering fraud (see Paragraph 69), published in 2011, advises councils to keep their fraud investigation teams. Councils' performance in detecting HB/CTB fraud over the last three years shows the significant contribution that counter-fraud specialists make in the fight against such fraud. Councils will need

£310m
of housing and
council tax
benefit fraud
was detected in
the last three
years by
councils

to review their counter-fraud capability in the light of the proposed changes and published good practice.

61 The Audit Commission has collected information on detected fraud in local government for over 20 years. We have, therefore, been able to track the positive impact that increased council investigative capability has had on the amount of detected fraud. The mid-1990s saw increasing professionalisation and training of council benefit fraud investigation teams, combined with financial incentives to detect such fraud. One of the added benefits of this approach has been an increased capability to investigate non-benefit-related frauds. In 1994/95, these accounted for about 13 per cent of all fraud detected by councils. By 2010/11, this had risen to more than 40 per cent. This highlights why councils must keep an effective professional counter-fraud capability.



Counter-fraud capabilities are key to detecting fraud in local government.

Emerging fraud risks

62 Our surveys collect the opinions of counter-fraud and senior finance officers on emerging fraud risks. Councils reported the following significant risks in 2010/11:

- the expansion of personal budgets in social services;
- the impact of the current economic climate putting more pressure on individuals' finances and tempting people to commit fraud;
- reduced staff numbers, which may weaken councils' internal controls; and
- fraudsters abusing the expenditure information that councils are now asked to publish, in order to defraud local public bodies

63 Criminals, including some based outside the UK, have targeted councils and other public organisations in an attempt to redirect

payments intended for legitimate creditors such as large construction companies. The fraudsters have sent letters to council finance teams that appear legitimate and often follow them up with phone calls to chase payments. The fraudsters gather the details about key creditors from the information that councils now publish on their websites. In our 2010/11 survey, councils reported several detected frauds of this type amounting to some £7 million.

64 Local public bodies have become increasingly successful at preventing these frauds by applying sound internal controls (see Case study 4). They have prevented about £20 million of such attempted fraud. Fraud warnings, such as those issued by the National Anti-Fraud Network, have helped raise awareness of the risks. However, fraudsters continue to target local public bodies.

Case study 4

Change of bank details fraud

Checks prevented money being paid into a false bank account

A fraudster tried to get a public sector organisation to change the details it held for a supplier. The fraudster, claiming to be an employee of the supplier, asked for the supplier's bank account details to be changed to a false account set up by the fraudster. The fraudster used published information – namely a supplier invoice – to confirm the authenticity of the request. However, the public body was aware of similar frauds and had put in place suitable checks. As a result, a payment of £5 million to the false bank account was stopped.

Source: Audit Commission

Conclusions and good practice

This chapter provides examples of good practice and advice that local public bodies could follow to preserve an effective counter-fraud response.

65 Local public bodies should remain alive to, and continue to tackle, the threat of fraud to the public purse. Organisations can make large savings as the best councils show. Reducing fraud can make an important difference to local finances.

66 All public organisations need to play their part in the fight against fraud. Telling local public bodies about good practice is an essential prerequisite to ensuring that it is adopted. However, it is for local public bodies to act upon it. In the following paragraphs, therefore, we draw attention to good counter-fraud work that councils may wish to consider in tackling fraud against the public sector.

Support and advice from government

67 The government set up the Taskforce on Fraud, Error and Debt in October 2010 to develop a new approach to tackling public sector fraud. In its first report in June 2011, the taskforce highlighted four priorities for tackling public sector fraud.

- **Collaboration:** public organisations need to remove any barriers to joint working. All parts of the public sector must work together to tackle fraud. They must share information on fraudsters, develop cross-cutting skills, undertake joint projects and use data matching and analytical information more effectively and efficiently.
- **Risk assessment and measuring losses:** public organisations must assess the risk of fraud before they launch projects and programmes. They must record and report fraud losses often.
- **Prevention:** public organisations must invest in and properly resource fraud prevention. For example, the current approach of ‘pay first, check later’ must change. When an organisation finds its systems are vulnerable to fraud they must change them.
- **A zero-tolerance culture towards fraud:** there is no acceptable level of fraud against the public purse.

68 Taken together, these priorities will help to improve fraud prevention, deterrence and detection. The Taskforce has started to encourage public organisations to collaborate in the fight against fraud.

Councils have an important role to play in tackling fraud across the whole public sector.

69 In April 2011 DCLG published a ten-point plan for tackling fraud against local government. The plan draws on our *PPP 2009* and *PPP 2010* reports. Councils should compare their arrangements for tackling fraud with this plan, shown below. Organisations can access the national counter-fraud standards developed by CIPFA and referred to by DCLG in the ten-point plan, through the link at the end of this report.

DCLG's ten actions to tackle fraud against councils

- 1** Measure exposure to fraud risk.
- 2** More aggressively pursue a preventative strategy.
- 3** Make better use of data analytics and credit reference agency checks to prevent fraud.
- 4** Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse.
- 5** Follow best practice to drive down Housing Tenancy and Single Person Discount fraud.
- 6** Pay particular attention to high risk areas such as procurement and grant awards.
- 7** Work in partnership with service providers to tackle organised fraud across local services.
- 8** Maintain specialist fraud investigative teams.
- 9** Vet staff to a high standard to stop organised criminals infiltrating key departments.
- 10** Implement national counter fraud standards developed by CIPFA.

Source: DCLG

70 The MBUS team, which DCLG funds in the Policy and Practice Directorate of the Chartered Institute of Housing, can help housing providers tackle housing tenancy fraud. The team of experts aims to share good practice across the country and help housing organisations develop strategies to meet housing need better (including tackling tenancy fraud) at no cost to organisations. For more details visit the website by following the link at the end of this report.

71 The NFA is coordinating the publication of the first national strategy to tackle fraud against local government (*Fighting Fraud Locally*), due to be published in December 2011. It will provide a

framework for councils and other local public bodies to contribute to a national approach to reduce the harm caused by fraudsters.

Support and advice from professional bodies

72 The Bribery Act came into force in July 2011. There are four key offences under the Act:

- bribery of another person;
- accepting a bribe;
- bribing a foreign official; and
- failing to prevent bribery.

73 The offences carry criminal penalties for individuals and organisations. For individuals, the courts can impose a maximum prison sentence of ten years and/or an unlimited fine. For organisations, courts can impose unlimited fines. Councils should review their anti-bribery policy and procedures and ensure they are robust enough to prevent bribery and to reduce the risk of any staff or councillor committing a bribery offence. CIPFA has produced guidance that can help councils and their audit committees.

Examples of good practice by other public sector bodies

74 Devon and Cornwall Police Authority introduced continuous audit of its payroll about six years ago. Continuous audit is the application of automated checks, designed to verify that the organisation is correctly processing financial and non-financial data and that internal control is working effectively. The potential to confirm information and to check for errors or fraud in real time provides the ‘continuous’ aspect of the audit. This improves the organisation’s ability to provide greater assurance to auditors and members of their Corporate Governance Committee as well as preventing and detecting fraud and error. Organisations that have developed a strong continuous audit culture usually start with key, business-critical systems.

