

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 20th January, 2016

Time: 6.30 pm

Place: Committee Room 1, Civic Suite, Civic Centre, Jubilee Room

Contact: Colin Gamble

Email: colingamble@southend.gov.uk

AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 30th September 2015 (Pages 1 - 4)**
- 4 Corporate Risk Register 2015/16 (Pages 5 - 24)**
Report of Chief Executive and Town Clerk
- 5 Treasury Management Policy (Pages 25 - 56)**
Report of Corporate Director for Corporate Services
- 6 BDO: Progress Report to Those Charged with Governance (Pages 57 - 74)**
Report of Corporate Director for Corporate Services
- 7 BDO: Annual Audit Letter 2014/15 (Pages 75 - 88)**
Report of Corporate Director for Corporate Services
- 8 Internal Audit Service Quarterly Performance Report (Pages 89 - 128)**
Report of Corporate Director for Corporate Services
- 9 Counter Fraud & Investigation Services Quarterly Performance Report (Pages 129 - 150)**
Report of Corporate Director for Corporate Services

Information Items

- | |
|--|
| <ul style="list-style-type: none">- CIPFA Better Governance Forum, Audit Committee Update, issue 18:- Self-assessment and Improving Effectiveness- Appointment and Procurement of External Auditors- Regular Briefing on Current Issues |
| <ul style="list-style-type: none">- Public Sector Audit Appointments, Annual Regulatory Compliance and Quality report for BDO, Audit Year 2014/15 |

To: Chairman and Members of the Audit Committee

Members:

Cllr Ayling (Chair) ,Cllr Ayling (Chair), Cllr McMahon (Vice-Chair), Cllr Betson, Cllr Buckley, Cllr Courtenay, Cllr Davidson, Cllr Nevin, Cllr Robertson, Cllr Stafford and Everitt and Everitt (Co-Optee).

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 30th September, 2015

Place: Civic Suite, Civic Centre, Southend-on-Sea

3

Present: Councillor Betson (Chairman),
Councillors Ayling, Courtenay, Davidson,
*Flewitt, McMahon, Nevin and Stafford
Mr R Everitt (Co-opted Member)

* Substitute in accordance with Council Procedure Rule 31)

In Attendance: S Holland, J Chesterton, I Ambrose, L Everard, E Allen, J Denman, J Ruffle, S Houlden, S Baker, P Geraghty, Z Ali, S Hasty, E Cook, C Gamble, L Clampin (BDO), A Langridge (BDO) and R Carte (BDO)

Start/End Time: 18.30/20.25

**** **Part I**

281 Apologies and substitutions.

Apologies for absence were received from Councillors Buckley (substitute: Councillor Flewitt) and Robertson.

282 Declarations of interest.

(a) Councillor Betson – Internal Audit Report Action Plans – Employee of HMRC dealing with international trade – non-pecuniary interest

(b) Councillor Betson – Internal Audit Services, Quarterly Performance Report – Board Member of South Essex Homes/Member of Fostering Panel – non-pecuniary interest

(c) Councillor Flewitt – Internal Audit Services, Quarterly Performance Report – Family and friends are tenants of South Essex Homes – non-pecuniary interest

(d) Councillor Flewitt – Internal Audit Report Action Plans (Parking Management Schemes) - PowerPoint submission in respect of this – non-pecuniary interest

(e) Councillor McMahon – BDO Annual Governance Report 2014/15 – Employer is, in part, under contract to the Council – non-pecuniary interest

283 Minutes of the Meeting held on Wednesday, 24th June, 2015

Resolved:-

That the minutes of the meeting held on 24th June 2015 be confirmed and signed as a correct record.

284 BDO: Final Report to Those Charged with Governance 2014/15

The Committee considered a report of the Corporate Director for Corporate Services on the results of the work completed to date for the 2014/15 financial year with regard to:

- The opinion on the Statement of Accounts.
- The conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

A representative of the External Auditor provided Members with an update on the status of the report. Members received a supplementary paper on the Auditor's review of the Council's use of resources.

Resolved:-

That the External Auditor's Annual Governance Report 2014/15, be accepted.

285 Statutory Statement of Accounts 2014/15

The Committee considered a report of the Corporate Director for Corporate Services on the Statement of Accounts for 2014/15.

Resolved:-

That the Statement of Accounts 2014/15 be adopted and approved for publication.

286 Current Status of Internal Audit Report Action Plans

The Committee considered a report of the Corporate Director for Corporate Services on the progress made to implement the actions in the Internal Audit reports in respect of the following:

- Accounts Receivable – Social Care Debt
- Parking Management Schemes
- Southend Adult Community College
- Payroll System

The relevant officers confirmed the position on each action in their action plan and responded to questions from Members.

Resolved:-

That the progress made with regard to the actions be noted.

287 BDO: Progress Report to Those Charged with Governance

The Committee considered a report of the Corporate Director for Corporate Services outlining the progress made in delivering the 2014/15 Annual Audit Plan.

Resolved:-

That the progress made in delivering the Annual Audit Plan for 2014/15 be accepted.

288 Internal Audit Services, Quarterly Performance Report

The Committee considered a report of the Corporate Director for Corporate Services on the progress made in delivering the Internal Audit Strategy for 2015/16.

Resolved:-

That the progress made in the delivering the 2015/16 Audit Strategy be noted.

289 Information Items

The Committee noted the following documents:-

- CIPFA Better Governance Forum, Audit Committee Update - Issue 17
- Protecting the English Public Purse 2015, Fighting Fraud against English Councils

Chairman: _____

Southend-on-Sea Borough Council

Report of Chief Executive and Town Clerk
To

Audit Committee

On

20th January 2016

Report prepared by: Tim MacGregor,
Team Manager - Policy and Information Management

Agenda
Item No.

4

2015-16 Corporate Risk Register

Executive Councillor – Councillor Woodley

A Part 1 Public Agenda Item

1 Purpose of Report

1.1 To provide an update to the Corporate Risk Register for 2015/16.

2 Recommendation

2.1 **That the updated Corporate Risk Register for 2015/16 is noted.**

3 Background

3.1 Corporate Risk Register 2015/16

3.1.1 The Council's Corporate Risk Register sets out the key risks to the successful delivery of the Council's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities. The register is a key element of the Council's risk management strategy.

3.1.2 The register was refreshed in April to reflect the challenges for 2015/16 and was presented to Audit Committee on 24th June. The register is reported to Corporate Management Team quarterly and Audit Committee every six months.

3.1.3 The Corporate Risk Register follows a 3 stage process:

1st stage: An 'inherent score' with the risk assessed with no controls, assurance or actions in place.

2nd stage: The 'current score' where the risk is assessed with controls, assurances and progress against identified actions. The current score is adjusted in light of progress against actions.

3rd stage: The target score which is the risk with the controls, assurances and actions, as if they have been completed

The current score is then adjusted in light of progress against actions. It should be noted that the scoring of a risk is a subjective process following discussion with those closely involved in the issue and assessment by Corporate Management Team.

- 3.1.4 The Corporate Risk Register is attached at Appendix 1, and has been updated following consideration by Corporate Management Team on 18th December. An indication of the 'direction of travel' of the current level of risk for each risk is shown in this report, highlighting the difference in scores from June (when last presented to Audit Committee) to December.
- 3.1.5 Corporate Directors ensure service specific risks are managed within their directorates, within service plans and in accordance with the Risk Management Strategy and processes. 'Red' rated risks with corporate implications can be escalated to CMT via Corporate Directors. Actions for all these risks are updated and managed by the Directorate risk leads and reviewed at departmental management team meetings.
- 3.1.6 Operational risks, managed within Directorates, are also assessed as part of reviews undertaken by Internal Audit and Project risks are monitored by the Corporate Delivery Board where applicable.

4 Corporate Implications

- 4.1 **Contribution to Council's Vision & Corporate Priorities**
The Corporate Risk Framework underpins the operational effectiveness of the Council's Corporate Governance arrangements and specifically monitors progress of managing key risks associated with the successful delivery of Corporate Aims and Priorities.
- 4.2 **Financial Implications**
Any financial implications arising from identifying and managing risk will be considered through the normal financial management processes. Proactively managing risk can result in reduced costs to the Council by reducing exposure to potential loss.
- 4.3 **Legal Implications**
The Accounts and Audit Regulations 2003 require that:

The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's function and which includes the arrangements for the management of risk.
- 4.4 **People Implications**
Any people and property implications arising from identifying and managing risk will be considered through the Council's normal business management processes.
- 4.5 **Property Implications**
None specific

- 4.6 Consultation
Consultation has taken place with key stakeholders.
- 4.7 Equalities Implications
Corporate Equalities considerations have been considered in the drafting of the Register and any specific equality related risks have been identified for the Council.
- 4.8 Risk Assessment
Failure to implement a robust assurance framework which includes fit for purpose risk management arrangements increases the risk that Council objectives will not be delivered.
- 4.9 Value for Money
Effective forecasting and timely management of risk is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resource.
- 4.10 Community Safety Implications
None specific
- 4.11 Environmental Impact
None specific.

5 Appendices

Appendix 1 –Corporate Assurance Risk Register 2015/16

Blank Page

Corporate Assurance Risk Register December 2015/16

Contents

- Section 1** **3 Stage Risk Scoring Process**
Brief description of the 3 stage risk scoring process and clarification of each stage
- Section 2** **Risk Matrix**
The matrix used for calculating Risk score.
- Section 3** **Corporate Assurance Risk Register**
- Inherent, Current and Target scores
 - Controls and Assurances
 - Future Actions and comments.

Southend-on-Sea Borough Council's Corporate Assurance and Risk Register is a best practice template for recording and managing risks. The Council also promotes the use of Assurance and Risk Registers for managing risks within service areas which are recorded and managed in service and project plans.

The Risk Register is a management tool where a review and updating process identifies, assesses and manages down the risk to acceptable levels. It provides a framework in which problems that may arise and adversely affect the delivery of the Council's aims and priorities are captured and actions instigated to reduce the likelihood and impact of that particular risk.

Section 1 - Three Stage Risk Scoring Process

Southend-on-Sea Borough Council operates a 3 Stage Risk Scoring process as outlined in the Council's Risk Management Toolkit which is available on the Council intranet site. The information below offers a brief overview of each stage of the Risk process.

Inherent score – the risk scored with no controls, assurances or actions in place.

Current score – the risk scored with controls, assurances and progressed actions.

Target score – the risk score with controls and assurances in place and linked actions completed.

As controls and assurances are put in place and actions completed the Risk will be more controlled and, therefore, the current score moves towards the Target Score. The current score from the last reported Corporate Risk Register is shown in brackets.

Section 2 - Risk Matrix


EXAMPLES				IMPACT	CORPORATE RISK GRID			
Reputational:	Compliance	Financial:	Service Provision / Continuity:					
National publication (name and shame) by external body leading to a loss of control over the running of Council operations. Front page of national paper.	The council faces serious penalties or prosecution & criticism from institutions such as, Ombudsman, Information commissioner. Customers are treated unfairly & suffer damage by the council.	Over £1m loss More than 20% of total budget individually or cumulatively	Service delivery affected by over 3 months. Statutory / critical service delivery will cease for a period of time without any effective contingency.	Catastrophic	4	8	12	16
National or local front-page press article leading to a reduced ability to affectively deliver one or more services. National press article.	The council may face criticism and be ordered to comply with legislation by an external body as a result of a breach.	Between £500k - £1m, 10-20% of total budget individually or cumulatively	Delivery affected between 1 & 3 Months. Loss of a non-critical service for a significant period of time.	Severe	3	6	9	12
Disgruntled local groups/ individuals possibly leading to internal complaints with research into the causes. Local press article &/or ombudsman enquiry.	The council may commit largely undetectable breaches in legislation and internal procedures that could have other minor effects on reputation, service delivery etc.	Between £50k - £499k, 5 – 10% of total budget individually or cumulatively	Delivery affected by up to 1 month. Minor disruption or inconvenience to service delivery & customers. (Reduced staffing, late opening, temp loss of IT).	Material	2	4	6	8
Rumour and gossip	All other material risks.	Under £50k, less than 5% of total budget individually or cumulatively	Minor disruption	Negligible	1	2	3	4
					Unlikely <10%	Likely 10-40%	Very Likely 40-75%	Almost Certain >75%
					LIKELIHOOD			

2015-16 Corporate Risk Register

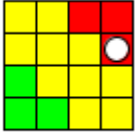


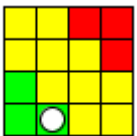



Risk Title		1. Budget for 2016-19					
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR01	Risk that the scale of predicted funding reductions for 2016-19 budgets will result in significant adverse impact on council services	Sally Holland	Strategic	Financial/Reputational	16		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working							
<p>1. Control: Budget setting process to identify required savings through: budget proposal reports to Departmental and Corporate Management Teams; member seminars; Cabinet; Scrutiny Committees; Council Assurance: reports to and minutes of meetings.</p> <p>2. Control: Management oversight of budget setting process through: reports to CMT and Administration Assurance: Reports to and minutes of meetings</p> <p>3. Control: Senior member and Chief Executive challenge to departments on proposed savings Assurance: Reports to and minutes of meetings.</p> <p>4. Control: Director challenge to Heads of Service Assurance: Minutes of Departmental Management Team meetings, Appraisals, 1-2-1 meetings.</p> <p>5. Control: Medium Term Financial Strategy (MTFS), including budget pressures to regularly consider financial impact of Government policy reported to CMT, Cabinet and Council Assurance: Reports and minutes of meetings.</p>					Current risk score	4 (6)* ↓	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRA0101	Continually monitor and assess government's position on grant to be distributed to Local Authorities and other Government announcements that impact funding	Joe Chesterton	31-Mar-2016	Head of Finance and Resources horizon scanning for all relevant government announcements. Utilising treasury network as an additional source of information. Assessing Spending Review announcement.	✓	4	
1516CRA0102	Review outcomes and impact of Emergency Budget (July) and CSR (Autumn) to allow robust budget to be set.	Joe Chesterton	31-Mar-2016	Emergency budget assessment undertaken and fed into updated Medium Term Financial Plan. Autumn Statement announced and assessment being undertaken.	✓		
1516CRA0103	Budget Timeline outlining key milestones to be agreed with Joint Administration and Senior Leadership Team.	Joe Chesterton	30-Sep-2015	Finalised and distributed	✓		
1516CRA0104	All Member workshop on local government finance	Joe Chesterton	31-Oct-2015	All member budget workshop delivered on 18 th November 2015. Feedback being reviewed in setting Council budget.	✓		

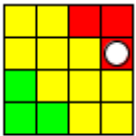
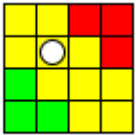
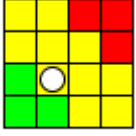
*The figure in brackets represents current risk score from previous report, June 2015

1516CRA01 05	Continual monitoring, risk assessment and reporting of progress on options to meet the saving targets required to set balanced budgets in 2016/17 to 2018/19	Joe Chesterton	31-Mar-2016	Cabinet/CMT meetings held in April and July. Savings proposals fully considered by Cabinet Members from October to December				
-----------------	--	----------------	-------------	---	---	--	--	--


*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	2. Recruiting and retaining staff						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1516CRR02	Risk that failure to retain or recruit staff with the required skills and experience will result in an inability to deliver key projects or services to meet expectations of residents, members, businesses and partners.	Sally Holland	Strategic	Service Provision	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		Impact Likelihood
<p>1. Control – Managing Organisational Change Policy; Redeployment Policy & Procedure; Redundancy Policy & Procedure Assurance – Policy documents available via intranet.</p> <p>2. Control – Oversight of policies and procedures to ensure consistency of HR policies and processes and in implementing policies relating to restructures through the People Management, Accommodation & Digital Strategy Working Party; Corporate Management Team and Workforce Planning Panel Assurance – Reports to and Minutes of meetings.</p> <p>3. Control – All staff vacancies, redeployments and redundancies reviewed by the Workforce Planning Panel Assurance – Minutes of Workforce Planning Panel</p> <p>4. Control – New recruitment provider to identify recruitment hotspots and plan effective recruitment campaigns Assurance – Service Level Agreement, Contract management meetings and liaison with provider.</p>					3 (6)* ↓		
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1516CRA0201	Update the People Management Strategy, including the re-focussed Organisational Development and Employee Engagement Strategies, to drive, underpin and support the Council in meeting its objectives at a time of change.	Joanna Ruffle	31-Mar-2016	People Management Strategy has been updated and includes an annual action plan 2015/16. This was approved by member working party on 27th May 2015 and was referred to Cabinet in June for ratification. Action plan is in hand and currently on target.		2	
1516CRA0202	Develop a Talent Management Strategy (including apprenticeships, graduate traineeships, graduate sponsorships and career progression)	Joanna Ruffle	31-Mar-2016	Specific action identified within People Management Strategy action plan to progress this work. Talent Management approach is being developed and will be presented to CMT early in the New Year.			