75 Devon and Cornwall Police Authority’s payroll costs typically account for around 80 per cent of the Authority’s budget. When the Authority implemented a new financial system, internal auditors implemented continuous audit. This provides monthly assurance over payroll costs. The total value of transactions – that is, all payroll payments and deductions – checked each month is £25 million.

76 The process is cost-effective (taking, typically, one day each month – sometimes less) enabling auditors to focus their investigations on significant items rather than using random data samples. For example, in one month, auditors noted an unexpected fall of around £100,000 in payments of National Insurance contributions. Although this turned out to be an error in a linked finance system and not an indicator of fraud, the payroll team was able to correct the error before payment was made.

77 Increasingly, councils are working together to share information and good practice. Internal audit professionals in six London councils (Barking and Dagenham, Havering, Newham, Redbridge, Tower Hamlets and Waltham Forest) have joined forces in several counter-fraud initiatives, and have pooled resources to achieve greater impact.

78 This has alerted members to emerging trends and helped them set up effective training programmes. The group has also invested in a secure web application that makes sharing counter-fraud intelligence accessible, manageable and safe.

Support and advice from the Audit Commission

79 In *PPP 2009*, we provided a checklist for those responsible for governance. Audit committee members have told us how they have used the checklist to assess the effectiveness of their governance arrangements. We updated the checklist in 2010 and have done so again in this report. You can find it in Appendix 1.

80 The Audit Commission published its first counter-fraud and corruption manual in 1995 (Ref. 16). It aimed to help auditors assess a public sector body's arrangements for tackling financial misconduct, fraud and corruption. The manual provided:

- guidance on the review of counter-fraud and corruption arrangements;
- advice on undertaking reviews of arrangements in specific areas of risk; and
- links to more information, for example from legal advisers.

81 We are working to update the manual, which we will make available for use in 2012.

82 We have also developed a series of short leaflets for schools and parish councils where size, complexity or limited numbers of staff may mean that effective internal control is difficult (see Case study 5). Follow the links at the end of this report to find them. We are working with the Charity Commission on a similar leaflet for charities, to be published in 2012.

Parish council fraud

Clerk abused trust and stole from parish council

A parish clerk pleaded guilty to stealing almost £63,000 from four parish councils and a community project charity that employed her. The clerk forged signatures, altered cheques, and made unauthorised payments to herself and her family. In sentencing the clerk to 18 months in jail the judge said, 'It really was a quite dreadful breach of trust.'

The chair of one of the parish councils said, 'We have had to take out a £30,000 loan as a result of her leaving us practically bankrupt.'

Another said, 'She had a good name and this was not the sort of thing you would expect to happen.'

Source: Audit Commission

83 For more than 15 years, the Audit Commission's NFI has successfully combined data from the public and private sectors across the UK to detect fraud, overpayments and errors totalling £750 million. The matches provided by NFI help councils detect a wide range of frauds. The Commission will publish the results of the NFI 2010/11 exercise in Spring 2012.

84 We are working with the Taskforce on Fraud, Error and Debt to make the most of the benefits NFI can deliver. For example, the NFI launched its first real-time data-matching service in September 2011. This will help improve fraud prevention and renew the increasingly important fight against fraud.

Next steps

85 In August 2010, the government announced its plan to abolish the Audit Commission. Until its abolition, the Commission will continue to promote good governance and financial management in the public sector.

86 The Audit Commission believes publishing detected fraud data helps improve public knowledge and understanding of councils' performance in the fight against fraud. Such information also supports the government's transparency and localism agenda.

87 Our *PPP* reports and publication of our survey results have encouraged councils to focus their counter-fraud activities on the areas of greatest risk. The Audit Commission's annual fraud survey is currently the only national source of information on the performance of local public bodies in the fight against fraud.

88 Given the importance of this data, the Audit Commission remains committed to collect and publish data on detected fraud against local bodies every year until it is abolished. The government needs to consider what arrangements will be required to collect and publish this data thereafter.

89 As well as the annual fraud survey, we gather intelligence on fraud and corruption in several ways. For example, we require external auditors of councils and other local public bodies to report to the Audit Commission all frauds over £10,000 and all incidents of corruption in the bodies they audit. This means we can track, analyse and spread information on emerging areas of fraud risk and alert counter-fraud professionals.

90 The government is planning a similar 'early warning system' for central government departments. DCLG should consider which organisation should take on this important role for local public bodies in future.

Appendix 1: Checklist for those responsible for governance

Checklist

General	Yes	No
1 Do we have a zero-tolerance policy towards fraud?	<input type="radio"/>	<input type="radio"/>
Comments		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	<input type="radio"/>	<input type="radio"/>
Comments		
3 Do we have dedicated counter-fraud staff?	<input type="radio"/>	<input type="radio"/>
Comments		
4 Do counter-fraud staff review all the work of our organisation?	<input type="radio"/>	<input type="radio"/>
Comments		
5 Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	<input type="radio"/>	<input type="radio"/>
Comments		

General	Yes	No
6 Have we assessed our management of counter-fraud work against good practice?	<input type="radio"/>	<input type="radio"/>
Comments		
7 Do we raise awareness of fraud risks?		
a. With new staff (including agency staff)?	<input type="radio"/>	<input type="radio"/>
b. With existing staff?	<input type="radio"/>	<input type="radio"/>
c. With elected members?	<input type="radio"/>	<input type="radio"/>
d. With our contractors?	<input type="radio"/>	<input type="radio"/>
Comments		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>
Comments		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	<input type="radio"/>	<input type="radio"/>
Comments		

General	Yes	No
10 Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	<input type="radio"/>	<input type="radio"/>
Comments		
11 Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?	<input type="radio"/>	<input type="radio"/>
Comments		
12 Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	<input type="radio"/>	<input type="radio"/>
Comments		
13 Do we have effective whistleblowing arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		
14 Do we have effective fidelity insurance arrangements?	<input type="radio"/>	<input type="radio"/>
Comments		

Fighting fraud with reduced resources		Yes	No
15	Have we reassessed our fraud risks since the change in the financial climate?	<input type="radio"/>	<input type="radio"/>
Comments			
16	Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>
Comments			
17	Have we reallocated staff as a result?	<input type="radio"/>	<input type="radio"/>
Comments			

Current risks and issues		Yes	No
Housing tenancy			
18	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	<input type="radio"/>	<input type="radio"/>
Comments			
19	Do we ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>
Comments			

Current risks and issues	Yes	No
Procurement		
20 Are we satisfied our procurement controls are working as intended?	<input type="radio"/>	<input type="radio"/>
Comments		
21 Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	<input type="radio"/>	<input type="radio"/>
Comments		
Recruitment		
22 Are we satisfied our recruitment procedures achieve the following?		
a. Do they prevent us employing people working under false identities?	<input type="radio"/>	<input type="radio"/>
b. Do they confirm employment references effectively?	<input type="radio"/>	<input type="radio"/>
c. Do they ensure applicants are eligible to work in the UK?	<input type="radio"/>	<input type="radio"/>
d. Do they require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
Comments		

Current risks and issues	Yes	No
Personal budgets		
<p>23 Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?</p>	<input type="radio"/>	<input type="radio"/>
<p>Comments</p>		
<p>24 Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?</p>	<input type="radio"/>	<input type="radio"/>
<p>Comments</p>		
Council tax		
<p>25 Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>	<input type="radio"/>	<input type="radio"/>
<p>Comments</p>		

Current risks and issues	Yes	No
Housing and council tax benefits		
26 When we tackle housing and council tax benefit fraud do we make full use of the following?		
a. National Fraud Initiative?	<input type="radio"/>	<input type="radio"/>
b. Department for Work and Pensions Housing Benefit matching service?	<input type="radio"/>	<input type="radio"/>
c. Internal data matching?	<input type="radio"/>	<input type="radio"/>
d. Private sector data matching?	<input type="radio"/>	<input type="radio"/>
Comments		

References

- 1 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 2 Audit Commission, *Protecting the Public Purse 2010*, October 2010
- 3 Department for Communities and Local Government, *Housing Strategy Statistical Appendix Table 600*, November 2010
- 4 Audit Commission, *Protecting the Public Purse 2010*, October 2010
- 5 Department for Communities and Local Government, *Tackling Unlawful Tenancies and Occupancy: Good Practice Guidance for Social Landlords*, November 2009
- 6 Department for Communities and Local Government, *Housing Statistics Table 100*, November 2010
- 7 Department for Communities and Local Government, *Statistical Release Local Authority Expenditure and Financing England 2010/11 Budget (Revised)*, February 2011
- 8 Health and Social Care Information Centre, *Personal Social Services Expenditure and Unit Costs England, 2008/09*
- 9 Audit Commission, *Improving Value for Money in Adult Social Care*, June 2011
- 10 Department of Health, *A Vision for Adult Social Care*, November 2010
- 11 Public Concern at Work, *Speaking Up for Vulnerable Adults: What the Whistleblowers Say*, April 2011
- 12 Local Government Group, *Procurement, Capital and Shared Assets Productivity Workstream*, October 2010
- 13 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 14 Department for Work and Pensions, *Housing Benefit and Council Tax Benefit by Local Authority District 1996/97 to 2009/10*, December 2010
- 15 National Fraud Authority, *Annual Fraud Indicator*, January 2011
- 16 Audit Commission, *Counter Fraud and Corruption Manual*, 1995

Additional reading

- 1 CIPFA Counter-Fraud Standards [Managing the risk of fraud – actions to counter fraud and corruption – Red Book](#)

- 2 Public Concern at Work www.pcaw.org.uk

- 3 National Fraud Authority: Good practice publication
www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/

- 4 Audit Commission
 - Fraud Risks in Parish and Town Councils - Advice for Councillors
www.audit-commission.gov.uk/PPP2011parishguide
 - Fraud Risks in Schools Advice for School Governors
www.audit-commission.gov.uk/PPP2011schoolsguide
 - Single Person Discount on Council Tax: Predictor Tool
www.audit-commission.gov.uk/PPP2011SPDpredictor

- 5 Chartered Institute of Housing, Making Best Use of Stock team
www.cih.org/bestuseofstock

- 6 Office of Fair Trading guidance on cartels
www.offt.gov.uk/OFTwork/competition-act-and-cartels/ca98/decisions/bid_rigging_construction

If you require a copy of this document in an alternative format or in a language other than English, please call: **0844 798 7070**

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: AGC-021-2011/12
Date of meeting: 9 February 2012

Portfolio: Finance & Economic Development

**Subject: Council's Treasury Management Strategy Statement and
Investment Strategy 2012/13 to 2014/15**

Responsible Officer: Brian Moldon (01992 564455).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To consider how the risks associated with Treasury Management have been dealt with in the proposed Council's Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15; and**
- (2) To make any comments or suggestions that Members feel necessary to Full Council.**

Executive Summary:

The annual treasury management strategy statement and investment strategy report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the financial years 2012/13 to 2014/15.

The risks associated with setting these indicators are highlighted within the report along with how these risks are being managed.

Reasons for Proposed Decision:

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

To comply with the Committee's role and responsibilities which include:

To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Other Options for Action:

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

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming year.
2. The report attached at appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 to 2014/15 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.
4. The Council does not plan to borrow in order to carryout its capital investment. However, the Council will be borrowing to finance the Housing Self-financing. The capital programme is shown below in the table:

Capital Expenditure	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Non-HRA capital expenditure	5.278	5.635	1.193	1.176
HRA capital expenditure	193.225	12.863	15.067	14.859
Total Capital expenditure	198.503	18.498	16.260	16.035
Financed by:				
Capital grants	5.935	8.393	9.470	8.562
Capital receipts	4.254	4.892	0.890	0.873
Revenue	2.115	5.213	5.900	6.600
Borrowing	186.199	0.000	0.000	0.000
Total resources Applied	198.503	18.498	16.260	16.035
Closing balance on:				
Capital Receipts	14.595	9.877	9.221	8.642
Major Repairs Reserve	6.612	5.931	3.738	2.443

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve for anticipated major repairs allowance.
6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.
7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a three-year period. Currently, the Capital Programme for the next three years totals £50.793m and is fully funded. It is predicted that at the end of 2014/15 there will still be £8.642m available in usable Capital

Receipts and £2.443m in the Major Repairs Reserve. Therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

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 currently does not have an overall positive CFR (HRA and Non-HRA), but following the payment to Government for Housing Self-financing, the Council will have a positive CFR.

CFR	31-Mar-12 £m	31-Mar-13 £m	31-Mar-14	31-Mar-15 £m
Non-HRA	31.097	31.097	31.097	31.097
HRA **	154.318	154.318	154.318	154.318
Total Capital expenditure	185.415	185.415	185.415	185.415

** this figure includes the potential increase for Housing Self-financing of £186.199m

9. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. However, the Council is taking on debt of around £186m and this would normally require the local authority to charge MRP to the General Fund. CLG has produced draft regulations intended to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-financing when calculating MRP and therefore (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP.

10. The Council has no need to borrow to fund its capital programme, however, it is required to borrow in relation to Housing Self-financing, therefore the Authorised Limit (this represents a limit beyond which external debt is prohibited and needs to be approved by full Council) will be increased to £200m, and the Operational Boundary (the expected maximum external debt during the course of the year) increased to £187m. In relation to Maturity Structure of Fixed Rate Borrowing (how long we can borrow for), our treasury advisors are still in the process of considering the best possible borrowing portfolio for the Council, based on the 30 year financial plan and once this has been received, an updated treasury strategy will be issued with completed tables under the Gross and Net Debt, Interest Rate Exposures and Maturity Structure of Fixed Rate borrowing indicators.