*The figure in brackets represents current risk score from previous report, June 2015

Risk Title		3. Partnership arrangements					
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR03	Risk that changes in approach to partnership working by partner organisations reduces the Council's ability to influence key financial and policy decisions, adversely affecting the ability of the Council to achieve its objectives.	Rob Tinlin	Strategic	Reputation	12		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control Southend Borough Council active member of South East Enterprise Partnership (SELEP) Board and officers aligned to relevant working groups to engage and influence activity and decisions Assurance: Quarterly Accountability Board and Quarterly Strategic Board Minutes/Reports 2. Control Corporate Delivery Board Assurance: Monthly Reports/ Meeting minutes 3. Control Success For All Children Group Assurance: Children and Young People Plan/Reports/Minutes 4. Control Health and Wellbeing Board Assurance: Joint Health and Wellbeing Strategy/Bi-monthly Reports and Meetings/Minutes					6 (6)*	 Likelihood	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRA0301	Develop models of partnership delivery across Essex in relation to adult social care provision.	Simon Leftley	31-Mar-2016	Regular meetings between Southend, Essex and Thurrock to develop models of partnership delivery. Boards established working on particular areas of adult social care - Southend leading the Learning Disability work stream.	✓	4	 Likelihood
1516CRA0302	Work with Essex Police to develop/enhance effective partnership working in relation to safeguarding children.	Simon Leftley	31-Mar-2016	Significant work is required between children's services and Essex Police in relation to the effective response to domestic violence cases and safeguarding children.	✓		
1516CRA0303	Engage with regional developments in relation to devolution and combined authorities	Andrew Lewis	31-Mar-2016	SBC officers and Leader actively engaged in related work streams. Evidence base developed for Greater Essex and Thames Gateway South Essex.	✓		
1516CRA0304	Work with Government to maximise the benefits of Southend's City Deal and growth fund allocation	Andrew Lewis	31-Mar-2016	City Deal stock take completed with Cabinet Office. City Deal enterprise centre 'The Hive' completed and open.	✓		
1516CRA0305	Successful roll out of the Business Southend Growth Hub model across the SELEP area to attract on-going funding while continuing to serve Southend	Andrew Lewis	31-Mar-2016	Business Essex, Southend and Thurrock (BEST) soft launch April 15 with new website. Southend leading the roll-out across BEST and pan LEP steering group. BEST website formally launched in September. Pan Essex launch event held in October.	✓		
1516CRA0306	Engage with the re-launched South Essex Growth Partnership	Andrew Lewis	31-Mar-2016	New Terms of Reference agreed. Conference hosted in March 15 with Michael Heseltine as keynote speaker promoting South Essex. Partnership appointed KMPG to develop KPI's, Business Case template and Priorities template to underpin governance.	✓		

*The figure in brackets represents current risk score from previous report, June 2015

Risk Title		4. Housing Policy/Local Infrastructure					
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		Impact Likelihood
1516CRR04	Risk that changes to government policy in relation to housing development reduces the resources available to the council leading to a strain on local infrastructure	Simon Leftley Andrew Lewis	Strategic	Financial	12		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	6 (9)*	Impact Likelihood
1. Control: Core Strategy and Local Development Plan in place Assurance: Key Strategy documents 2. Control: Regeneration Framework in place Assurance: Framework documents 3. Control: Cabinet/Scrutiny Assurance: Regular Reports/Meeting minutes							
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	Impact Likelihood
1516CRA0401	Analyse pre and post-election housing policy in relation to local development	Simon Leftley	30-Sep-2015	Analysis is on-going as new housing policies are introduced.	✓	6	Impact Likelihood
1516CRA0402	Refresh of the regeneration framework approved by Cabinet in September 2007	Scott Dolling	31-Mar-2016	Refresh of the Regeneration Framework underway, ensuring that it includes reference to the Southend Central Area Action Plan (SCAAP) and the Joint Area Action Plan (JAAP) in relation to the funding from the SELEP that has been secured and proposals sites proposed. Report to Cabinet in March 2015 outlining regeneration priorities which are being used to inform the framework refresh.	✓		
1516CRA0403	Produce a new Development Management DPD	Peter Geraghty	02-Mar-2016	Formally adopted July 2015	✓		
1516CRA0404	Update Core Strategy to ensure it conforms with all aspects of the National Planning Policy Framework	Peter Geraghty	31-Mar-2016	The Core Strategy Review is scheduled in the current Local Development Scheme timetable. Provisional work has commenced on the evidence base to support the Review. This has initially involved an update to the Thames Gateway South Essex (TGSE) Strategic Housing Market Assessment (SHMA) which will provide, amongst other things an objectively assessed need (OAN) housing figure for TGSE and the five authorities which comprise it. This figure will be the 'starting point' (NPPF wording) for discussion of housing allocation under the Duty to Co-operate.	✓		

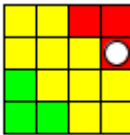
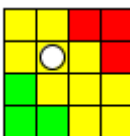
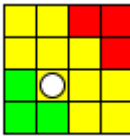
*The figure in brackets represents current risk score from previous report, June 2015

1516CRA04 05	Produce draft Community Infrastructure Levy Charging Schedule and Infrastructure Delivery Plan (IDP)	Peter Geraghty	31-Mar-2016	Formally adopted July 2015				
-----------------	--	----------------	-------------	----------------------------	---	--	--	--

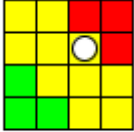
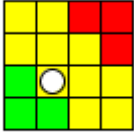
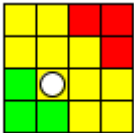
*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	5. Alternative service delivery models						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR05	Risk that failure to effectively manage (staffing, relationships, contracts) the transition to alternative service delivery models results in the organisation not meeting its statutory responsibilities to residents/customers	Simon Leftley Andrew Lewis	Strategic	Financial	16		
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	6 (9)* ↓	
1. Control: Corporate Delivery Board Assurance: Monthly Reports/Meeting minutes 2. Control: Changes to service delivery considered by Scrutiny/Cabinet/Council Assurance: Reports/Minutes. 3. Control: Government Consultations register to record forthcoming changes in Government policy and potential legislation to enable potential implications to be considered. Assurance: Consultation register held on intranet. 4. Control: Regular tracking of new legislation, government regulations and policy developments. Assurance: Production of Policy briefings and reports to Corporate Management Team.							
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRA0501	Explore alternative delivery models for Adult Social Care services	Simon Leftley	31-Mar-2016	Considerable work undertaken between SBC and Southend CCG in remodelling community recovery pathways. Work streams being overseen by Sharon Houlden.	✓	4	
1516CRA0502	Explore alternative models for provision of ground maintenance	Andrew Lewis	31-Mar-2016	Review undertaken into alternative service delivery options. Recommendations approved by Cabinet in June and ratified by full council in July 2015. New model of service delivery to be implemented by 1 st April 2016.	✓		
1516CRA0503	Implement the outcome of the Library Review in accordance with the delivery plan contained within the Library Development Strategy 2013 – 2028	Nick Harris	31-Mar-2016	New Shoeburyness library opened on 14 th September 2015. Work is now being undertaken to develop a programme of capital improvement works at Leigh, Kent Elms & Westcliff.	✓		
1516CRA0504	Mobilise and embed the Council's new frontline waste collection, street cleansing and ancillary service contracts	Dipti Patel	31-Mar-2016	New contract started on 5th October 2015 and includes commitment to increase recycling rates to 60% and redesigning the Household Waste Recycling Centres.	✓		

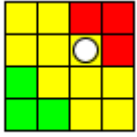
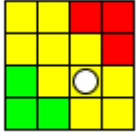
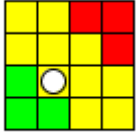
*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	6. Health and Social Care Integration						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score	12	 Likelihood
1516CRR06	Risk that failure to integrate health and social care effectively (inc Pioneer, Better Care Fund and Care Act) will harm the ability of the health and care system to operate at optimal levels, adversely affecting service provision and council finances.	Simon Leftley	Strategic	Service Provision, Financial			
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score	6 (9)* ↓	 Likelihood
1. Control: Joint Executive Group (JEG). Assurance: Reports/Meeting Minutes. 2. Control: Health and Wellbeing Board. Assurance: Bi-monthly Reports/Meeting Minutes. 3. Control: Pioneer Programme Board. Assurance: Reports/Meeting Minutes. 4. Control: Corporate Delivery Board. Assurance: Monthly Reports/Meeting Minutes. 5. Control: Health Transformation Board. Assurance: Reports/Meeting Minutes.							
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	 Likelihood
1516CRA0601	Ensure that the Joint Health and Wellbeing Strategy is underpinned by effective action plans	Simon Leftley	30-Sep-2015	Latest performance monitoring report presented to Health and Wellbeing Board on 2 nd December.	✓	4	
1516CRA0602	Work with Southend Clinical Commissioning Group and partners to support Integrated Pioneer status	Simon Leftley	31-Mar-2016	Programme manager in place. Work streams in place to develop joint commissioning, integrated services and prevention and engagement. Joint Associate Director of Integrated Care Commissioning appointed. Action delivery monitored through Health and Wellbeing Board.	✓		
1516CRA0603	Better Care Fund (BCF)	Simon Leftley	31-Mar-2016	Pioneer Programme Board established Q4 14/15 to provide assurance that BCF is on track for delivery. All projects listed under the BCF plan are currently in scoping stage. On schedule to commence delivery in Q2 15/16. Section 75 agreement between council and CCG has been agreed and signed (31st March 2015); the Section 75 enables the creation of the BCF fund and facilitates the flow of funding.	✓		
1516CRA0604	Prepare to implement the 2nd phase of the Care and Support Bill (dependent on government policy)	Simon Leftley	31-Mar-2016	Continuing phase 1 implementation. Phase 2 postponed by government until 2019/20.	✓		

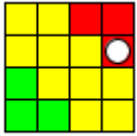
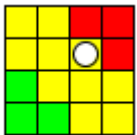
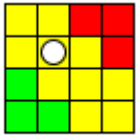
*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	7. Contract price inflation						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR07	Risk that construction related contract price inflation results in less resources to meet capital programme desired outcomes and further pressure on other council budgets.	Andrew Lewis	Strategic	Financial	9		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control: Contract price inflation clauses (linked to government indices) included within Highways contracts Assurance: Contract documentation 2. Control: Capital Projects Board Assurance: Reports/Meeting Minutes 3. Control: Corporate Delivery Board Assurance: Monthly Reports/Meeting Minutes 4. Control: Contract management arrangements Assurance: Contract documentation/minutes/meetings					4 (6)*	 Likelihood	
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
191516CRR0701	Introduction of Governance and Monitoring of new highway contracts to ensure proper management. Introduce new processes and workflows to support the management of these contracts.	Paul Mathieson	31-Mar-2016	New contracts in place since April 2015. New process being implemented and Symology has been updated accordingly. Transport Asset Management Plan agreed by Cabinet on 22 nd September.	✓	4	 Likelihood
1516CRR0702	Employ where appropriate professional cost advice on all major projects and update and refresh cost plans on regular basis.	Andrew Lewis	31-Mar-2016	Utilising in house expertise and conducting early contractor involvement. Call-off framework for cost consultation advice being utilised where required. Project variations reported to Corporate Delivery Board.	✓		
1516CRR0703	Continue to deliver the programmed replacement of old street lighting lanterns with new LED type	Paul Mathieson	31-Mar-2016	DfT Challenge fund award and Green Investment Bank 'invest to save' finance secured to accelerate delivery. Replacement programme on-going. Programme aims to reduce energy costs, reduce contract maintenance cost and reduce Carbon Tax through reduced carbon emissions. Works contracts in place and contract board set up to manage on-going programme. Tenders received for central management system and are being evaluated to appoint contractor by end of December	✓		

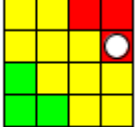
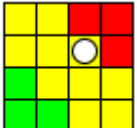
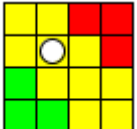
*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	8. Education and skills						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR08	Risk that failure to narrow the gap in results at secondary schools will result in a lack of appropriate skills of Southend pupils and undesirable levels of young people not in education, employment or training (NEET).	Simon Leftley	Strategic	Reputational	9		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control: Improving Learning Together Strategy in place with impact reviewed by Success for All Group Assurance: Report/Minutes. 2. Control: Partnership with South Essex Teaching School Alliance established Assurance: Reports/Minutes. 3. Control: Pupil Premium Strategy Group Assurance: Reports/Minutes. 4. Control: School Support Improvement Board Assurance: Reports/Minutes. 5. Control: Success for All Children Group Assurance: Bi-monthly meeting reports/Minutes.					6 (6)*		 Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRA0801	Review and revise the Improving Learning Together Strategy (including the System Leadership Strategy)	Dani Wade	31-Oct-2015	A School Improvement Peer Review was undertaken in November 2015 with a specific focus on a system leadership strategy. Recommendations from the Report will be shared with schools and form the basis of the revised Improving Learning Together Strategy.	✓	4	 Likelihood
1516CRA0802	Embed 'The Southend Challenge' to support schools to reach good or outstanding rating	Dani Wade	31-Mar-2016	Schools are now working well in their Southend Challenge Cluster. Watchsted cite currently 86.5% of Southend schools inspected are judged good and outstanding compared to 83.5% nationally and therefore there is pool of effective practice from which to draw.	✓		
1516CRA0803	Develop a specific project under The Southend Challenge aimed at supporting any secondary school current rated as inadequate	Dani Wade	31-Oct-2015	Two secondary schools (Chase and Cecil Jones) are now part of Multi Academy trusts and are no longer in local authority control. These schools are accountable to the DfE via the Regional Schools Commissioner. The third secondary school is part of the Ofsted Triad Project which involves Continuing Professional Development delivered by Ofsted Her Majesty's Inspector's and working with two other Southend secondary schools (Southend High School for Girls and Eastwood Academy) to evaluate and learn from best practice in each school.	✓		

*The figure in brackets represents current risk score from previous report, June 2015

Risk Title		9. Surface water flooding					
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR09	Risk that surface water flooding, due to overwhelmed drainage infrastructure, will result in damage to property and infrastructure as well as significant disruption.	Andrew Lewis	Strategic	Reputational, Financial	12		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control: Independently commissioned Flood Incident Reports considered by Cabinet as required Assurance: Reports/Meeting minutes. 2. Control: Gully cleaning programme in place with enhanced specification in high risk areas Assurance: Programme documents. 3. Control: Regular monitoring of Met Office weather alerts Assurance: Alerts/Reports					9 (9)*	↕	 Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRA0901	Repairs and Renewals Grant scheme implemented/administered	Richard Atkins; Keith Holden	18-Sep-2015	Work programme almost complete. 135 applicants were assisted as a result of the scheme.	✓	6	 Likelihood
1516CRA0902	Produce Local Flood Risk Management Strategy as required under the Floods and Water Management Act 2010	Richard Atkins	31-Mar-2016	Approved by Council	✓		
1516CRA0903	Communication with residents, property owners and businesses to increase awareness of flood risk and property protection measures	Richard Atkins; Keith Holden	31-Mar-2016	Repairs and Renewals grant communicated to all residents previous flooded and those at risk. Communications to be commenced to deal with 'riparian' ownership responsibilities. Additional information and guidance around flooding responsibilities and protecting property added to the council's website.	✓		
1516CRA0904	Jointly investigate with Anglia Water Services, possible improvements to drainage system.	Richard Atkins	02-Mar-2016	Investigation and modelling of existing system at Marine Parade and Victoria Road including potential improvements almost complete. Other flood risk sites to be investigated based on prioritised list from previous flood events. The Council has undertaken a series of drainage improvements following the extreme weather events of 2013/2014 which are detailed in the relevant flood incident reports which have been considered by Cabinet. Further flood incident report due at Cabinet in January 2016.	✓		