11. The risk associated with this section relate to Refinancing – the risk that maturing borrowings, capital project or partnership refinancing cannot be refinanced on suitable terms. The borrowing portfolio will be based on the HRA financial plan and the borrowing maturities will be linked to when the financial plan has the resources to repay the debt.

12. 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 Council's Treasury Position

13. The Council's investments are all denominated in UK sterling and regular information is received from our treasury advisors on the latest position on the use of Counterparties. The latest information supplied is as follows:

(a) **UK Banks and building societies:**

(i) a maximum maturity limit of 3 months applies to HSBC and Standard Chartered;

(ii) a maximum maturity limit of 1 month to Barclays Bank, Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster, and Nationwide Building Society; and

(iii) a maximum maturity limit of overnight applies to Santander UK plc;

(b) **European Banks:**

(i) all temporarily suspended for new investments;

(c) **Non European Banks:**

(i) a maximum maturity limit of 3 months applies to Australian, Canadian and US banks that are on our Counterparty list; and

(d) **Money Market Funds:**

(i) a maximum exposure limit of 10% of your total investment per MMF.

14. The Council currently has an investment portfolio of £55m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of Counterparty	£m
United Kingdom	34.6
France	4.0
Australia	5.0
Ireland**	11.4
Total	55.0

** Please note that the investments shown under Ireland relates to Money Market Funds that are AAA rated and approved to be used by Arlingclose (Council's treasury advisors), however, they are domicile in Ireland for tax purposes only.

Maturity profile of investment as at 18 January 2012	£m
Overnight (Call / Money Market Fund)	23.0
Up to 7 days	7.0
8 days to 1 month	5.0
1 month to 3 months	15.0
3 months to 6 months	0.0
6 months to 9 months	5.0
Total	55.0

15. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

16. The Council is proposing to set the following indicators:

- (a) the Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (75%) for each of the years up to 2014/15;
- (b) the maximum amount of the portfolio being invested for longer than 364 days is £30m; and
- (c) the maximum limit set for investment exposure per country is 30%.

17. The risks associated with this section are as follows:

(a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors. It can be seen from the table above and from advice given by Arlingclose that the Council is keeping deposits very liquid (with a current maximum maturity of 3 months) and the number of Counterparties is greatly restricted.

(b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has monthly treasury meetings with treasury staff, to go through the cash flow for the coming month. A number of Money Market Funds are used to ensure adequate cash remains available.

(c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council is proposing a maximum of 75% of its investments can be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.

18. The prudential indicators within this section assist the Council to reduce the risk of:

- (a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;
- (b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money is available immediately through instant access accounts; and
- (c) potentially losing out on investment income when interest rates start to increase by ensuring that deposits are kept within one year.

Housing Finance Reform

19. Currently, Councils are required to pay a proportion of the Council house rents and the majority of receipts from the sale of land and homes to central Government. Where it is then decided how best to redistribute the funds back to local authorities – known as the Housing Revenue Account subsidy system.

20. The reforms involve a removal of the housing subsidy system by offering a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28 March 2012 and will result in the Authority having to take debt on to fund the settlement of £186.2m. The specific borrowing amount and terms will be determined by the Authority in conjunction

with its treasury advisors.

Inter-fund Balances

21. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

22. The Treasury Management Policy Statement is a high level mission statement for how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2010/11 Treasury Strategy following the changes made to the Code in November 2009. CIPFA has now updated this Policy to include a high level statement for borrowing and investments. This amended Policy is attached at appendix 2 for Council to approve.

Resource Implications:

The continued low interest rates, the use of fewer counterparties and the shorter durations of investments have reduced estimated interest income for 2012/13 to £561,000.

Legal and Governance Implications:

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

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 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 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

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

Background Papers:

None.

Impact Assessments:

Risk Management

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

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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Treasury Management Strategy Statement and Investment Strategy

2012/13 to 2014/15

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 (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities & Local Government (CLG) Investment Guidance.
- 1.2. The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2012/13
 - Annual Investment Strategy for 2012/13
 - Prudential Indicators for 2012/13, 2013/14 and 2014/15
 - MRP Statement.
- 1.3. Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4. As per the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code on 22 April 2002.
- 1.5. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Capital Financing Requirement

- 2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.
- 2.2. The Authority's current level of debt and investments is set out at **Appendix A**.
- 2.3. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 2.4. The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2011/12 Estimate £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
General Fund CFR	37.519	31.097	31.097	31.097	31.097
HRA CFR**	141.697	154.318	154.318	154.318	154.318
Total CFR	179.216	185.415	185.415	185.415	185.415
Less: Existing Profile of Borrowing and Other Long Term Liabilities	0.0	0.0	0.0	0.0	0.0
Cumulative Maximum External Borrowing Requirement	179.216	185.415	185.415	185.415	185.415
Usable Reserves	47.000	47.000	47.000	47.000	47.000
Cumulative Net Borrowing Requirement/(Investments)	132.216	138.415	138.415	138.415	138.415

** this figure reflects the potential increase/decrease on account of Housing Reform.

2.5 Table 1 shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

3. Self-Financing of Housing

3.1 The reforms involve a removal of the housing subsidy system by offering a one-off reallocation of debt. The settlement of the reallocation is expected to take place on 28th March 2012 and will result in the Authority having:

An increase in debt to fund the settlement of £186.2m. The specific borrowing amount and terms will be determined by the Authority in conjunction with the advice of its treasury advisers. This will be based on the draft 30 year financial plan for the HRA approved by Cabinet on 5 December 2011.

In **Appendix B** revisions are made to the Prudential Indicators for 2011/12 to reflect the increase in borrowing in relation to the self-financing settlement.

4. Interest Rate Forecast

4.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at **Appendix C**. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

5. Borrowing Strategy

- 5.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in *Appendix C* indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority’s wider financial position.
- 5.2 As indicated in Table 1, the Authority is currently debt free, although the changes to the HRA set out in section 3 will cause the Authority to take on debt before the end of 2011/12. Capital expenditure plans do not currently imply any additional external borrowing requirement in 2012/13.

6. Sources of Borrowing and Portfolio implications

- 6.1 In conjunction with advice from its treasury advisor, Arlingclose, the Authority will keep under review the following borrowing sources:
- PWLB
 - Local authorities
 - Commercial banks
 - European Investment Bank
 - Money markets
 - Capital markets (stock issues, commercial paper and bills)
 - Structured finance
 - Leasing
 - Use of Internal Resources
- 6.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

6.3 If the Council decides to use internal resources (borrowing between the General Fund and Housing Revenue Account) then the average rate of interest earned on the Council's investments will be used as the charge for interest.

7. Debt Rescheduling

7.1 The Authority's debt portfolio could be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

7.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

7.3 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report to the Finance & Performance Management Cabinet Committee.

8. Annual Investment Strategy

8.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments are important but are secondary considerations.

8.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.

8.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute.

Non specified investments are, effectively, everything else, including term deposits that are beyond one year.

- 8.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

- 8.5 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1st April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

- 8.6 The Authority and its advisors, Arlingclose, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) - this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)

- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay - or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in *Appendix D*.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

8.7 **Authority's Banker** - The Authority banks with National Westminster Bank. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria National Westminster Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

9. **Investment Strategy**

9.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

9.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

9.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

9.4 Collective Investment Schemes (Pooled Funds)

The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

9.5 Investments in pooled funds will be undertaken with advice from Arlingclose. The Authority currently has no investments in Pooled Funds.

10. **The Use of Financial Instruments for the Management of Risks**

10.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

10.1 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

11. **Balanced Budget Requirement**

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

12. **2012/13 MRP Statement**

12.1 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.

12.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

12.3 MRP in 2012/13: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include

Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

- 12.4 The MRP Statement will be submitted to Authority before the start of the 2012/13 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 Authority at that time.

The Authority's CFR at 31st March 2012 is estimated to become positive as a result of the Housing Subsidy reform settlement. This would normally require the local authority to charge MRP to the General Fund in respect of Non-HRA capital expenditure funded from borrowing. CLG has produced draft regulations intended to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP in 2012/13.

13. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

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

- Mid-year against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- Audit & Governance Committee will be responsible for the scrutiny of treasury management activity and practices.

14. Other Items

14.1 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.

Training in 2011/12 concentrated on the options for financing the HRA related borrowing. Going forward the emphasis is likely to be on debt management and any opportunities for restructuring.

14.2 Investment Consultants/Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The authority has appointed Arlingclose as external contractor to provide information and advice on investments and treasury issues. The quality of the service is controlled through regular meetings with Arlingclose.

Appendix A - Existing Investment & Debt Portfolio Position (Section 2.2)

	31/12/2011 Actual Portfolio £m
External Borrowing:	
Fixed Rate - PWLB	
Fixed Rate - Market	
Variable Rate - PWLB	
Variable Rate - Market	
Total External Borrowing	0.0
Other Long Term Liabilities:	
- PFI	
- Finance Leases	
Total Gross External Debt	0.0
Investments:	
<i>Managed in-house</i>	
- Short-term monies (Deposits/ monies on call /MMFs)	48.3
- Long-term investments	0.0
<i>Managed externally</i>	
- By Fund Managers	
- Pooled Funds (<i>please list</i>)	0.0
Total Investments	48.3

Appendix B
Prudential Indicators 2012/13 - 2014/15

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Director of Finance & ICT reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed 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	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Non-HRA	6.431	5.278	5.635	1.193	1.176
HRA	6.973	193.225	12.863	15.067	14.859
Total	13.404	198.503	18.498	16.260	16.035

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
Capital receipts	5.801	4.254	4.892	0.890	0.873
Government Grants	0.658	1.029	0.780	0.353	0.353
Major Repairs Allowance	5.160	4.906	7.613	9.117	8.209
Revenue contributions	1.785	2.115	5.213	5.900	6.600
Total Financing	13.404	12.304	18.498	16.260	16.035
Supported borrowing	0	186.199	0	0	0
Unsupported borrowing	0	0	0	0	0
Total Funding	0	186.199	0	0	0
Total Financing and Funding	13.404	198.503	18.498	16.260	16.035

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	%	%	%	%	%
Non-HRA	0.54	-0.53	-0.03	-3.28	-5.07
HRA	-4.59	1.99	19.11	19.46	18.48

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Non-HRA	37.519	31.097	31.097	31.097	31.097
HRA	141.697	154.318	154.318	154.318	154.318
Total CFR	179.216	185.415	185.415	185.415	185.415

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£m
Borrowing	0.0
Other Long-term Liabilities	0.0
Total	0.0

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is 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	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Increase in Band D Council Tax	0.71	0.32	0.72	1.12
Increase in Average Weekly Housing Rents	1.81	9.33	11.90	15.08

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	200.0	200.0	200.0	200.0	200.0

8.5 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.

8.6 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.

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	181.0	187.0	187.0	187.0	187.0

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 22 April 2002.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross and Net Debt:

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Gross and Net Debt	2011/12	2012/13	2013/14	2014/15
	Estimated £m	Authorised £m	Authorised £m	Authorised £m
Outstanding Borrowing (at nominal value)	186.199	186.199	186.199	186.199
Other Long-term Liabilities (at nominal value)	0.000	0.000	0.000	0.000
Gross Debt	186.199	186.199	186.199	186.199
Less: Investments	47.000	47.000	47.000	47.000
Net Debt	139.199	139.199	139.199	139.199

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on (*select as appropriate*) net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments)

11.2 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

Interest Rate Exposures	Maximum during 2010/11 %	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Fixed						
Upper Limit for Fixed Interest Rate Exposure on Debt	0	0	100	100	100	100
Upper Limit for Fixed Interest Rate Exposure on Investments	(84.26)	(100)	(100)	(100)	(100)	(100)
Variable						
Upper Limit for Variable Interest Rate Exposure on Debt	0	0	25	25	25	25
Upper Limit for Variable Interest Rate Exposure on Investments	(37.29)	(50)	(75)	(75)	(75)	(75)

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level (or Benchmark level) at 31/03/11 %	Lower Limit for 2012/13 %	Upper Limit for 2012/13 %
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

13. Credit Risk:

13.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

13.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

13.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

13.4 The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

14. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of 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.

Upper Limit for total principal sums invested over 364 days	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
	30.0	30.0	30.0	30.0	30.0

Appendix C - Economic & Interest Rate Forecast (Sections 4.1 & 5.1)

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Official Bank Rate													
Upside risk						0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
1-yr LIBID													
Upside risk	0.25	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	1.75	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40
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	-0.25
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	0.50
Central case	1.25	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50
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	-0.25
10-yr gilt													
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	0.50
Central case	2.20	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00
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	-0.25
20-yr gilt													
Upside risk	0.25	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	3.00	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75
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	-0.25
50-yr gilt													
Upside risk	0.25	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	3.25	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25
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	-0.25

- Momentum in economic growth is scarce.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. We think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee has returned to unconventional monetary policy and embarked on a further round of Quantitative Easing. There will be more to come.

Underlying Assumptions:

- Against a backdrop of turmoil within the Eurozone and the unwillingness of its politicians to acknowledge and issue a credible plan to resolve it the result is that financial markets continue to see saw between risk "on" and risk "off" daily patterns. The reality is that the risk "off" days outnumber the risk "on" days with the implication that the growth outlook is an increasing cause for concern.
- Despite the efforts of the politicians at the Brussels summit, the initial optimism of markets has been punctured as, once again, the lack of credible detail on the delivery of action as opposed to aspirations becomes worryingly clear. The detail appears to amount to the news that President Sarkozy will head to China to secure funds for the extended EFSF.