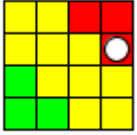
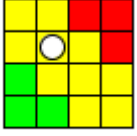
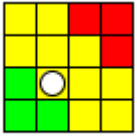
*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	10. Seafront cliff movement						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR 10	Risk that a seafront cliff movement will result in damage to property, transport dislocation and significant financial and reputational damage to the Council.	Andrew Lewis	Strategic	Reputational, Financial	12		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control Corporate Delivery Board Assurance: Monthly Reports/Minutes 2. Control Regular reporting to DMT Assurance: Reports/Minutes					9 (9)*		 Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRR 1001	Quantified Risk Assessment completed which prioritises areas of potential instability.	Richard Atkins	30-Sep-2015	Risk assessment completed. A detailed monitoring regime is being prepared which includes ground investigations at high priority area.	✓	6	 Likelihood
1516CRR 1002	Progress stabilisation work at Clifton Drive	Richard Atkins	31-Mar-2016	Stabilisation work underway. Work programme being monitored.	✓		

*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	11. Ofsted joint inspection							
Stage 1 - Risk without controls (Inherent risk)								
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score			
1516CRR 11	Risk that increased demand for child safeguarding services and on-going financial and partnership challenges results in a lower than anticipated Ofsted joint inspection rating.	Simon Leftley	Strategic	Reputational	9		 Impact Likelihood	
Stage 2 - Risk with Controls and Assurances (current risk)								
List of controls and associated assurances to ensure controls are working					Current risk score	6 (6)*	 Impact Likelihood	
1. Control – Ofsted Inspection Planning Group: Assurance: Report/Minutes. 2. Control – Inspection Preparation Plan monitored by Ofsted Inspection planning group: Assurance: Report/Minutes. 3. Control - Inspection Logistics Plan outlining key timelines/personnel: Assurance: Report. 4. Control – Monthly data set monitored by Departmental Management Team and senior managers: Assurance: Report/Minutes 5. Control – Head of Service is member of Police’s Gold Command advisory group: Assurance: Regular attendance at meetings.								
Stage 3 - Further actions to reduce the risk (target risk)								
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	3	 Impact Likelihood
1516CRR 1101	Conduct detailed performance analysis to identify areas for improvement using for example the Annual Safeguarding Report and Children and Young People Plan needs assessment.	John O'Loughlin	31-Mar-2016	Work on-going to identify areas for improvement building on the self-assessment. The Council commissioned a regional peer review which received positive feedback. An action plan is in place to take forward peer review recommendations.	✓			
1516CRR 1102	Conduct a detailed self-assessment against the inspection criteria	John O'Loughlin	31-Mar-2016	Self-assessment completed and regularly reviewed.	✓			
1516CRR 1103	Monitor the outcome for Local Authorities who have recently been inspected.	John O'Loughlin	31-Mar-2016	All published inspection reports from other authorities reviewed for key inspection criteria.	✓			

*The figure in brackets represents current risk score from previous report, June 2015

Risk Title	12. Department for Transport Challenge Fund						
Stage 1 - Risk without controls (Inherent risk)							
Code	Risk - CAUSE, EVENT, EFFECT	Risk Owner	Risk type	Risk category	Inherent risk score		
1516CRR 12	Risk that the failure to meet the requirements of the Department for Transport Challenge Fund will severely limit funding available to start or progress highway projects in the borough.	Andrew Lewis	Strategic	Financial	12		 Likelihood
Stage 2 - Risk with Controls and Assurances (current risk)							
List of controls and associated assurances to ensure controls are working					Current risk score		
1. Control – Highway/Footpath Assets Management inventory in place - Assurance: Reports 2. Control – Monthly progress reported to DMT and senior managers Assurance: Reports/Minutes 3. Control – Regular reporting to Capital Delivery Board Assurance: Reports/Minutes					6 (9)* ↓		 Likelihood
Stage 3 - Further actions to reduce the risk (target risk)							
Code	Actions to further mitigate risk / maximise opportunities	Action Owner	Due date	Comments / update on progress	RAG Status	Target risk score	
1516CRR 1201	Produce a new Highway Asset Management Plan to support the maintenance and improvement of the roads, pavements and street furniture across the Borough	Paul Mathieson	31-Mar-2016	Transport Asset Management Plan approved by Cabinet on 22 nd September 2015.	✓	4	 Likelihood
1516CRR 1202	Conduct detailed self-assessment to support Challenge Fund bid	Paul Mathieson	31-Mar-2016	Further work has evidenced that the Council is Band 2, which means no loss of funding for 2016/17. Work proceeding to move the Council to Band 3 by end of 2016/17.	✓		
1516CRR 1203	Complete Whole Government Account return (with Finance Dept)	Paul Mathieson	31-Mar-2016	Submission made for 2016/17 by due date. Work on-going to link Whole Government Account to Transport Asset Management Plan.	✓		

*The figure in brackets represents current risk score from previous report, June 2015

Southend-on-Sea Borough Council

Agenda
Item No.

5

Report of Corporate Director for Corporate Services
to
Audit Committee
on
20 January 2016

Report prepared by: Joe Chesterton
Head of Finance and Resources

Treasury Management Policy for 2016/17

Executive Councillor: Councillor Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To submit the treasury management policy for 2016/17 to Audit Committee for scrutiny before approval by Council as part of the annual budget process.

2. Recommendation

- 2.1 **That Audit Committee scrutinises and offers comments on the treasury management policy which comprises the following three documents:**

- **Treasury Management Policy Statement for 2016/17;**
- **Treasury Management Strategy for 2016/17;**
- **Annual Investment Strategy for 2016/17.**

3. Background

- 3.1 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 3.2 At its meeting of 13 January 2010 the Audit Committee agreed a report on the implementation of the revised CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice. One of the recommendations of the code is that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority.

- 3.3 Audit Committee agreed that the Council nominate it to be responsible for ensuring effective scrutiny of the treasury management policy.
- 3.4 At its meeting of 25 February 2010 Council amended the terms of reference of the Audit Committee to include scrutiny of the treasury management policy. From April 2010 onwards, the Audit Committee has been responsible for ensuring its effective scrutiny.
- 3.5 Since its approval by Council in February 2015 it has been necessary to revise the Annual Investment Strategy for 2015/16. The revisions were discussed with our Treasury Management advisers to ensure that the strategy remains a workable and practical document. These changes were approved by Cabinet at its meeting of 23 June 2015 and are outlined below:
- A counterparty will be considered for investment if it meets the ratings criteria of at least one of the ratings agencies rather than the lowest rating of all three agencies being taken;
 - The credit ratings matrix has been amended in light of the regulatory changes;
 - With the Lloyds Banking Group no longer considered as part nationalised for the purposes of the credit ratings matrix and as no material changes are expected to the level of Government ownership of the Royal Bank of Scotland Group for some time, the maximum length of investment for part nationalised banks has been set at two years.
- 3.6 In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management policy comprises:
- the Treasury Management Policy Statement;
 - the Treasury Management Strategy;
 - the Annual Investment Strategy.
- 3.7 The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk. The Treasury Management Policy Statement for 2016/17 is attached as **Appendix 1**.
- 3.8 The purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring. The Treasury Management Strategy for 2016/17 is attached as **Appendix 2**.
- 3.9 The purpose of the Annual Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties. The Annual Investment Strategy for 2016/17 is attached as **Appendix 3**.

- 3.10 Appendices 1, 2 and 3 together form the treasury management policy and are used on a daily basis for the effective running of the treasury management function.
- 3.11 In response to the on-going economic and financial market conditions, and in consultation with our treasury management advisers, the treasury management policy has been updated for the 2016/17 financial year. The changes from the revised 2015/16 policy are shown in **Appendix 4**.
- 3.12 The policy and strategy documents are written in order to provide officers and advisers with clear boundaries within which to work but as a result they are written using technical language. Treasury management training has been offered to all councillors to aid understanding of the issues and further training will be available in the future.

4. Corporate Implications

4.1 Contribution to Council's Vision & Critical Priorities

The Treasury Management Strategy sets out how the financing costs as part of the Medium Term Financial Plan may be achieved. The treasury management policy together with the prudential indicators, acknowledge how effective treasury management will provide support towards the achievement of the Council's Vision and Critical Priorities.

4.2 Financial Implications

The financial implications of the proposed capital programme will be considered in the forthcoming budget reports to Cabinet. Other financial implications are dealt with throughout this report.

4.3 Legal Implications

Compliance with the relevant regulations and codes of practice has been considered throughout this report.

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

The key treasury management decisions are taken in consultation with our treasury management advisers.

4.7 Equalities and Diversity Implications

None

4.8 Risk Assessment

The treasury management policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

4.9 Value for Money

Treasury management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

5.1 None.

6. Appendices

6.1 Appendix 1 – Treasury Management Policy Statement 2016/17

6.2 Appendix 2 – Treasury Management Strategy 2016/17

6.3 Appendix 3 – Annual Investment Strategy 2016/17

6.4 Appendix 4 – Changes from the revised 2015/16 Treasury Management Policy

SOUTHEND-ON-SEA BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT 2016/17

1 Background

- 1.1 The purpose of this statement is to outline the Council's treasury management policy.
- 1.2 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities:
 - Adopt the CIPFA code
 - Create and maintain both a Treasury Management Policy Statement and suitable Treasury Management practices
 - Appoint an officer to whom Treasury Management is delegated
 - Submit reports regularly
- 1.3 Cabinet approved adoption of the CIPFA code of Practice for Treasury Management at its meeting on 12 February 2002. CIPFA published the revised Code of Practice for Treasury Management on 27 November 2009, the implementation of which was the subject of a report to Audit Committee submitted to its meeting of 13 January 2010.
- 1.4 There is a requirement in the revised code that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority, and should be monitored regularly.
- 1.5 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 1.6 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management policy, before approval by full Council as part of the approval of the budget.
- 1.7 The Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) is the person responsible for the treasury management function.
- 1.8 The revised code requires that, as a minimum, reporting should include an annual strategy in advance of the year, a mid-year review and an annual report after its close. The reporting and scrutiny of the strategy and policy are dealt with above. Reports on the activities of the treasury management function will be submitted to Cabinet quarterly. One such report will comprise an annual report for presentation before

31 July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

2 Duration of the Policy Statement

2.1 This Treasury Management Policy Statement covers the 2016/17 financial year.

3 Scope of the Treasury Management Function

3.1 The Council defines its treasury management activities as:

- the management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities;
- the pursuit of optimum performance consistent with those risks.

3.2 The 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 Council.

3.3 The 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 best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

4 Use of a treasury management adviser

4.1 The services of a treasury management adviser, Capita Asset Services, will be used throughout 2016/17 to assist the Council to develop and enhance the performance of the treasury management function.

4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.

4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

5 Funding requirements for the capital programme

5.1 The following methods of funding have been identified as being available to the Council for use in 2016/17:

- Borrowing;
- Use of capital receipts - from the sale of surplus assets;
- Use of Government Grants – e.g. Local Transport Plan, or the Major Repairs Allowance in the Housing Revenue Account;
- Other external contributions – e.g. Section 106 agreements;.
- Revenue funding – transferred from the Revenue Account

5.2 No additional funding source will be used without the agreement of the Cabinet.

6 Limits on external borrowings

6.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

6.2 The table below shows the operational boundary and authorised limits for borrowing for 2015/16 and 2016/17:

	2015/16 Original £m	2015/16 Revised £m	2016/17 Original £m
Operational boundary	270	260	285
Authorised limit	280	270	295

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998. These limits and other borrowing figures throughout these appendices reflect the capital programme as approved by Cabinet on 10 November 2015, and include any proposed new capital bids being considered as part of the 2016/17 budget process. The Treasury Management policy will be amended accordingly in line with the final Cabinet proposals for the Council budget meeting on 25 February 2016.

7 Policy on sources and types of long term borrowing

7.1 The Council's long term borrowing (i.e. for more than one year) for 2016/17 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local authorities and other prescribed bodies) or from banks, building societies or other financial institutions as appropriate.

- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 The PWLB is usually the most economic source available to the Council. Following the Spending Review in October 2010, interest on PWLB loans were increased to 1 per cent above UK government gilts. However, on 1 November 2012 HM Treasury implemented a 'certainty rate' at a discount on that level of 0.2% on loans for those local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This Council provided the necessary information and is therefore eligible for this 'certainty rate'.
- 7.5 The Autumn Statement in 2012 announced that the Government would make available a new concessionary public works loan rate to support strategic local capital investment projects. The PWLB project rate at 0.4% below the standard rate (across all loan types and maturities) became available from 1 November 2013. The Government is asking each Local Enterprise Partnership to work with Local Authorities in their area to agree which projects should benefit from the cheaper borrowing rate. HM Treasury has approved Southend's application to borrow at the project rate for specified projects only.
- 7.6 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.

8 Timing of new borrowing

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans during 2016/17 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital programme.

9 Debt restructuring policy

- 9.1 Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a

premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.

- 9.2 Similarly, some of the Council's borrowings can be at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.
- 9.3 The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of an overall budget strategy. The advice of our treasury management advisers would be sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

10 Investments

- 10.1 See the Annual Investment Strategy.

11 The approved activities of the Treasury Management operation are as follows:

- Risk management;
- Cash flow management (daily balance and longer term forecasting);
- Investing surplus funds in approved investments;
- Use of brokers for placing investments;
- Investing surplus funds with external fund managers;
- Long term borrowing to fund the capital programme;
- Short term borrowing for cash flow purposes;
- Management of debt (including repayment and rescheduling);
- Capital receipts management;
- Leasing arrangements for the Council (including schools);
- Banking activities;
- Training for members and officers;
- Prevention of money laundering.

12 Responsibility for the treasury management function

- 12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Head of Finance and Resources), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.
- 12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.
- 12.3 Officers are required to explicitly follow policies and procedures.
- 12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

13 Risks

- 13.1 The overriding principle is that it is more important to balance risks than to maximise returns.

Credit and Counterparty risk

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return.
- 13.3 Accordingly investment activities are limited to the instruments, methods and techniques referred to in the Annual Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflects a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of the part-nationalised banks and the Council's bank, and then limited by other relevant market information.
- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Investment Strategy.

Liquidity risk

- 13.5 This is the risk that there will be insufficient cash available to make payments as they fall due. The Chief Finance Officer will ensure that cash resources are adequate, though not excessive, and that

borrowing arrangements are available at all times to enable the Council to achieve its business objectives.

Interest Rate risk

- 13.6 Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.
- 13.7 Regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

Partnership risk

- 13.8 There are currently no major partnerships involving private borrowing. Some of the Council's costs are met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be liquidity risk (see 13.5) if the other organisations do not make their contributions when agreed. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

Market risk

- 13.9 Our long term borrowing is mainly through fixed rate maturity loans, whilst our investments are at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

Refinancing risk

- 13.10 Our borrowing arrangements are negotiated, structured and documented, and the maturity profile of these monies are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Production of a Treasury Policy Statement each year for approval by the Cabinet prior to the start of the financial year	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning & Control)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning & Control)
Advising the Council's Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Deputy Section 151 Officer
Decisions on the restructuring of the Council's debt	Chief Finance Officer	Deputy Section 151 Officer
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning & Control)	Chief Finance Officer/ Deputy Section 151 Officer
Maintaining adequate and effective cash flow forecasting records to support the decision to lend or borrow	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant

36

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Proposals on placing overnight monies with the Council's bank or in short/long term investments	Financial Accountant (Capital & Treasury Management)	Designated Accounting Technician/Financial Accountant
Approval of short/long term investments	Chief Finance Officer	Director of Corporate Services/Deputy Section 151 Officer
Placing money in investments once approval has been obtained – other than with the Council's bank	Financial Accountant (Capital & Treasury Management)/ other designated Finance Business Partner/ Senior Finance Business Partner	Group Manager (Financial Planning & Control)
Contact for correspondence with external fund managers	Financial Accountant (Capital & Treasury Management)	Other designated Accounting Technician/Finance Business Partner
Placing with or recalling monies from external fund managers	Chief Finance Officer	Deputy Section 151 Officer
Entering into lease agreements	Chief Finance Officer	Deputy Section 151 Officer
Key contact with the Council's treasury management advisers	Group Manager (Financial Planning & Control)	Financial Accountant (Capital & Treasury Management)
Monitoring of actual against budget for debt charges, interest earnings and debt management expenses	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monitoring of performance; average interest rates earned and paid etc.	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monthly report to section 151 officer detailing performance and any non-compliance with the Treasury Management Policy	Financial Accountant (Capital & Treasury Management)	Designated Accounting Technician/Financial Accountant

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL
TREASURY MANAGEMENT STRATEGY 2016/17

1. Introduction

- 1.1 The Treasury Management Strategy is written in compliance with the CIPFA Treasury Management Code of Practice requirement to review and report policy and strategy before the start of the year. This has been revised following publication of the revised Code of Practice.
- 1.2 The Treasury Management Strategy sets out how the financing costs may be achieved. It needs to be regularly monitored and modified in the light of changing external and internal circumstances.
- 1.3 The objective of the strategy is to optimise the income generated by surplus cash and minimise borrowing costs, consistent with a low level of risk, maintaining capital sums and maintaining liquidity.

2. The Council's Budget

- 2.1 The budget includes provision for the financing costs of the Council's Capital Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances will be finalised as part of the Council's approved budget for 2016/17.

3. The Council's Cash Surplus and Cash Flow

- 3.1 It is projected that surplus cash balances will average £85m (of which £60m is illiquid and of that £35m is managed by fund managers) during 2016/17 based on information currently available and historical spending patterns.

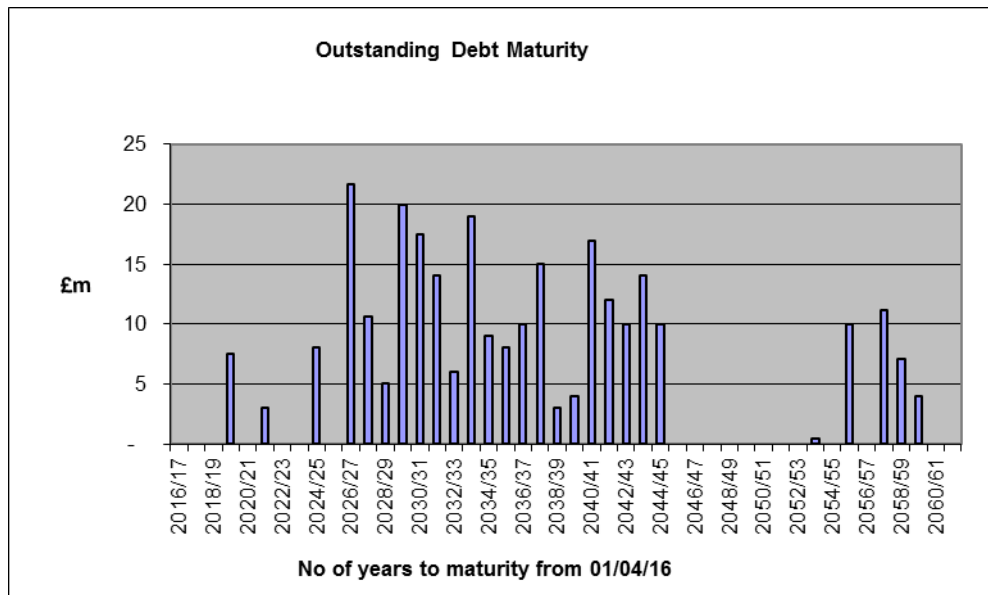
4. Interest Earnings (excluding property funds)

- 4.1 At the date of this report, the Bank of England base rate was 0.50%. Based on economic forecasts it is very difficult to predict the timing of any increase in interest rates, however it has been assumed that during 2016/17 the bank base rate will increase to possibly 0.75% to 1.0%. The average interest earned by the Council on its in-house lending is likely to be 0.86% but this does depend on market conditions.
- 4.2 Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £376k in external interest earned and a difference of £1m in average balances would make a difference of £9k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Head of Finance and Resources.

5. Long Term Borrowing

- 5.1 Since 1 April 2004 there has been no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will undertake borrowing in 2016/17 of £29m, £10m of which relates to invest to save schemes. The revenue impact of this borrowing is funded in the Revenue Budget proposals. As an indicative guide to this revenue impact, there is a cost of approximately £80k for every £1m borrowed.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
 - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
 - 3 - borrowing for future increases in the CFR (borrowing in advance of need)
- The Council is likely to begin 2016/17 in the second of the above scenarios. However, as the 2016/17 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.
- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current capital programme or to finance future debt maturities.
- 5.5 So far in 2015/16 no new PWLB loans have been taken out.

- 5.6 At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance 'invest to save' finance from the Green Investment Bank (GIB). The balance outstanding at 31 December 2015 was £1.66m.
- 5.7 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2016) which will need to be repaid:
- | | |
|---|---------------|
| • Southend-on-Sea Borough Council - GF | £ 153m |
| • Southend-on-Sea Borough Council – HRA | £ 78m |
| | <u>£ 231m</u> |
| • ECC transferred debt | £ 13.1m |
- 5.8 New loans in 2016/2017 are estimated at:
- | | |
|---|-------|
| • Southend-on-Sea Borough Council - GF | £ 29m |
| • Southend-on-Sea Borough Council - HRA | £ 0m |
| • ECC transferred debt | £ 0m |
- 5.9 Repayments in 2016/2017 are estimated at:
- | | |
|---|--------|
| • Southend-on-Sea Borough Council - GF | £ 0m |
| • Southend-on-Sea Borough Council - HRA | £ 0m |
| • ECC transferred debt | £ 0.6m |
- 5.10 The Council's current outstanding loans for both General Fund and Housing Revenue Account, (estimated as at 31 March 2017) which will need to be repaid:
- | | |
|---|---------------|
| • Southend-on-Sea Borough Council - GF | £ 182m |
| • Southend-on-Sea Borough Council – HRA | £ 78m |
| | <u>£ 260m</u> |
| • ECC transferred debt | £ 12.5m |
- 5.11 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County.
- 5.12 The graph on the next page shows the repayment profile of the Council's PWLB borrowings if all new loans are included to reflect the funding of the proposed capital programme and the refinancing of debt.



It shows the gaps in the repayment profile and that there is no one year where the loan maturities are excessive.

The next maturity date of any PWLB debt redemption is September 2019 and is for a sum of £7m (General Fund: £5m, Housing Revenue Account (HRA): £2m).

- 5.13 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice in 2015 from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.14 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.15 As at 11 December 2015 rates of borrowing (from the PWLB) were between 3.27% and 3.33% for loans between 20 and 30 years. During 2016/17 the investment and borrowing interest rates will be kept under review and the further use of capital balances will be considered in lieu of new borrowing where this is advantageous.
- 5.16 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.12 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range of periods in order that the Council continues to balance its debt profile

over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement.

6. Monitoring and Review Arrangements

6.1 During 2016/17, within 7 working days of each month end, the Section 151 Officer receives a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:

- (i) all transactions being properly authorised
- (ii) all transactions being with approved counterparties
- (iii) all transactions being in accordance with the Council's approved policy
- (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile)
- (v) in-house investment performance against 7 day LIBID
- (vi) investment performance against benchmark for external fund managers for the relevant period

6.2 In addition to the monthly reports:

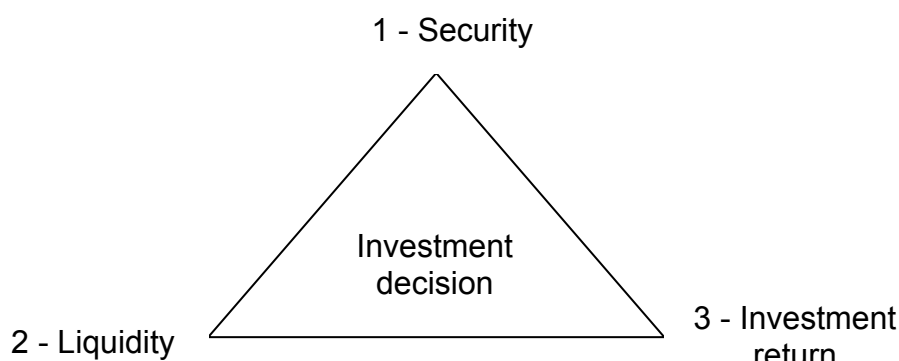
- (i) monitoring reports will be included in the regular Performance Monitoring report
- (ii) any changes affecting the treasury management strategy will be reported to Audit Committee for scrutiny and Cabinet for recommending to Council for approval.

6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL**REVISED ANNUAL INVESTMENT STRATEGY 2016/17****1 Investment Objectives**

- 1.1 To secure the principal sums invested
- 1.2 To maintain liquidity (i.e. adequate cash resources)
- 1.3 To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk
- 1.4 Security and liquidity are placed ahead of the investment return. This is shown in the diagram below:

**2 Policy on use of external fund managers**

- 2.1 The Council currently uses one fund manager, Aberdeen Asset Management. The fund is estimated to have an average of £23m in 2016/17. This money is placed with the fund manager to invest on our behalf, to use their knowledge and experience with a balance of monies that is, under normal circumstances, not required for day to day cash flow purposes.
- 2.2 Withdrawals may be made during 2016/17 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2016/17 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.

- 2.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2016/17 to enable investment of monies.
- 2.4 During 2016/17, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital programme would be submitted to Cabinet for approval.

3 Policy on investment of in-house managed funds

- 3.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.
- 3.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.
- 3.3 Guidance from the Communities and Local Government (CLG) department recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of in-house investment and whether they are specified or non-specified are set out in Annex A.
- 3.4 During 2016/17 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of credit ratings, and having regard to other market information available at the time.
- 3.5 During 2016/17 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office.
- 3.6 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.
- 3.7 During 2016/17 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.

- 3.8 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other Local Authorities through the use of a broker. Investments in Certificates of Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.
- 3.9 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A.
- 3.10 The services of our treasury management adviser, Capita Asset Services, will be used throughout 2016/17 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

4 Investment Criteria for Funds Managed In-house

- 4.1 All financial institutions considered for investment will be assessed for credit worthiness against a combined matrix of pre determined criteria using available credit ratings. Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations. Credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested.
- 4.2 The credit rating components used in the matrices comprise:
- Short term ratings;
 - Long term ratings.

Ratings provided by all three credit rating agencies will be consulted and a counterparty will be considered for investment if it meets the ratings criteria of at least one of the agencies.

- 4.3 The short term rating covers obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. All three credit rating agencies provide short term ratings. The ratings are expressed from F1+ (highest credit rating) through to D (highest default risk) for Fitch, from A-1+ (highest credit rating) through to D (highest default risk) for Standard and Poors, and from P-1 (highest credit rating) through to NP (highest default risk) for Moody's.
- 4.4 The long term ratings generally cover periods in excess of one year. Due to the larger time horizon over which the rating is determined, the emphasis shifts to the assessment of the ongoing stability of the institution's prospective financial condition. All three credit rating agencies provide long term ratings. The ratings are expressed from AAA (highest credit rating) through to D (highest default risk) for Fitch and Standard and

Poors and from AAA (highest credit rating) through to C (highest default risk) for Moody's.

4.5 In order to balance the objective of securing the maximum level of return on investments with a prudent level of risk a matrix of criteria will be adopted as a starting point to determine the acceptability of a potential investment.

4.6 These matrices are set out below:

If the short and long term ratings meet the following criteria from a minimum of one of the ratings agencies:

For Lending of up to 6 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

For Lending of up to 12 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

For Lending of up to 3 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

For Lending of up to 5 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1+	A-1+	P-1
Long term rating minimum	AA+	AA+	Aa1

4.7 An example of the use of this credit ratings matrix as at 8 December 2015 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moodys).

Financial Institution	Long Term Rating	Short Term Rating	Maximum length of investment
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	5 years
Royal Bank of Canada	AA AA- Aa3	F1+ A-1+ P-1	3 years
Lloyds Bank Plc	A+ A A1	F1 A-1 P-1	12 months
National Westminster Bank Plc	BBB+ BBB+ A3	F2 A-2 P-2	Initially fails investment criteria

4.8 The Council's treasury management advisers, Capita Asset Services, will continually review the appropriateness of our investment criteria and continue to develop a best practise counterparty list. The latest advice has now been incorporated in this Strategy, which is set out below.

4.9 The individual ratings for some banks and building societies are low which means that they do not meet the criteria in our credit ratings matrix. However, this does not take account of part nationalised bank. This bank can be included in the counterparty list if it continues to be part nationalised or it meets the criteria of our credit ratings matrix or the criteria in paragraph 4.10. An example of the institutions meeting the criteria for the UK will therefore include:

- Bank of Scotland Plc
- Lloyds Bank Plc
- The Royal Bank of Scotland Plc
- National Westminster Bank Plc
- Barclays Bank Plc
- HSBC Bank Plc
- Nationwide Building Society
- Santander UK Plc

For example, National Westminster Bank Plc fails the investment criteria of the credit ratings matrix but is a part nationalised bank and would therefore be added back to the counterparty list. Counterparties that are manually added back to the list will have a maximum length of investment of two years. Amendments to the counterparty list can happen at any point in time.

- 4.10 In addition, for practical purposes the Council's bank will form part of the counterparty list, whether or not it meets the criteria in our credit ratings matrix.
- 4.11 Regard will be given to forward looking rating warnings (i.e. rating watches and outlooks) provided by our treasury management advisers.
- 4.12 The current advice from the Audit Commission is not to rely solely on the credit rating agencies and the Council recognises that ratings should not be the sole determinant of the quality of an institution. So regard will also be given to market information such as the financial press, and officers will engage with their advisers to maintain a monitor on market pricing (such as share and 'credit default swap' prices) and other such information pertaining to the banking sector. Where available credit information, other than credit ratings has been used, this will be documented when the investment decision is made.
- 4.13 Consideration will also be given to Capita Asset Services' rating methodology approach, where counterparties are put into bands of risk. These reflect the differences in credit quality of suggested duration and counterparties are assigned a risk number/colour.
- 4.14 The achievement of an appropriate balance between short-term and longer-term deposits will be driven by the credit quality of counterparties, the council's cash flow requirements, and the need to achieve optimum performance from our investments consistent with effective management of risk.

5 Investment Limits for Funds Managed In-house

- 5.1 The ratings agencies produce a credit rating for each country, called a sovereign rating. The ratings are expressed from AAA (highest) to D (lowest). The following limits have been set for an investment with a bank or building society whose parent company is registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1. Sovereign ratings provided by all three credit rating agencies will be consulted and the lowest rating will be taken.

Country Sovereign Rating	Limit * All except UK (£ million)
AAA/Aaa	20
AA+/Aa1	5
Lower than AA+/Aa1	0

* These limits relate to the principal sums invested and do not include any accrued interest on that principal.

- 5.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.