- The MPC's decision to embark on a further £75 billion of QE - which the Minutes showed was unanimously supported - demonstrated the strength of the economic headwinds that are blowing against the nascent UK economic recovery. For growth to occur you need somebody to spend.
- Inflation increased more than predicted to 5.2% in September. Energy prices continued to be the primary cause although the markets are now less interested in inflation given the economic growth focus. The Bank's Inflation Forecasts still point to a sharp downturn in CPI into 2012 as the index effects of VAT and earlier energy price shocks subside.
- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Taken together the levels of unemployment remain very high and are a significant drag on consumption despite reasonably robust retail sales data.
- Q3 GDP is expected to be weak but positive.
- Public Finances remain just about on track to meet the Coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

Appendix D - Recommended Sovereign and Counterparty List (Section 8)

- **Group Limits** - For institutions within a banking group, the authority executes a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Group Limit (if applicable) %/£m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	10.0	
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	10.0	
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	10.0	
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	10.0	
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	10.0	
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	10.0	
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	10.0	
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	10.0	
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	10.0	
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	10.0	
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	10.0	
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	10.0	
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	10.0	

Term Deposits / CDs / Call Accounts	France	BNP Paribas	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	10.0	
Term Deposits / CDs / Call Accounts	France	Société Générale	10.0	
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	10.0	
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	10.0	
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	10.0	
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	10.0	
Term Deposits / CDs / 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.*

The current advice supplied by Arlingclose is as follows:

UK Banks and building societies:

1. A maximum maturity limit of 3 months applies to HSBC and Standard Chartered
2. A maximum maturity limit of 1 month to Barclays Bank, Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster, and Nationwide Building Society.
3. A maximum maturity limit of overnight applies to Santander UK plc.

European Banks:

All temporarily suspended for new investments.

Non European Banks:

A maximum maturity limit of 3 months applies to Australian, Canadian and US banks that are on our list.

Money Market Funds:

A maximum exposure limit of 10% of your total investment per MMF

Appendix E– HRA Self-financing Principles – Two Pools

Principles

The key principles upon which the allocation of loans should be based are as follows:

- The underlying principle for the splitting of loans, at transition, must be that of no detriment to the General Fund.
- Local authorities are required to deliver a solution that is broadly equitable between the HRA and the General Fund.
- Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving a greater degree of independence, certainty and control.
- Uninvested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

The Council has decided to adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.

Transitional Issues

Settlement will take place on 28th March 2012; however, CFR and debt figures will not be finalised until the accounts are closed. As a result of this difference in timing:

- Budgets and treasury management strategies will be compiled based on estimates.
- New Borrowing from 1st April 2012 will be allocated to the relevant GF and HRA debt pools.
- Pre-settlement loans will be frozen at 31st March 2012 will be allocated as soon as final figures are known.

Loan Pools

This authority has decided to adopt a two pool approach.

A *two pool* approach involves splitting loans between the HRA & GF and then allocating new loans to each pool as required. The borrowing undertaken for Housing Self financing will be wholly allocated to the HRA pool. This has been adopted for clarity and transparency. Treasury management decisions on the structure and timing of borrowing will be made independently for the GF and HRA. Interest on loans will be calculated in accordance with proper accounting practices. This will require interest expenditure on external borrowing attributed to HRA loans being allocated to the HRA. Interest expenditure on external borrowing attributed to the General Fund will be allocated to the General Fund.

Transfer of Loans between Debt Pools

The authority's policy on transferring loans between the HRA and GF debt pools is as follows:

- In the case of the HRA/GF being in a position to reduce the CFR to a level lower than the principal outstanding on HRA/GF external borrowing, loans will be transferred between the pools without the need to recognise an internal premium or discount as the interest expenditure charged to the HRA/GF will reduce as a result of the transfer. This will be dependent upon the pool having loans transferred to it having a requirement to fund its CFR.

- If the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures, this could be undertaken at no internal premium or discount.

NB:

- CIPFA's Guidance Notes to the 2011 Treasury Management Code has referred to instances where the HRA and GF wish to swap loans as a result of strategic decisions and suitability of their relevant debt structures and recognising an internal premium or discount as part of this process. These would be notional amounts and would not relate to physical debt repayments where transactions must be accounted for as Extinguishments or Modifications under proper accounting practices.
- The draft Item 8 Determination applicable from 1st April 2012 currently only permits premiums and discounts to be debited or credited to the HRA in accordance with proper accounting practices.

Internal Borrowing

Where the HRA or GF has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the rate charged on this internal borrowing will be based on the average rate of interest earned on cash balances for the financial year.

Borrowing in Advance

The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

HRA Limit on Indebtedness

Please note that housing authorities should also include the following Prudential Indicator, as required by the revised Prudential Code, issued in November 2011:

HRA Limit on Indebtedness	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£m	£m	£m	£m	£m
HRA CFR	141.697	154.318	154.318	154.318	154.318
HRA Debt Cap (as prescribed by CLG)	203.774	186.199	186.199	186.199	186.199
Difference	62.077	31.881	31.881	31.881	31.881

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Finance & Performance Cabinet Committee and for the execution and administration of treasury management decisions to Director of Finance & ICT who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the

principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

2.4 The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

Report to the Audit and Governance Committee



Report reference: AGC-019-2011/12
Date of meeting: 9 February 2012

**Epping Forest
District Council**

Portfolio: Finance and Economic Development
Subject: Internal Audit Monitoring Report October - December 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 third quarter monitoring report for 2011/12:
 - (a) The reports issued between October and December 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) The 2011/12 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2011, and details the overall performance to date against the Audit Plan for 2011/12. 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 third quarter are listed in paragraph 5 below.
2. Audits completed in the third quarter have included a full review of the Housing Repairs Service which was verbally reported to the Committee at its last meeting, the detailed findings of which are in appendix 1. At the end of the quarter a further six audits were substantially complete and at the draft report stage, including the key financial systems, National Non Domestic Rates and Sundry Debtors. The remaining key financial systems will

form the core of the work planned for the fourth quarter.

3. Advice and guidance has been provided on a range of subjects which has included the application of Contract Standing Orders and Financial Regulations and the disposal of redundant stock and equipment.

4. There has been an increase in the financial appraisals carried out by the Chief Internal Auditor of the accounts of potential suppliers of goods and services to ensure their sound financial standing and reduce risks to the Council.

Reports Issued

5. The following audit reports were issued in the third quarter:

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Key and Local Performance Indicators;
- Norway House;
- Housing Maintenance Depot;
- Management of Sickness Absence;
- Licensing (Administration);
- Gifts and Hospitality (Members); and
- Sundry Debtors;

(c) Limited Assurance:

- None;

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Planning Fees;
- Risk Management and Insurance;
- Creditors;
- Commercial Property Management;
- National Non Domestic Rates; and
- Licensing Enforcement.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

6. 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 December 2011.