- 5.3 Fitch have downgraded the UK's sovereign rating to AA+. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.
- 5.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.
- 5.5 £20 million is 4.8% of the authority's estimated 2015/2016 gross revenue expenditure of £418m. £5m is slightly more than 1% of the estimated gross revenue expenditure.
- 5.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:
- consider the country in which the parent company of the bank or building society is registered
 - use the sovereign rating of that country to apply the limits above
 - consider the cumulative balance of funds already held in various investment products with that bank or building society
 - consider the cumulative balance of funds already held in various investment products for any related group of financial institutions
 - determine the remaining amount that can be placed with that bank or building society

For example, the limit on an investment with Lloyds Bank Plc would be determined in the following way:

Steps to determine limit: <i>(for illustrative purposes only and not an indication of actual investments)</i>	Remaining limit available at each stage:
Lloyds Bank Plc is part of the Lloyds Banking Group which is registered in the UK	£20 million
£4 million already placed in an instant access account with Lloyds Bank Plc	£16 million
£5 million already placed in a fixed term deposit with Lloyds Bank Plc	£11 million
£6 million already placed in a notice account with Bank of Scotland Plc (part of the Lloyds Banking Group)	£5 million
Therefore the maximum investment would be £5 million	

- 5.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cashflow.
- 5.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAM rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.
- 5.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.
- 5.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.
- 5.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.
- 5.12 The limit on deposits with other Local Authorities will be £40 million which is 9.6% of the authority's estimated 2015/2016 gross revenue expenditure of £418m. These deposits will have a maximum duration of 5 years.

6 Fund Managers investment criteria

- 6.1 Investments undertaken by external fund managers on behalf of the Council can only be placed in certain types of investment as permitted under the Local Government Act. The types of investment, counterparties and limits used by each fund manager are set out in their Investment Management Agreement.
- 6.2 The Council's Section 151 Officer is authorised to amend these Investment Management Agreements as appropriate to reflect the needs of the Council, after fully considering the options and their associated risk and in consultation with the Council's treasury management advisers. Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a mixed asset fund.
- 6.3 The limit on deposits in Property Funds will be £20 million with any one fund that passes the selection process.

Type of Investment	Individual Counterparty	Limit	Method of placement	Specified/non-specified
Deposit accounts	Bank or building society that meets the criteria of our combined matrix of credit ratings, or one of the part nationalised banks or building society	Per bank or building society, based on country sovereign rating	Directly or through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Fixed term deposits			Directly or through a broker	
Certificates of sterling cash deposits			Custodian account	
Money Market Funds	AAAm rated* (or equivalent) liquidity fund	Per fund	Directly or via an on-line site for managing money market funds	Specified
Property Funds	Via selection process	Per fund	Directly or through a broker	Non-specified (more than 1 year)
Term repurchase arrangements	AAAf/S1 rated#	Per fund	Directly	Specified (if 1 year or less), Non-specified (if more than 1 year)
Other Local Authorities	Depends on which Local Authorities want to borrow money at that time	For total invested with other Local Authorities	Through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Debt Management Office	UK Government	For total invested with UK Government	Directly	Specified
Treasury Bills			Custodian account	

* A fund with a principal stability rating of 'AAAm' (or equivalent) has an extremely strong capacity to maintain stability and to limit exposure to losses of the principal sums invested due to credit, market and/or liquidity risks.

A fund with a credit quality rating of 'AAAf' has a portfolio holding that provides extremely strong protection against losses from credit defaults. A fund with a volatility rating of S1 possesses low sensitivity to changing market conditions.

This table is subject to change as new products are added as deemed appropriate – see paragraph 5.8.

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL

CHANGES FROM THE REVISED 2015/16 TREASURY MANAGEMENT POLICY

Change	Appendix	Paragraph
Financial Accountant/Group Accountant changed to Finance Business Partner/Senior Finance Business Partner to reflect changes in job titles.	1	Annex 1
<p>The paragraph on new fund managers has been updated as follows:</p> <p><i>On consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2016/17 to enable investment of monies.'</i></p>	3	2.3
<p>The following paragraph has been moved from section 3 to section 2:</p> <p><i>'During 2016/17, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital programme would be submitted to Cabinet for approval.'</i></p>	3	2.4
<p>In order to provide greater flexibility for Fund Manager Investment, the following sentence has been added:</p> <p><i>'Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a mixed asset fund.'</i></p>	3	6.2

<p>The following paragraph has been moved from section 5 to section 6:</p> <p><i>'The limit on deposits in Property Funds will be £20 million with any one fund that passes the selection process.'</i></p>	3	6.3
<p>For Money Market Funds the words <i>'(or equivalent)'</i> have been added to the individual counterparty column. AAAM is a rating from the Standard & Poors, this change is to allow the equivalent ratings from the other two main credit rating agencies (Fitch and Moodys) to be used if appropriate.</p>	3	Annex A

Southend-on-Sea Borough Council

Agenda
Item No.

6

Report of Corporate Director for Corporate Services
to
Audit Committee
on
20 January 2016

Report prepared by: BDO External Auditor

BDO: Progress Report to Those Charged with Governance

Executive Councillor – Councillor Ron Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To report on progress in delivering the 2014/15 and 2015/16 Annual Audit Plan.

2. Recommendation

2.1 The Committee accepts progress made in delivering the Annual Audit Plans for 2014/15 and 2015/16.

3. Background

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

4. Corporate Implications

4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

4.2 Financial Implications

This audit work will be delivered within the agreed audit fee for 2014/15 and 2014/15.

4.3 Legal Implications

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

4.4 People and Property Implications

None

4.5 Consultation

The planned audit work has been discussed and agreed with the Corporate Director for Corporate Services and the Head of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the Code of Audit Practice.

4.8 Value for Money

Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Progress Report to Those Charged with Governance

SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

January 2016



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2014/15 and 2015/16 audit.

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

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

We are also required to certify specified grant claims and returns.

2014/15 Annual Audit Plan - progress summary as at 12 January 2016

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	Planning Letter 2014/15 Reported to the Audit Committee in June 2014. Audit Plan 2014/15 Reported to the March 2015 Audit Committee meeting.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2015.	Work is complete.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2015.	Work is complete.	Final Report to the Audit Committee Reported to Audit Committee on 30 September 2015. Opinion on the financial statements Opinion issued on 30 September 2015.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline 2 October 2015.	Work is complete. The final DCT was not provided until the 30 September as a result the DCT was submitted late.	Opinion on the WGA Consolidation Pack Opinion issued on 11 November 2015.
Use of resources	Review of use of resources based on: <ul style="list-style-type: none"> proper arrangements in place for securing financial resilience proper arrangements for challenging how the Council secures economy, efficiency and 	Work is complete.	Results reported in the Annual Governance Report to Audit Committee on 30 September 2015. VFM conclusion VFM conclusion Opinion issued on 30 September 2015.

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	effectiveness. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.		
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2015.	Final report agreed.	Annual Audit Letter Issued by the 31 October deadline. Being reported to the Audit Committee on 20 January 2015.
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2015 deadline.	Work is complete.	Housing Benefit grants claim certified in line with the deadline.
Non Audit Commission grants and returns	To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims by the deadline. Deadline is 30 November 2015.	Work is complete.	Teachers' Pension grants claim certified in line with the deadline. There was a delay in certification of the Housing Pooled Capital Receipts Grant claim due to problems with the Logasnet system. This meant that auditors were unable to certify by the deadline.
Grants Report	Summary of our certification work completed on 31 March 2015 claims, to be issued by February 2016.	Report being drafted.	Grants Report to those charged with governance to be issued by February 2016.

62

2015/16 Annual Audit Plan - progress summary as at 12 January 2016

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	Planning Letter 2015/16 Reported to the Audit Committee in June 2015. Audit Plan 2015/16 Target issue date March 2016.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2016.	Start date agreed.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2016.	Start date agreed.	Final Report to the Audit Committee Target issue date September 2016. Opinion on the financial statements Target issue date September 2016.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline not yet finalised – expected to be early October 2016.	Start date to be agreed.	Opinion on the WGA Consolidation Pack Target date October 2016.
Use of resources	New approach for VFM Conclusion: One criteria:	Start date to be agreed.	Final Report to the Audit Committee Target issue date September 2016.

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2016.</p>		<p>VFM conclusion Target issue date September 2016.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	This will follow completion of the Audit.	<p>Annual Audit Letter Target issue date October 2016.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Start date to be agreed.	Housing Benefit grants claim and return to be audited by 30 November 2016 deadline.
Non Audit Commission grants and returns	<p>To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline.</p> <p>Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2016.</p> <p>Housing Pooled Capital Receipts: Deadline TBC.</p>	Start date to be agreed.	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return to be audited by the deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2017.

Appendix A: Action Plan

Summary of progress with implementing audit recommendations

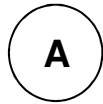
This report is intended to provide the Audit Committee with an update of the progress that the Council has made in implementing our recommendations.

We have received an update on progress from management and assessed whether the action taken by the Council addresses the expectations of the recommendation. This is included as a “RAG” assessment in the report with the following definitions:



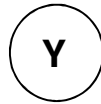
NC&O

Not completed and
overdue



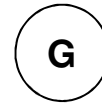
NCNYD

Not yet completed, but
not yet due



CNYC

Reported as
completed, but not yet
checked



CCIP

Completed and
confirmed in place

2011/12 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations 2011/12	Management responses	Responsibility	Timing	Latest management update	RAG status
Internal controls						
<p>1. Reconciliations Our audit work identified that the bank and payroll reconciliations were not being completed on a monthly basis. This resulted in a delay in receiving the year end reconciliations for these areas and adjustments being required to be made to the financial statements as a result.</p> <p>We also identified that, since the implementation of Agresso, Officers have not been utilising the reconciliation / checks between the feeder modules as the system intends. Instead manual reconciliations were being used.</p>	<p>Ensure that all reconciliations are completed on a monthly basis and that the year end reconciliations are completed in time for the closure of the 2012/13 financial statements.</p> <p>Ensure that reconciliations within the Agresso system are completed as the system intended, making use of the automated reconciliation controls within the system.</p> <p>We are aware that significant progress has been made by management into this recommendation and we have received balancing bank reconciliation of the year end 31 March 2015 during September 2015 which has yet to be subject to audit.</p>	<p>Agreed.</p> <p>We are working towards that position, however there needs to be changes to systems outside of Agresso so that the cashbook information can be disaggregated in a way that enables automated reconciliation. Until automation can be successfully enabled, reconciliations will continue to be manually compiled.</p>	<p>Caroline Fozzard (Group Manager - Financial Planning & Control)</p>	<p>June 2016</p>	<p>January 2016:</p> <p>A lot of work has been done in this area with an upgrade to the cash receipting system and the implementation of the bank reconciliation module in Agresso to enable the bank reconciliations to be completed within the system. Significant progress has been made with catching up the backlog of monthly reconciliations and so the year-end reconciliations will be completed in time for the closure of the statement of accounts in line with normal timescales.</p>	<p>G CCIP</p> <p>Y CNYC</p>

66

2012/13 GRANTS RECOMMENDATIONS

Conclusions from work	Recommendations 2012/13	Management responses	Responsibility	Timing	Latest management update	RAG status
HOUSING AND COUNCIL TAX BENEFIT SUBSIDY						
A number of errors were identified during our testing on the input of income and the classification of overpayments.	Carry out regular checking of a number of claims to ensure that: <ul style="list-style-type: none"> Income has been input correctly. Overpayments have been correctly classified. 	Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked	Asst Benefit Managers	Implemented January 2014	January 2016: Checking continues to be carried out on earned income as this remains an area with a high potential for errors to occur.	G CCIP ¹
		Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.	Team Leaders & Asst Benefit Manager	Implemented January 2014	High value Admin delay overpayments continue to be checked. Management are discussing ways that checking on this area can be made more effective	G CCIP ²
Our testing identified a number of uncashed cheques that should not have been included in Cell 179 as they had not been stopped during 2012/13.	Review a sample of uncashed cheques included within cell 179 to ensure that they are appropriately included in this cell.	Agreed will be added as a task for the QA team.	Asst Benefit Manager & Quality Assurance Team	June 2014	January 2016: All uncashed cheques were reviewed. There were a number of cases that could not be reconciled due to their complex nature and one error. A full review of all uncashed payments will be made after April 2016 to ensure that all payments are reconciled prior to the next audit.	G CCIP ³



¹ Reduced number of errors in respect of earned income in qualification letter – satisfied implemented this part of recommendation.

² We are satisfied that checks are in place however a number of errors were identified during the audit of the 2014/15 claim form. As a result management are revisiting this process. This recommendation will therefore remain.

³ Although checking was undertaken during the audit for the 2014/15 grant claim errors were still identified. This recommendation will therefore remain.

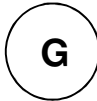

67

2013/14 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations 2013/14	Management responses	Responsibility	Timing	Latest management update	RAG status
WHOLE OF GOVERNMENT ACCOUNTS						
The management review checklist was not completed on a timely basis.	Complete the management review checklist before the submission of the WGA to the DCLG. Provide this to the audit team when the WGA is submitted. Include the key milestones for the WGA within the closedown timetable, ensuring that this includes the completion of the management review checklist.	Agreed	Ian Ambrose Group Manager – Financial Management	March 2015	January 2016: Complete	 CCIP
There were a number of instances where it was difficult to reconcile the WGA to the accounts. It was time consuming for the audit team to establish why these differences occurred.	Ensure that all numbers in the WGA agree to the draft accounts approved by the S151 Officer before submission to the DCLG. Provide a list of all differences which are identified as a result of mapping at the start of the audit. Where the information required for the WGA is not derived directly from the accounts ensure that supporting documentation is provided. Where relevant ensure that the analysis	Agreed	Ian Ambrose Group Manager – Financial Management	June 2015	January 2016: Complete	 CCIP



89

SOUTHEND-ON-SEA BOROUGH COUNCIL

Conclusions from work	Recommendations 2013/14	Management responses	Responsibility	Timing	Latest management update	RAG status
	is reconciled back to the accounts.					
A number of errors and omissions were identified within the CPID data tab	Ensure that the CPID tab includes counter party transactions for significant components eg South Essex Homes. Perform a comparison of the amounts included in the CPID tab in the prior year to those included in the current year. Ensure significant variances only occur where expected.	Agreed	Ian Ambrose Group Manager – Financial Management	June 2015	January 2016: Complete	 CCIP
Some of the explanations included on the validations error tab did not fully or accurately describe why the validation error had occurred.	Ensure appropriate explanations are placed on all validation errors which explain what the validation error is and why the validation error has occurred, rather than simply entering 'not material'.	Agreed	Ian Ambrose Group Manager – Financial Management	June 2015	January 2016: Complete	 CCIP

69

2013/14 GRANTS RECOMMENDATIONS

Conclusions from work	Recommendations 2013/14	Management responses	Responsibility	Timing	Latest management update	RAG status
TEACHERS PENSIONS						
Our testing identified some prior year refunds that had not been included in the claim form provided for audit. The Council had to review each of the HR files to identify if the refund related to the current or previous year.	Record the details of the period the refund related to on the HR system.	Recording of refunds will be put in place.	Sue Putt Group Manager	February 2015	January 2016: A separate Payment and Deduction recording is in place for current year. Paperwork to be ready prior to audit visit.	 CCIP
Our testing identified that the TLR3 payment was not taken into account when calculating the tier in which individuals were included within.	Set up Agresso to take account of the TLR3 payments. Ensure that any new pay scales set by Teachers' Pension are set up correctly on the system.	Agreed. Agresso will be amended accordingly.	Sue Putt Group Manager	April 2015	January 2016: Resolved to calculate correctly going forward.	 CCIP

70

2014/15 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
FINANCIAL STATEMENTS						
<p>School Title Deed</p> <p>From review of title deeds in our testing of school assets it was identified that one foundation school, Eastwood Primary School, has not had its title registered with Land Registry. Not having the title deed registered could lead to potential disputes over the ownership of the land.</p>	<p>Liaise with the school to apply to have the title for the site registered at the land registry in the name of the governing body in order to avoid any potential disputes over ownership of the land.</p> <p>Review other schools under the Council's control and confirm that the title for each has been registered at the land registry.</p>	<p>Agreed</p> <p>The Council will work with the school to resolve this issue, and review other schools for registration</p>	<p>Alan Richards (Group Manager - Asset management) in conjunction with Peter Tremayne (Principal Solicitor)</p>	<p>March 2016</p>	<p>January 2016:</p> <p>A letter is being prepared by legal to send to Eastwood Primary School.</p> <p>An audit of all schools has been completed and a further 3 unregistered schools have been identified. All other schools are registered.</p> <p>Letters will also be sent to these additional unregistered schools, as for Eastwood Primary School</p>	<p>A</p> <p>NCNYD</p>
<p>School Trust Deed</p> <p>From our work completed over the control of school assets it was identified that the Trust Deeds for both Chase High and Futures College could not be obtained by the Council or the schools. Chase High has become an Academy in April 2015 and so is no longer a trust school. Having no Trust Deed could mean that there is not sufficient governance of the Trust in place and that Trustees are not aware of their responsibilities.</p>	<p>Liaise with the Trustees to either obtain the previous Trust Deed or have a new deed prepared to ensure that sufficient governance of the Trust is in place and that Trustees are aware of their responsibilities.</p>	<p>The Council will work with the trustees and the school to resolve this issue.</p>	<p>Head of Learning</p>	<p>March 2016</p>	<p>January 2016: Completed</p>	<p>G</p> <p>CCIP</p>