Audit Plan 2011/12 (Appendix 4)

7. The status of the 2011/12 Audit Plan is set out at Appendix 4.

Performance Management

8. The Internal Audit Team has local performance indicator targets to meet in 2011/12, as set out below:

	Actual 2008/09 For year	Actual 2009/10 For year	Actual 2010/11 For year	Target 2011/12 For year	Actual 2010/11 Quarter 3	Actual 2011/12 Quarter 3
% Planned audits completed	95%	87%	82%	90%	69%	53%
% chargeable "fee" staff time	71%	69%	66%	72%	71%	71%
Average cost per audit day	£309	£300	£307	£300	£302	£237
% User satisfaction	85%	94%	86%	85%	80%	87%

9. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan; and

(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. As previously reported, a reassessment of what constitutes productive time, based upon information from the CIPFA benchmarking club and comparator information currently being shared between Uttlesford, Harlow, Broxbourne and EFDC has resulted in a new baseline for this indicator; and

(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.

10. The figure for planned audits completed of 53% falls short of the quarter 3 target of 67.5% which has been affected by the long term sickness of a member of staff who has now resigned as of the beginning of January. The fourth quarter plan has been drawn up to ensure the key financial audits are covered which will leave some lower risk small audits to consider for inclusion in the 2012/13 audit plan.

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.

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

**Summary of Audits completed during Quarter 3
October - December 2011**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Performance Indicators 2011/12	Corporate	<p>Substantial Assurance The majority of performance management data can be verified with background data which has been retained by Officers at the time of the calculation. However, testing found that data is not always retained and calculations are not always independently checked before submission to Performance Improvement Unit, which could result in poor data quality if errors are not identified.</p>	<p>There is not always compliance with the data quality strategy as evidence of the data used for the calculation is not always retained.</p> <p>Calculations were verified as correct with the exception of one PI which was corrected as a result of the audit.</p>
Norway House	Housing	<p>Substantial Assurance The controls in place for the management of Norway House have improved as a result of the implementation of the agreed actions from the previous audit.</p>	<p>There are sound controls in place to ensure the management of Norway House is effective. The agreed actions from the previous audit have been implemented.</p> <p>Management have agreed to use correct expenditure codes for petty cash purchases in future.</p>
Housing Repairs Service	Housing	<p>Substantial Assurance The systems and controls surrounding the management of the Housing Repairs Service are operating effectively within the constraints of the current IT system.</p> <p>Management have already introduced a number of changes to address weaknesses previously identified. In particular, the structure of the service has been changed to improve the supervision of staff, manual orders are no longer used (with the exception</p>	<p>Housing Repairs Works Instructions are properly logged on OHMS, although there is insufficient time to do this at the time the repair is reported due to the number of screens that need to be completed before a job can be raised. OHMS is updated with details of completed jobs by the customer services team. However, due to resource issues there is a considerable delay in processing completed jobs, which means that financial information on the general ledger is not current.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>of Local Purchase Orders), and improvements to the processes for managing void properties and post inspections of responsive repairs have been introduced.</p> <p>Implementation of the MCM system should significantly improve the management of responsive repairs as it incorporates real time processing of repairs, an appointment system and materials procurement system, thereby eliminating many of the manual processes currently employed. The enhanced management reporting facility will also improve the monitoring of budgets and staff performance.</p>	<p>Orders and invoices are correctly raised, recorded and authorised. With the exception of Local Purchase Orders, for which a manual order is taken directly to a local supplier, all orders are now raised on Marketplace. In the case of annual orders, (e.g. for fuel), new orders should be raised at the start of each financial year.</p> <p>Sample testing showed that stock items received are correctly entered onto the stock recording system from the delivery notes, although it was found that some delivery notes had not been marked to identify that the stock system had been updated. The stock system had also been correctly updated with the issues of stock from the stores using the 'stores requisitions'.</p> <p>The standard of work is monitored through job inspections carried out by the Assistant Area Repair Managers, and through tenant satisfaction surveys. The satisfaction surveys have only recently been sent out again following a period when they could not be printed from the system.</p> <p>The Service reports a number of performance measures. Efforts continue to be made to improve performance, and many of the changes being implemented should assist in the Service reaching, or exceeding, its targets.</p> <p>Budget monitoring is regularly carried out and any large variances investigated by management.</p> <p>Staff performance is appraised through performance & development reviews and sickness is closely monitored in accordance with the Council's managing sickness absence policy. There is a system in place to remind Managers to</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			hold evaluation meetings with officers as soon as they reach the Councils sickness absence trigger levels. The system also ensures that the meetings are actually held, and that there is a written record of the meeting.
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance</p> <p>The systems and controls surrounding the management of sickness absence are operating effectively, thereby ensuring that sickness absence is accurately recorded and effectively managed. Recommendations have been raised relating to the need to remind Managers of the importance of holding evaluation meetings with staff once the trigger levels have been reached, and to ensuring that the KPI is correctly calculated.</p>	<p>Sickness absence is monitored in accordance with the Council's Managing Absence Policy, although not all Managers appear to be holding evaluation meetings once the trigger levels are reached.</p> <p>Monthly certificates are sent promptly to payroll. Consideration should be given to using word versions of the form rather than the printed version, which should make the form easier for Managers to complete.</p> <p>The sickness absence performance indicator, KPI 10, should be checked to ensure it has been correctly calculated.</p>
Licensing Administration	Corporate Support Services	<p>Substantial Assurance</p> <p>The section demonstrates excellent licensing knowledge and is aware of necessity to process licence applications accurately and to procedure.</p>	Regular and complete reconciliations should be performed. Also, the reporting function of M3 should be used to greater affect to control the processes in some key areas as discussed with management.
Gifts and Hospitality (Members)	Assistant to the Chief Executive	<p>Substantial Assurance</p> <p>The procedures in place regarding the recording of gifts and hospitality in the Register of Interest are satisfactory and are adhered to by Members. To ensure best practice, regular reminders should be issued, highlighting the importance that all gifts and</p>	Audit review shows Members to be complying with the Code of Conduct in relation to Gifts & Hospitality, although based on a limited sample. The process is very much determined by the Members' understanding and assuming responsibility for Declarations of Interest within the correct timescale. The regular reminders in

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>hospitality are declared in line with the Code of Conduct, when they occur. Requirement to ensure all members have an up to date submission is also of importance in maintaining assurance in the process.</p>	<p>the Council Bulletins should ensure that Members are acutely aware of the need to uphold this responsibility. Members should be specifically reminded of the need to register the full details of the gifts / hospitality received. Monitoring Officer should be aware of those gifts and hospitalities declared that are aged over 3 years.</p>
Sundry Debtors	Finance & ICT	<p>Substantial assurance The systems and controls in place are satisfactory and ensure the debt collection process is sufficiently controlled. The daily processes ensure the invoices are raised and issued timely, outstanding debts are monitored, write offs are authorised and reconciliations to the general ledger are completed.</p>	<p>Recommendations have been made to ensure that arrangement terms for aged debts are reviewed annually to encourage debtors to increase payments, debtors encouraged to pay promptly and bad debts are written off promptly.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS 2011/12 – STATUS AS AT December 2011**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Housing Repairs Service</p>	<p>OHMS System There are a number of jobs on OHMS (a total of 1680 as at 28/9/11) raised in 2010/11 which are still recorded as 'allocated' rather than 'invoiced'. Some of these are completed jobs which haven't yet been updated with the job details due to a lack of resources. The costs relating to these jobs have not been extracted as part of the monthly jobs posted to the general ledger. It should be ensured that, where relevant, completed jobs are closed down as 'invoiced' on OHMS to make sure that all relevant costs are posted to the general ledger. The status of the remaining jobs on OHMS should be determined and the system amended as necessary.</p>	<p>Customer Repairs Manager</p>	<p>March 2012</p>		<p>In progress</p>	

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
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.
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	Review in progress.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>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.</p>	Assistant Director (Development)	April 2011	<p>Training took place in 2010.</p> <p>Director reported to Audit and Governance Committee 14th February 2011</p>	In progress	Review complete, findings being discussed with Director.
Corporate Procurement	<p>Contract Standing Orders Officers in the Council should be reminded of their responsibility to comply with the Council's CSOs, in particular, the publication of works and the subsequent receipt of sufficient quotations/tenders.</p> <p>Where officers are unsure of the Council's requirements, they should liaise with officers in Procurement and seek appropriate advice on the matter before raising an order with a supplier.</p>	Officer working group consisting of Assistant Director of Housing, Senior Finance Officer: Procurement & Administration and Chief Internal Auditor.			In Progress	The Procurement Guide which is currently being market tested will remind all staff involved in procurement of the requirements of CSO's and will guide staff through the stages they must follow based on the value of the expenditure. The guide reminds staff to liaise with the Senior Finance Officer: Procurement & Administration for appropriate advice at the beginning of the procurement process.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	Accuracy checks Ensure 5% checks completed timely and have these checks signed off, by a senior manager.	Assistant Director (Benefits)	October 2011	Team Leaders have been told of the importance of regular accuracy checking and have been requested to complete the checking spreadsheet	Actioned	To be reviewed
Waste Management	Procurement The requirements for the printing contract should be discussed with the Senior Procurement Officer to ensure that the correct procedures are followed.	Waste & Recycling Manager	Ongoing	Agreed	In Progress	To be reviewed
Bed & Breakfast Contracts	Family Bookings Quotes for the nightly rates relating to family groups not covered by the contracts should be received in writing. Given the nature of the service, confirmation of telephone quotes could be confirmed by e-mail or fax, and should be retained.	Housing Options Manager	Agreed	From 1 st September 2011	In Progress	To be reviewed
Management of Sickness Absence	Evaluation Meetings Managers should be reminded of the importance of holding evaluation meetings once an employee has reached the Council's sickness absence trigger levels.	Directors and Assistant Director (Human Resources)	Agreed	Ongoing	In Progress	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Management of Sickness Absence	Key Performance Indicators The sickness absence report used to calculate KPI 10 should be adjusted to include any staff who have left the Authority.	Assistant Director (Human Resources)	March 2012	The Assistant Director (Human Resources) has stated that in the absence of the Operations Manager (vacant post), the calculation for Q4 2010/2011 and Q1 for 2011/2012 was not checked. The calculations for performance indicators completed in Human Resources will be checked in future, and the summary control form will be signed to evidence that the calculation has been completed, independently checked and signed off by the Director.	In Progress	To be reviewed
Licensing Administration	Reconciliation Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.	Assistant Director (Legal)	April 2012		In Progress	To be reviewed

Follow up of Limited Assurance Audits as at 31st December 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 2009	P1. 1 P2. 3	P2. 1	Q1 2011/12	One long term aim, acquisition of the property module – completion by March 2011
Building Maintenance Depot Stocktake	Housing	June 2011	P1. 1		Q3 2011/12	Subject to major review by Assistant Head of Housing and insourced management.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q4 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.
Orway House	Housing	Nov 2010	P1. 4		Q2 2011/12	Review complete, substantial assurance given.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q2 2011/12	Review complete, draft report under discussion with Director.

AUDIT PLAN 2011/12

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Q4	PKF
Sundry Debtors	system/follow up	20	Completed	PKF
Creditors	system/follow up	20	In Progress	PKF
Treasury Management	system/follow up	15	Q4	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10	Q4	PKF
Risk Management and Insurance	system/follow up	15	In Progress	PKF
Main Accounting and Financial Ledger	system/follow up	15	Q4	PKF
Housing Benefits	system/follow up	25	Q4	PKF
Council Tax	system/follow up	25	Q4	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	PKF/R27
Cash receipting and Income control	system/follow up	15	In Progress	PKF
Provision for 'top up' testing	systems	15	Q4	PKF
Cash Office spot checks	verification	5	Q4	PKF
ICT				
Environmental controls/backup procedures	IT	10	Q4	PKF
Data and Network Security	IT	20	Q4	PKF
Disaster recovery/business continuity	IT	10	Q4	PKF/R8
TOTAL		250		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	follow up	5	In Progress	R27
Building Control	system	20		R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Public Health / Pest Control	system	15	Completed	R27
Car Parking	system	20	Q4	R27
North Weald airfield	establishment	15	Completed	R27
Leisure contract	contract	15	Completed	R20
TOTAL		85		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
Electoral services – data quality		15		R
TOTAL		25		

Audit area	Audit type	Days allocated	Completed	Risk Identifier
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	Q4	PKF/R27
Housing Lettings	follow up	5		AC
Depot	system/follow up	15	Completed	
Norway House	Follow Up	15	Completed	
Bed and breakfast contract	contract	5	Completed	
Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		70		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15		R22
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	In Progress	PKF
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	In Progress	R
Car Mileage claims	verification	10	Completed	R
Health and Safety Policy	system	5		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	In Progress	R9
Licensing	system	15	Completed	R27
Asset Management system	Follow up	5		R18
Non-HRA Repairs	verification	5		R2
Fleet Operations income	system	5		R27
Legal				
TOTAL		110		
Audit area				
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
CONTRACTS				
Contract Compliance	System/follow up	15		R20

CORPORATE				
Corporate Procurement	system/follow up	15	Completed	AC/R2
Gifts and Hospitality (Officers)	system/follow up	10		R
Gifts and Hospitality (Members)	system/follow up	10	Completed	R
Data Protection Act	system	5	In Progress	R18
Follow up of Priority 1 Audit recommendations	follow up	10		R23
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	AC/PKF
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15	In Progress	R23
TOTAL		110		
TOTAL DAYS ALLOCATED		690		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		45		
TOTAL		775		

Risk Identifier

Key

AC

PKF

R no.

R

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of

Council