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
<p>Property, Plant and Equipment Existence</p> <p>From the work we have completed on the existence of fixed assets we have identified a number of items on the Council's fixed asset register which no longer exist and should be removed. This means that the Council's balance sheet is overstated which if left unchanged could lead to a material difference.</p>	<p>Undertake an annual review of a sample of assets to test for existence. Completing this and following up on any specific asset types identified which may not exist. As a result the Council will ensure that over time any out of date assets are identified and removed from their balance sheet.</p>	<p>This will be actioned by checking a sample of assets each year and extending the sample if this leads to the identification of defined types or groups of assets that need further investigation.</p>	<p>Caroline Fozzard – Group Manager (Financial Planning & Control)</p>	<p>April 2016</p>	<p>January 2016: On target.</p>	<p>A NCNYD</p>
<p>Operating Leases</p> <p>Our testing identified a number of instances where the end dates on the schedule of leases prepared by the Asset Management team have not been accurately recorded compared to the actual lease end date. We have also identified one instance where an asset was disposed of but not removed from the lease schedule. This means that the Council is not reporting the correct value of lease commitments which if left unchanged could lead to a material difference.</p>	<p>Review the lease schedule against the supporting lease documentation and update where relevant so that accurate end dates are recorded. The listing should also be checked against the listing of disposals and any relevant items removed.</p>	<p>Agreed On-going process of review and data improvement will continue</p>	<p>Alan Richards (Group Manager - Asset management)</p>	<p>March 2016 and on-going</p>	<p>January 2016: All lease data is continually updated and checked on an on-going basis. Those errors identified through the Audit have been corrected.</p>	<p>Y CNYC</p>

72

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
<p>Insurance Provision</p> <p>Our testing identified two cases where full recovery was achieved for the claim from a third party during the year and as such did not represent a valid provision at the year end. These claims were included in the provision because the insurance database, which is used to generate the main part of the provision, must be held open for several months after they have been settled in order to comply with the terms of the Council's insurers. These claims are no longer provisions in line with the code.</p>	<p>Complete a review of cases where potential third party recovery could be possible, such as building claims, as part of the year end closedown procedures with the Insurance Manager and any unresolved cases should be manually adjusted in the figure recognised in the financial statements.</p>	<p>Only a small minority of claims against the Council present an opportunity to seek recovery against a third party. The two cases identified relate to old claims. Methods of recording recovery action have since been changed which should minimise the risk of a mismatch between the amounts provided against the Council's insurance liabilities, and its potential recovery from third parties.</p>	<p>Ian Ambrose Group Manager – Financial Management</p>	<p>Already implemented</p>	<p>January 2016: Complete</p>	<p>Y</p> <p>CNYC</p>
<p>CONTROL ENVIRONMENT</p>						
<p>Payroll Amendments</p> <p>This point was previously reported by Internal Audit:</p> <p>Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit.</p>	<p>Fully implement the recommendations raised by Internal Audit in their final payroll report.</p>	<p>Agreed</p> <p>Anticipated all recommendations will be fully implemented by December 2015</p>	<p>Sue Putt (Group Manager HR Services)</p>	<p>December 2015</p>	<p>January 2016: Amendment log in place. Actions in relation to this recommendation are completed as of December 2015.</p>	<p>Y</p> <p>CNYC</p>

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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2015 BDO LLP. All rights reserved.

www.bdo.co.uk

Southend-on-Sea Borough Council

Agenda
Item No.

7

Report of Corporate Director for Corporate Services
to
Audit Committee
on
20 January 2016

Report prepared by: BDO External Auditor

BDO: Annual Audit Letter 2014/15

Executive Councillor – Councillor Ron Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2014/15 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee approves the Annual Audit Letter for 2014/15.**

3. Background

- 3.1 This Annual Audit Letter summarises the key issues arising from the work BDO have carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.
- 3.2 It is intended to be a short document, aimed at the public, to inform them about the results of the audit. It should be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.
- 3.3 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

- 4.2 Financial Implications

The code audit fee for 2014/15 was £190,421.

- 4.3 Legal Implications

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

4.4 People and Property Implications

None

4.5 Consultation

The Annual Audit Letter for 2014/15 has been discussed and agreed with the Corporate Director for Corporate Services and the Head of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the NAO's Code of Audit Practice.

4.8 Value for Money

PSAA sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Annual Audit Letter 2014/15



SOUTHEND-ON-SEA BOROUGH COUNCIL

Annual Audit Letter 2014/15

28 October 2015

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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

Our responsibility is to plan and carry out an audit that meets the requirements of the 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

• whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

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

BDO LLP
28 October 2015

FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

Three material misstatements were identified and corrected during the audit. These all related to complex capital accounting treatments.

There were two unadjusted audit differences one of which would increase the draft surplus on the provision of services in the CIES to £9.052 million (from £8.469 million) if adjusted. However Officers have indicated that if this adjustment was made (in respect of the insurance provision) the difference would be taken to the insurance reserve and so there would be no impact on the General Fund balance.

We noted one significant deficiency in internal control in relation to payroll amendments. The deficiency had previously been identified and reported by Internal Audit.

USE OF RESOURCES

2

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.

We issued an unqualified value for money conclusion on 30 September 2015.

OTHER MATTERS

3

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 and complied with Delivering Good Governance in Local Government (CIPFA / SOLACE).

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

Our audit of the Council's Whole of Government Accounts (WGA) return is in progress and is expected to be completed in November 2015.

The audit certificate will be issued upon completion of the WGA audit.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

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

FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

Financial performance

The Council reported a surplus on the provision of services of £8.469 million and achieved savings for the year of £6.8 million which was close to target. The General Fund balance was £11 million at 31 March 2015 which is within the Head of Finance and Resources recommended range of £10 million to £12 million. General Fund earmarked reserves were £48 million. The Council's overall useable reserves, which include the General Fund, Housing Revenue Account (HRA), Earmarked Reserves (including schools) and capital resources, have increased by £11.6 million in 2014/15.

The Council is continuing to monitor the overall financial position closely. As at the end of July 2015 the budget monitoring documentation shows that the Council is currently forecasting that full year savings of £10.3 million will be achieved in 2015/16. This is a £0.2 million shortfall against the budgeted savings target for the year.

Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015. A comprehensive file of audit working papers was also provided.

Three material misstatements were identified and corrected during the audit:

- Forum Prior Period Adjustment (PPA) - A PPA for a gross asset value of £14.5m had been recognised in order to remove the parts of the complex relating to the other parties from the financial statements. The adjustment is now recognised in the opening balance sheet at 1 April 2013 and has led to an increase of £18.5m in the surplus on the provision of services in the Comprehensive Income and Expenditure Statement (CIES) reported for 2013/14.
- School Assets - A change in the 2014/15 Code of Practice on Government Accounting (the Code) requires the Foundation Trust schools in the borough to be excluded entirely from the Council's financial statements as control of the assets is held by the relevant trusts. This change in accounting treatment and policy required a PPA to be recognised by the Council. The PPA included by the Council in the draft accounts should have been recognised in the opening 1 April 2013 balances rather than as an in-year revaluation in 2013/14. This adjustment has reduced the gross balance sheet value of Property, Plant and Equipment by £34.9m. In the original draft accounts an exceptional gain for schools assets of £50.9m was included in the CIES but following

the adjustments made this has been removed and so there is no impact on the CIES for 2014/15 or 2013/14.

- Pier Valuation - The PPA included in the draft accounts submitted for audit was amended to be reflected in the opening balances of the 2013/14 year rather than as an in-year revaluation. This adjustment did not impact on the amounts recognised on the closing balance sheet for 2013/14 or the CIES but increased the opening balance sheet at 1 April 2013 by £27.3m.

All three of the above adjustments relate to complex capital accounting treatments.

There were two unadjusted audit differences one of which would increase the draft surplus on the provision of services in the CIES to £9.052 million (from £8.469 million) if adjusted. However Officers have indicated that if this adjustment was made (in respect of the insurance provision) the difference would be taken to the insurance reserve and so there would be no impact on the General Fund balance. There was one unadjusted disclosure matter.

We considered that these uncorrected misstatements did not have a material impact on our opinion on the financial statements.

Significant judgements and estimates

Fair value of land and buildings

The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation. The Council engaged Wilks, Head and Eve as a management expert to provide information on asset values and market trends.

Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.

We were satisfied that the valuer was suitably independent of the Council, objective and experienced in undertaking this work.

We compared the asset values to price index information for all categories of assets and concluded that the assumptions made by the valuer were not unreasonable.

Actuarial assumptions

The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

Essex County Council Pension Fund engaged Barnett Waddingham as a management expert. We were satisfied that the actuary was independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these were not significantly different from those being applied by the actuaries of other local authorities.

Chase Leisure Centre

Chase High School is a Foundation Trust School which was removed from the financial statements as a result of changes in the Code.

The school has a leisure centre attached to it, in which the Council has shared access outside of school hours and is run under the central leisure contract. As such the Council has an interest in the building.

Officers have reviewed the terms of the shared access agreement in conjunction with the latest school valuation and floor plan. They concluded that the leisure centre represents approximately one third of the school site and that the Council has use of it for 50 percent of the time. Based upon this the leisure centre has been recognised in the accounts at a value of £2m. We reviewed the Council's approach to determining £2m as an appropriate

estimate of the value of its interest in Chase High School and we conclude that it is materially correct and recognition of the amount is appropriate.

Internal controls

We noted one significant deficiency in internal control in relation to payroll amendments. The deficiency had previously been identified and reported by Internal Audit.

FINANCIAL STATEMENTS

Annual Governance Statement

We were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information we were aware of from our audit and complied with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

CIPFA is considering how local authorities can develop their narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved. However, CIPFA's consultation on 'Telling the Story' will propose introducing a reconciliation from the reported outturn in the financial statements to the Council's management accounts.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

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

Focus of review

We draw assurances relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also considered the findings from the following sources:

- value for money profiles tool
- risk indicators arising from other audit activities such as liaison meetings and review of minutes and committee reports
- key issues facing the sector highlighted in guidance issued by the Audit Commission.

There were no inspections or external reviews completed at the Council during the year. Risk based value for money work was undertaken in relation to the Council's Medium Term Financial Strategy (MTFS).

Financial resilience

We reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2018/19. The Council set a balanced budget for 2015/16 but this requires planned savings of £10.5 million to be achieved. The MTFS forecasts a budget gap totalling £32.4 million over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position.

Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams. The Cabinet has now held two away day sessions with the Corporate Management Team (CMT) on understanding the Council's position, identifying what high level strategic areas Directors need to look at and identifying some areas for longer term savings ideas.

From our review of the latest forecast position (at the end of July 2015), the Council was slightly behind where it planned to be to deliver its 2015/16 financial objectives and targets. The budget monitoring documentation showed that the Council was forecasting that full year savings of £10.3 million would be achieved in 2015/16. This is a £0.2 million shortfall against the budgeted savings target for the year.

We reviewed the assumptions used in developing the MTFS and found these to be reasonable. A prudent approach to expectations of future government funding was adopted by the Council.

The Council continues to maintain sufficient earmarked reserves and balances. As at 31 March 2015, the General Fund balance was £11 million which is within the Head of Finance and Resources recommended range of £10 million to £12 million. General Fund earmarked reserves were £48 million. The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, increased by £11.6 million in 2014/15.

BETTER CARE FUND

The Southend Better Care Fund (BCF) plan was officially approved in December 2014 with the Section 75 agreement signed between the Council and Southend CCG on 31 March 2015 to specifically create the BCF for the 2015/16 financial year.

The Southend Health and Wellbeing Board set the strategic direction and are monitoring high level progress receiving regular progress reports. The Joint Executive Group (JEG) is monitoring the progress and prepares the reports to the Health and Wellbeing Board.

The governance of the BCF includes appropriate individuals from the relevant bodies and overall is concluded to be appropriate.

CONTRACT MANAGEMENT

There were instances of non-compliance with contract procedure rules within the Council. As a result of this a fundamental review and update of the Council's contract management framework has been undertaken by management including Internal Audit completing a detailed review of the contract management framework during the year.

The new contract and financial procedural rules were approved at the Council meeting on 23 July 2015.

Challenging economy, efficiency, effectiveness

PRIORITISING RESOURCES

The Council has a good track record of achieving the annual budget and savings plans. During the year the Council paid three years' of pension fund payments in advance, totalling £14.3 million, in order to secure a reduction in future payments. The estimated saving to the Council generated by taking this approach is £1.3 million.

As part of the savings plan for 2015/16 the Council has included £0.9 million of savings in relation to significant contracts for waste, highways, leisure and transport which have been recently re-let. These savings should be on-going and should help the Council to reduce future year budget gaps.

IMPROVING EFFICIENCY AND PRODUCTIVITY

Performance management arrangements are embedded across the Council with monthly performance reports prepared to report performance towards delivery of the Council's targets and are presented to Cabinet and Scrutiny Committees for scrutiny and challenge. Over the past three years the Council has set savings targets totalling £28.3 million which have mostly been met and allowed the Council to continue to improve its efficiency and productivity.

We reviewed the Council's year end performance report. Of the 34 corporate performance indicators 27 (79.4%) met their year-end targets. This was in the context of the majority of targets being increased, despite the resource constraints being faced by the Council. Of the 32 indicators for which data is available for the previous year, 20 have maintained or improved performance in 2014/15.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Annual Governance Statement

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 and complied with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with National Audit Office specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Our audit of the Council's Whole of Government Accounts (WGA) return is in progress and is expected to be completed in November 2015.

Use of statutory powers

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

Audit certificate

The audit certificate will be issued upon completion of the WGA audit.

GRANT CLAIMS AND CERTIFICATION

4

CERTIFICATION WORK

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

Certification findings 2013/14

We presented our most recent Grant claims and returns certification report in January 2015, which included the results of the audited returns for 2013/14.

We completed the audit of three claims and returns with a total value of £103 million. All three claims were amended as a result of our audit. The total impact was to reduce the amount payable to grant paying bodies by £41,945.

The Housing and Council Tax Benefit Subsidy Return was qualified as a result of thirteen errors identified from our testing which required further testing. Where we could not conclude that errors were isolated these were reported to the Department for Work and Pensions in the qualification letter.

Housing benefit subsidy claim

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

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

We will prepare a report on the outcome of our work in December 2015.

Other claims and returns

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

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

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following returns for 2014/15:

- Pooled housing capital receipts (deadline 30 November 2015)
- Teachers' pensions return (deadline 30 November 2015)

Our work on these returns is currently in progress.

APPENDIX

Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	April 2014
Grant Claims and Returns Certification Report (2013/14)	January 2015
Audit Plan	March 2015
Final Audit Report	September 2015
Annual Audit Letter	October 2015

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	190,421	⁽¹⁾ 190,421
Certification of housing benefit subsidy claim	28,379	⁽²⁾ 28,379
Total fees for audit services	218,800	218,800
Audit related services		
- Pooled housing capital receipts return	-	⁽²⁾ 2,500
- Teachers' pensions return	6,950	⁽³⁾ 6,950

Note 1 - This is shown as the scale fee, the outturn position will be finalised upon completion of the WGA audit and reported separately to Audit Committee.

Note 2 - Our work on the assurance reviews of the grant claims and other returns for 2014/15 is in progress and we will report the findings from this work and the final fees separately.

Note 3 - This is the estimate included in the engagement letter that was issued in 2013/14. The actual fee will be calculated based upon the actual number of hours spent auditing this claim.

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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO LLP is separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2015 BDO LLP. All rights reserved.

www.bdo.co.uk

This page is intentionally left blank

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

20th January 2016

Report prepared by: Linda Everard, Head of Internal Audit

Agenda
Item No.

8

Internal Audit Services, Quarterly Performance Report

Executive Councillor – Councillor Ron Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

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

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2015/16 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 18th December 2015.
- 3.2 The overall work programme has been re-profiled and sufficient resources are available to substantially complete the Audit Plan by the 31 March 2016.
- 3.3 The focus for this quarter has been to complete the block of financial systems audit work. The fieldwork for eight of these systems has been completed and draft reports produced.

4. Audit Opinions and Themes

- 4.1 **Appendix 2** summarises the level of assurance that can be taken from the audits completed this quarter.
- 4.2 No high level assurance reports have been issued during this period.

5. Implementing Action Plans

5.1 Appendix 3 summarises:

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

5.2 All these reports are now on Covalent (the Council's performance management software). This will be used by services to record and monitor work done to implement Internal Audit report action plans. The arrangements for doing this have been discussed and agreed with each Department.

5.3 Services will provide short summary reports for Departmental and Corporate Management Teams and the Audit Committee once an action plan has been signed off, unless Internal Audit plans to revisit it. In the latter instance, Internal Audit will produce a report summarising the results of the audit, as is normal practice.

6. Internal Audit Performance Targets

6.1 The service remains on target to:

- deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements as:
 - sickness absence remains low (0.1 days per FTE) and productivity high (84%)
 - 46% of planned work (excluding schools) has either been delivered or is at draft report stage
 - schools work this year mainly involves short visits to test that previously agreed action plans have been implemented. Most of this work will be delivered between January and March 2016.
- remain substantially compliant with professional standards.

7. International Professional Practices Framework (IPPF)

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



- 7.2 Internal auditors working in the private sector now have to comply with this. It is very likely that the Public Sector Internal Audit Standards will be amended accordingly over the coming year.
- 7.3 Two key changes are the introduction of:
- a Mission Statement, which now requires internal audit services to *enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*
 - core principles, requiring that internal audit:
 - Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive and future-focused
 - Promotes organisational improvement.
- 7.4 This will be taken into account when reviewing the Charter and Strategy as part of the 2016/17 audit planning process.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

8.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

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

8.3 Legal Implications

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

8.4 People and Property Implications

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

8.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

8.6 Equalities Impact Assessment

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

8.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource in a timely manner
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards.

With the loss of the Senior Audit & Resources Manager, limited time is currently available within the Audit Plan for managing this contract.

8.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

8.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

9. Background Papers

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

10. Appendices

Appendix 1 Internal Audit Plan 2015/16

Appendix 2 Audit Opinions and Themes

- Satisfactory Assurance
- Partial Assurance
- Minimal Assurance
- Other Audits and Grant Claims
- Audits Revisited
- Schools

Appendix 3 Internal Audit Action Plans Requiring Sign Off

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
Managing the Business			
Aim: Excellent			
All	Business Continuity To assess whether the Council has effectively analysed the results of Operation Meltdown and introduced the required improvements.	Core	
All	Complaints Handling To assess whether stage one and two complaints have been handled in compliance with the policy.	Core	Draft report being produced.
PE	Partnership Management: Section 75 Agreements To assess whether Section 75 agreements clearly set out the service requirements and how the service will be managed on an ongoing basis.	Core	
All	Procurement To provide critical but supportive challenge as the Head of Procurement develops and implements the new procurement and contract management.	Core Fraud Risk	Terms of Reference being produced.
All	Risk Management To assess whether risks, controls and assurances in risk registers are being properly identified and recorded in line with the requirements of the Risk Management Policy and Strategy.	Core	Terms of reference being produced.
Managing Service Delivery Risks			
Aim: Safe			
PL	Licensing To assess whether licence applications are effectively and promptly processed and all due income is received	Core Fraud Risk	Report issued November 2015.

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
Aim: Clean			
	Repair and Renew (Flooding) Grant To certify approved claims for the flood support scheme as required by the memorandum of understanding between the Department for the Environment, Food and Rural Affairs and the Council.	New In year risk	Grant Claim signed off November 2015. Unqualified opinion given.
Aim: Healthy			
	Adult Social Care Services		
PE	To assess whether improvement actions identified by the Care Quality Commission inspections are effectively and promptly dealt with.	Core	Audit deleted as there were no outstanding inspection reports to be reviewed.
PE	Personal Budgets To assess whether personal budgets paid by direct payments are valid, accurate and complete as per the client's assessed needs.	Core Fraud Risk	Terms of reference being produced.
PE	Financial Monitoring of Direct Payments To assess whether there are robust financial monitoring arrangements in place to ensure payments directly to clients are used properly.	New Core Fraud Risk	
PE	To assess whether there is robust management review of adult social care files to ensure they met all required statutory and good practice requirements.	Core	Work completed July 2015.
PE	To assess whether residential care placements are effectively and economically procured to meet the client's assessed needs.	Core Fraud Risk	
PE	Fostering and Adoption To assess whether payments to foster and adoption parents are valid, accurate and complete.	Core Fraud Risk	Fieldwork substantially complete.

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
Aim: Healthy			
	Safeguarding		
PE	To assess whether any required improvement actions identified by the review of the arrangements to prevent child sexual exploitation have been formed into a robust action plan and implemented in a timely manner.	Core	
PE / PL	To assess whether action plans produced following safeguarding reviews (children's and or adult Serious Case Reviews and or Domestic Homicide reviews) are being implemented, in a timely manner and actively monitored by senior management.	Core	
PE	Special Educational Needs To assess whether allocations of Special Educational Needs budgets to schools are accurately calculated and there is effective use of top up funding to those with most acute needs.	Core	Draft report produced.
PH	0 to Five Year Old Commissioning To assess whether the 0 to five year old services to be transferred to the Council in October 2015 are effectively integrated into the Council and associated budgets are sufficiently understood to ensure the services can be affordable delivered future years	In year risk	Terms of Reference being produced.
CS	Essential Living Fund To assess whether there are robust procedures in place for the accurate, consistent, timely and appropriate award of grants from the Essential Living Fund and that arrangements to monitor expenditure against the fund are effective.	Core	Report issued September 2015.
Aim: Healthy			
PH	Health Protection To assess whether there are robust policies, procedures and working arrangements in place with relevant parties to ensure public safety, prevent transmission of diseases and manage incidents which threaten the public's health.	Core	Terms of Reference being produced.

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
PE	<p>School Improvement</p> <p>To assess whether any required improvement actions identified by the review of the School Support and Improvement Board have been effectively implemented in a timely manner.</p>	Core	Terms of Reference being produced.
PE	<p>Schools</p> <p>This programme of work is funded by schools directly and the audit resource is bought in through the framework contract.</p>	Core Fraud risk	See Schools Audit Programme section below.
Aim: Prosperous			
PL	<p>Development Control</p> <p>To assess whether planning applications are effectively and promptly processed and all due income is received</p>	Core Fraud Risk	Report issued November 2015.
PL	<p>Local Growth Fund and City Deal</p> <p>To assess whether the projects as part of the Local Growth Fund and City Deal are well managed to ensure they deliver their required outcomes, to timetable and budget meeting any associated terms and conditions.</p>	Core	
PL	<p>Southend City Deal Grant</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	New	Work substantially complete.
PE	<p>Schools Audit Programme: Finance Management and Governance</p> <p>This programme of work is funded by schools directly and resourced through the framework contract.</p>	Fraud Risk	See below for details.
PE	<p>Strategic Housing</p> <p>To assess whether robust governance and operational planning arrangements have been or are being established to set up a Local Authority Housing Company to deliver increased numbers of affordable housing.</p>	In year risk	Terms of Reference being produced.
PL	<p>Local Transport Plan, A127 and Pothole Repair Grants.</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Grant Claim	Grant Claims signed off September 2015. Three unqualified opinions given.
PL	<p>Local Sustainable Transport Fund Grant</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	New	

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
PE	<p>Troubled Families Intervention To challenge Troubled Families Grant returns in line with Department for Communities and Local Government requirements.</p>	Grant Claim	<p>Claims reviewed:</p> <ul style="list-style-type: none"> • June 2015 • September 2015.
	<p>To provide advice and support as the Extended Troubled Families Programme is developed.</p>	Grant Claim	Interim feedback provided September 2015.
Aim: Excellent			
PE	<p>Children's Services and Adult Services To assess whether the replacement IT system for CareFirst, the Children's Services and Adult Service case management system, is:</p>	In year risks	
	<ul style="list-style-type: none"> • appropriately specified and selected, so audit focus will be how the package was procured 		
	<ul style="list-style-type: none"> • implemented properly, so the audit focus will be the development of the project implementation plan. 		
	<p>Contract Management To assess whether a sample of contracts (still to be selected) are being effectively managed to ensure:</p> <ul style="list-style-type: none"> • required outcomes are achieved • accurate and valid payments are made to the contractor and or income received. 	Core Fraud Risk	
PE	<ul style="list-style-type: none"> • Family Mosaic 		Report issued January 2016.
CS	<ul style="list-style-type: none"> • Cleaning Services Contract Management 		Report issued December 2015.
PL	<ul style="list-style-type: none"> • Highways Contract, Processing Payments 		Terms of Reference being produced.
PE	<p>Corporate Procurement Team To assess whether the Corporate Procurement Team is appropriately staffed and operating in a manner that complies with statutory requirements and recognised good practice.</p>	In year risk Core	<p>Initial feedback provided. This is being followed up as part of the Procurement work contained in the Managing the Business section above.</p>
PL	<p>Income Collection For a number of key income streams, assess whether there are robust processes in place to ensure all due income is raised and effectively collected.</p>	Core Fraud Risk	<p>Work in progress. This work has been refocused on debt management in support of a corporate project in this area which is already underway.</p>

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
CS	IT Data Security To assess whether the relevant standards are met to ensure the Council's data is secure.	Core	
CS	IT Disaster Recovery To assess whether there are robust plans and procedures in place to minimise the impact and duration of any distribution to the Council's services following a disaster incident.	Core	
CS	IT Infrastructure To assess whether the ongoing management of IT fixed assets ensures the IT infrastructure meets the Council's service needs.	Core (new)	Work in progress.
CS	IT Service Changes Benefits Realisation To assess whether there is evidence the new structures and processes are at an early stage delivering the required improvements in service outcomes.	Core	Report issued August 2015.
CS	Third Party Hosting To evaluate whether services hosted with third parties are effectively planned and managed.	Core	Report issued December 2015.
Key Financial Systems			
Aim: Excellent			
To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis so that this information can be relied upon when producing the Council's statement of accounts.			
CS	Accounts Payable	Annual Fraud Risk	The fieldwork for all these systems except for Accounts Payable, Accounts Receivable Social Care Debtors and Payroll has been completed. Draft reports have been produced for these systems.
CS	Accounts Receivable:		
CS	• General		
PE	• Social Care Debtors		
CS	Business Rates		
CS	Council Tax		
CS	General Ledger		
CS	Housing Benefit		
CS	Income Receipting and Banking		
CS	Payroll		
CS	Treasury Management		

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
CS	Payroll Improvement Project		Feedback provided on the introduction of the "view your own payslip" function.
CS	Computer Assisted Audit Techniques (CAATs)		Completed for General Ledger audit.
Implementing Action Plans			
All	Audit Reports to be Revisited To check that actions agreed have been implemented, properly, in a timely manner.	Core	
PL	<ul style="list-style-type: none"> Capital Project Management 		Report issued December 2015.
PE	<ul style="list-style-type: none"> Children's Social Care File Quality Assurance Review 		Report issued September 2015.
PE	<ul style="list-style-type: none"> Accounts Receivable, Social Care Debt 		
Other Work			
N/A	The Leas Sun Shelter To assess whether proper processes have been followed by the Council when dealing with all matters relating to the Leas Sun Shelter in its roles as planning authority, land owner and custodian of the public space.	Fraud Risk	Work completed and feedback provided.
PE	To fundamentally review the approach adopted to auditing schools to see if it is fit for purpose going forward, taking into account potential assurance available from other Council services.	New Core Fraud risk	Terms of reference produced.
PE	To assess the level of assurance that can be placed on work being undertaken with schools by other services within the Council.	New Core	
All	Working with the Counter Fraud & Investigation Directorate To work collaboratively where an investigation identifies the need for an audit of an activity to ensure control weaknesses are properly mitigated or proactively on audits in the plan that are considered to be high fraud risks.	Fraud Risk	

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
Managing Delivery of the Audit Plan			
	Audit Planning, Resourcing		
	Managing Contractor Work		
	Reporting to Management Team and Audit Committee		
	Contingency		

Audit Plan Definitions

Departments:

- CS: Corporate Services
- PE: People
- PH: Public Health
- PL: Place

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

Appendix 1: Internal Audit Plan 2015/16

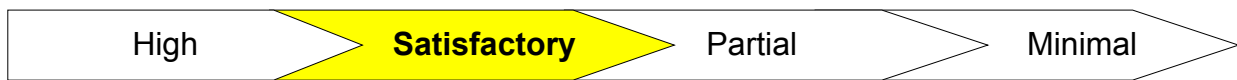
Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
Schools Audit Programme			
PE	<p>Full Audits covering finance, management and governance</p> <p>To assess whether effective arrangements are in place to develop and implement a suitable strategic framework as well as organise, manage and control the specified activities</p>	Fraud Risk	
	<ul style="list-style-type: none"> • Friars Primary School 		Final report issued Dec 2015
	<ul style="list-style-type: none"> • Hinguar Community Primary School 		Final report issued Dec 2015
	<ul style="list-style-type: none"> • Leigh Infants School 		
	<ul style="list-style-type: none"> • Leigh North Street Junior School 		
	<ul style="list-style-type: none"> • Our Lady of Lourdes Catholic Primary School 		Final report issued Nov 2015
	<ul style="list-style-type: none"> • St George's Catholic Primary School 		Final report issued Jul 2015
	<ul style="list-style-type: none"> • St Nicholas School 		Final report issued Sept 2015
PE	<p>Revisiting audit reports</p> <p>To check that recommendations made have been implemented, properly, in a timely manner.</p>		
	<ul style="list-style-type: none"> • Blenheim Primary School 		
	<ul style="list-style-type: none"> • Bournes Green Infant School 		Final report issued Dec 2015
	<ul style="list-style-type: none"> • Chalkwell Hall Infant School 		
	<ul style="list-style-type: none"> • Chalkwell Hall Junior School 		
	<ul style="list-style-type: none"> • Eastwood Primary School 		
	<ul style="list-style-type: none"> • Earls Hall Infant School 		
	<ul style="list-style-type: none"> • Friars Primary School 		
	<ul style="list-style-type: none"> • Futures Community College 		
	<ul style="list-style-type: none"> • Hamstel Infant School 		
	<ul style="list-style-type: none"> • Heycroft Primary School 		
	<ul style="list-style-type: none"> • Hinguar Community Primary School 		
	<ul style="list-style-type: none"> • Kingsdown School 		
	<ul style="list-style-type: none"> • Milton Hall Primary School 		
	<ul style="list-style-type: none"> • Our Lady of Lourdes Catholic Primary School 		
	<ul style="list-style-type: none"> • Porters Grange Primary School 		
	<ul style="list-style-type: none"> • Seabrooke College, Prittlewell (PRU)₀₁ 		

Appendix 1: Internal Audit Plan 2015/16

Dept	Council activity and focus of audit work	Work type *	Status as at 18th December 2015
	<ul style="list-style-type: none"> • St Mary's Prittlewell C of E Primary School 		Final report issued Nov 2015
	<ul style="list-style-type: none"> • Sacred Heart Catholic Primary School 		
	<ul style="list-style-type: none"> • St George's Catholic Primary School 		
	<ul style="list-style-type: none"> • St Helen's Catholic Primary School 		
	<ul style="list-style-type: none"> • St Nicholas School 		
	<ul style="list-style-type: none"> • Thorpedene Primary School 		Final report issued Nov 2015
	<ul style="list-style-type: none"> • The Federation of Greenways Schools 		
	<ul style="list-style-type: none"> • West Leigh Infant School 		
	<ul style="list-style-type: none"> • West Leigh Junior School 		

Appendix 2a: Audit Opinion and Themes

Assurance



Development Control

Objective

To assess whether planning applications are effectively and promptly processed and all due income is received.

Themes

There is an appropriate Scheme of Delegation in place setting out the responsibilities to decide upon planning applications, including when to refer the decision to the Development Control Committee. Officers regularly declare interests that are taken into account when deciding who processes applications to minimise the potential risk of the perception of favourable or unfavourable treatment.

There are good processes in place to:

- only accept and begin processing applications once it is confirmed all required supporting evidence is submitted. Going forward, applications will only be processed once the correct fee has been received
- independently review processed applications to ensure the proper practices have been followed and the proposed decision is sound
- appropriately and independently authorise refunds before they are made
- continually and robustly monitor the speed of processing applications, to ensure compliance with the government-set timescales for all different types of application. Targets were met during 2014/15.

Going forward, regular reconciliations will be undertaken of the expected fee income per Uniform (the services IT system) with the actual income received as per the financial accounting system, Agresso. This is to confirm that all income is completely and accurately received or to trigger appropriate recovery action where necessary.

Enforcement complaints will be more proactively and regularly monitored to ensure they are dealt with appropriately and in a timely manner.

Number of actions agreed: 5

This page is intentionally left blank

Appendix 2b: Audit Opinion and Themes

Assurance



Licensing

Objective

To assess whether licence applications are effectively and promptly processed and all due income is received.

Themes

An appropriate overarching Licensing Policy is in place supported by additional policies for specific licensed activities. These policies:

- set out the qualification and evidential criteria against which applications must be assessed to ensure consistent decision-making
- should be subject to version control procedures that detail the date of last and next required review and the approving body.

The team liaise with external agencies such as the police as necessary to:

- assess applications
- confirm the accuracy of information supplied and therefore ensure the appropriateness of decisions made.

However, there is the need to improve processes by:

- introducing independent checks that staff have assessed applications:
 - correctly and obtained all the required supporting evidence
 - promptly.
- reconciling the Licensing IT system (Uniform) with the financial accounting system (Agresso) to:
 - confirm all income due from granted licences has been received, or
 - initiate effective recovery action and suspend the associated licence.

Half the licences reviewed could not be matched to a specific payment on Agresso although the income may have been received. Without a robust reconciliation process, the service cannot identify any late or missing payments. It should be noted that no issues were identified with the sample of licenses checked.

A significant number of premises licence debts (totalling c.£50k) had been “parked” meaning no active recovery action was being taken. The Licensing and Accounts Receivable teams are working closely together to improve the efficiency and effectiveness of on-going collection processes and deal with historic debts.

Number of actions agreed: 4

Appendix 2b: Audit Opinion and Themes

Assurance



Family Mosaic Contract Management

Objective

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

Themes

This contract provides a drop in facility as well as more intensive longer term advice and support to residents in need of housing related support services. It is one of a number of contracts let under the Council's Supporting People Programme, valued at £5.1M over six years. It should be noted that the Contract Officer had started to identify shortcomings in contract monitoring arrangements at the time of the audit, which were developed further during this review.

Action is being taken to determine whether the contract is continuing to deliver value for money before extending it into 2016/17, as the Council has not reviewed costs against service provision either when the:

- provider has had staffing vacancies
- contract was extended for a year in April 2015.

To enable the Council to verify and ensure that services procured are being delivered and targeted effectively, work is in train to clarify with the provider:

- the records required in order for the Contract Officer to be able to verify the number of hours worked by staff; a key deliverable of the contract
- how information on staff vacancies will be supplied, as it is for the Council and provider to negotiate whether to recruit or not to such posts
- how clients are prioritised on the waiting list so resources are directed to those perceived to be in greatest need
- the performance data required, linked to key contract deliverables (including the actual number of cases worked on each week and for how long) and its format
- performance targets and how these will be discussed and monitored (e.g. the acceptable time delay from referral to start of the support).

Once the revised operating arrangements have been agreed, a contract variation order should be issued to this effect. Future contract variations or extensions must be approved in line with the Scheme of Delegation.

This contract is subject to an annual assessment against a standard Quality Framework covering five nationally recognised objectives as well as some aspects of contract compliance. Further work is required to ensure tangible evidence is available that demonstrates the provider's compliance with all aspects of this assessment.

Finally the Department for People has reviewed the reporting arrangements for this contract and performance management information will be periodically reported to the department's Major Projects Board.

Appendix 2b: Audit Opinion and Themes

Assurance



Number of actions agreed: 8

Third Party Hosting

Objective

To evaluate whether the opportunities to host services with third parties are robustly assessed and then the selection of, and agreements with, such third parties are effectively planned and managed.

Themes

With regard to the contracts reviewed, there was evidence that:

- Contract Procedure Rules had been complied with
- a member of staff was assigned to manage the contract
- the majority of contractual requirements expected were included e.g.:
 - roles and responsibilities of both parties were clearly identified
 - the maintenance and repair standards standards were specified for the hardware being used.

However, third party hosted contracts should always be readily available:

- to enable service delivery to be effectively managed
- in case contract terms need to be invoked if the service performance of the third party host becomes unsatisfactory.

Going forward, a copy of all contracts will be held by the Corporate Procurement team. A dedicated Contract Managers will be appointed to monitor significant contracts.

Existing organisation standards regarding IT data security should be used to produce the minimum contractual requirements that must be applied when procuring software services where a third party will hold the Council's data. ICT staff were starting to do this on an adhoc basis at the time of the audit. ICT is not however, always informed of such procurements.

In future, procurements involving third party software services should be presented to the Digital Strategy Programme Board, which is well placed to enforce the minimum requirements once they are developed.

Finally, it was also noted that corporate expectations need to be clarified, with regard to such contracts, regarding:

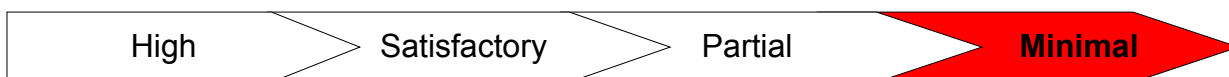
- minimum Data Governance requirements
- exit strategies (i.e. how the Council's data will be returned securely, entirely and accurately when the supplier is no longer used).

Number of actions agreed: 6

This page is intentionally left blank

Appendix 2c: Opinion and Themes

Assurance



Cleaning Services Contract Management

Objective

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

Themes

The contract for cleaning various premises within the Borough, including the Civic Centre is valued at £1.1M over three years. Due to the incomplete nature of the contract document, it was not possible to identify the precise cleaning services, performance standards or management and monitoring arrangements that were expected to be delivered at the various locations, when the contract was awarded.

Subsequently, the Contract Manager has made considerable efforts to establish contract management arrangements that are practical and understood by all concerned. This has included agreeing work specifications and introducing Monthly Cleaning Audit forms. These forms are, though, completed by the contractor and there is concern about their accuracy. Monthly review meetings are held but focus mainly on operational issues rather than overall performance, complaints, risk management, customer surveys, potential improvements or efficiencies etc.

Therefore, to ensure the Council gets the service it is paying for, for the remainder of the contract term, action is being taken to:

- define the role of the Contracts Manager so he is responsible for and involved in all matters relating to the contract across all sites, including agreeing with client managers / budget holders that the invoice charges made by the contractors are in with the tendered amount and any subsequent formal variations agreed
- introduce a formal change control process to enable any variations to the contract to be agreed and authorised at the appropriate level within the Council
- confirm the precise cleaning requirements for each location and incorporate them into the contract using a formal Variation Order
- further develop:
 - contract management and monitoring arrangements so they are more comprehensive and informative
 - a formal process for measuring and reporting on performance, which includes the use of key indicators and involves client representatives in proactively signing off on the service provided.
- produce a risk register for the contract, which will then be periodically updated and reported to the Client Review Group
- inform client representatives at all sites of the updated arrangements and how they will operate.

Number of actions agreed: 8

This page is intentionally left blank

Appendix 2d: Other Audits and Grant Claims

Repair and Renew (Flood) Grant

Purpose of funding

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

Objective

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

Opinion: Unqualified.

Local Transport Plan Grant

Purpose of funding

To maintain highways and improve small transport schemes.

Objective

To carry out appropriate investigations and checks in order to certify, in all significant respects, that the terms and conditions attached to this funding have been complied with.

Opinion: Unqualified.

A127 Grant

Purpose of funding

To upgrade the roundabout on the junction of the A127 and B1013 (Tesco Roundabout) to handle more traffic and ease congestion.

Objective

To carry out appropriate investigations and checks in order to certify, in all significant respects, that the terms and conditions attached to this funding have been complied with.

Opinion: Unqualified.

Appendix 2d: Other Audits and Grant Claims

Pothole Repair Grant

Purpose of funding

To repair potholes within the Borough.

Objective

To carry out appropriate investigations and checks in order to certify, in all significant respects, that the terms and conditions attached to this funding have been complied with.

Opinion: Unqualified.

Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Department for Communities and Local Government's (DCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

Opinion: September 2015, substantial sign off of the claim.

Summary findings

This was the first PBR claim to the DCLG under the new expanded programme. The Streets Ahead team (the team) is introducing:

- new arrangements and systems to automate the claim verification and validation processes
- independent checks of the claim process within day to day operations.

The team's aim is to have these arrangements fully functional by the time the next claim is made in January 2016. The audit process will then alter to take account of these new arrangements.

As such, protocol arrangements adopted under Phase 1 of the programme were used to validate the accuracy of this first claim under the expanded programme. Therefore, of the 14 claims due to be made:

Appendix 2d: Other Audits and Grant Claims

- five were independently reviewed by the Group Manager which was in line with previously agreed protocols
- six were randomly selected for audit (including three signed off by the Group Manager).

With regard to those audited, there was evidence to confirm:

- all families met the eligibility criteria for entry to the expanded programme
- five met the criteria for making a PBR claim as there was sufficient evidence to confirm continuous employment or significant and sustained progress had been achieved, as defined by the Council's agreed Outcomes Plan.

This included one claim which Internal Audit agreed could be submitted as an exceptional case under Principle 3 of the new Financial Framework i.e. significant and sustained progress could be evidenced in one area for which the family entered the programme, but demonstrating achievement in the second area was not possible due to a death in the family. The team, though, continue to support the family.

For the remaining case, there was evidence to support the PBR claim for the initial headline criteria, for which the family entered the program. The file, though, indicated that after work had started, the child's school attendance was identified as below the 90% required threshold. It was agreed to withdraw the claim as the child had moved out of area and it was not possible, at that time, to evidence the required improvement in the child's attendance, in line with the Council's Outcome Plan and Principle 3 of the Financial Framework. The team aim to obtain the required evidence and may submit this case as a future PBR claim.

Although this was one of the five claims signed off by the Group Manager, the circumstances were not considered significant enough to impact the reliance that could be placed on the validity of others examined by her.

This page is intentionally left blank

Appendix 2e: Audits Revisited

Purpose of these audits

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

Capital Project Management Report Revisited

Original Objective

To assess whether there are robust arrangements in place to deliver the required outcomes from strategic regeneration projects effectively, on time and on budget.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
8	2*	1	0	0

Summary

The majority of the recommendations raised within the original Capital Project Management report have been implemented fully. The action taken has strengthened the operational framework that sets out expectations of how projects of different sizes, will be managed. Evidence was also seen of these amended arrangements operating effectively, in practice.

** Whilst Project End Report and Lessons Learnt Log templates had been produced, their effective implemented could not be tested at the time of the audit, as there were no projects at this stage of the process.*

Appendix 2e: Audits Revisited

Purpose of these audits

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

Schools Revisited

Original Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

Bournes Green Infant School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to retest
11	1	2	2	2

The school had made good progress in addressing the issues raised in the original report and therefore, strengthening its Governance, Information and Asset Management and Financial Management and Reporting arrangements.

Most of the outstanding issues related to the Governing Body approving various documents at its October 2015 meeting. Action was also being taken to produce a formal policy / procedure for managing contracts in the school. Governing Body was also to be asked to approve this at its October 2015 meeting.

Going forward, the Headteacher or Deputy Headteacher will authorise assets loans.

A system of recording what information has been destroyed and when, was being introduced when the need to retain financial records was reviewed during the 2015 summer holidays.

The original report recommended that procedures needed to be established to ensure:

- requests to change supplier details are independently confirmed via a School instigated contact before they are processed, and
- there is an independent, documented sign off of all key stages when contracts are let to evidence compliance with Contract Procedure Rules.

It was not possible to test these as there was no recent activity in these areas to review.

Appendix 2e: Audits Revisited

Purpose of these audits

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

St Mary's Prittlewell CofE Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to retest
16	3	2	2	N/A

The school had successfully implemented all bar one of the actions agreed relating to Governance as well as Financial Management and Reporting. Most of the outstanding actions related to strengthening the arrangements regarding Information and Asset Management. At the time of the audit, satisfactory progress was being made in those other areas requiring further work, which included completing the electronic asset register. Going forward, asset register will then be regularly updated with purchases and disposals and spot checks of assets will be undertaken.

Thorpedene Primary School

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Unable to retest
9	1	2	2	N/A

The school has made very good progress in addressing the issues raised in the original report and therefore, strengthening its Governance, Information and Asset Management and Financial Management and Reporting arrangements.

Further work was in train to:

- extend the Records Management Policy to cover all the areas expected including how data is to be collected and destroyed
- test the Emergency Plan, once the new Headteacher had been able to confirm it is fit for purpose.

Action was also being taken to security mark the last few assets and ensure any future spot checks undertaken are evidenced.

This page is intentionally left blank

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

Friars Primary School

Overall Opinion Adequate

Audit Enquiry	Assessment
Governance	
The governing body is properly formed and governors are effectively recruited and trained	Good
Governors are provided with sufficient information to exercise their oversight role effectively	Adequate
Roles, responsibilities and powers are clearly defined and enforced	Adequate
Information and Asset Management	
Confidential, personal and sensitive information is effectively managed and secured	Improvement Required
Assets are secured and maintained	Improvement Required
Financial Management and Reporting	
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently	Good
There is effective financial planning that provides a clear view of how the school will use its resources to achieve objectives	Improvement Required
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the governing body	Adequate
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded	Adequate
Goods and services are procured fairly and achieve value for money	Adequate

Number of actions agreed: High: 6 Medium: 13 Total: 19

Key improvements required

A Records Management Policy will be produced when a model is provided by the Council. Regular exercises will then be undertaken to identify and destroy relevant information in line with its requirements.

Asset management will be strengthened by:

- regularly reconciling new purchases to the asset register

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

- undertaking spot checks to ensure the inventory remains accurate and all assets can be accounted for.

A log should be maintained of all assets loaned to staff, including laptops. Evidence should be retained that assets write offs have been authorised in line with the Scheme of Delegation.

A multi-year improvement plan should be developed that sets out the School's objectives and longer term targets, linked to an equivalent financial plan that demonstrates how it will be resourced.

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

Hinguar Community Primary School Overall Opinion Improvement Required

Audit Enquiry	Assessment
Governance	
The governing body is properly formed and governors are effectively recruited and trained	Good
Governors are provided with sufficient information to exercise their oversight role effectively	Adequate
Roles, responsibilities and powers are clearly defined and enforced	Adequate
Information and Asset Management	
Confidential, personal and sensitive information is effectively managed and secured	Improvement Required
Assets are secured and maintained	Improvement Required
Financial Management and Reporting	
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently	Adequate
There is effective financial planning that provides a clear view of how the school will use its resources to achieve objectives	Improvement Required
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the governing body	Adequate
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded	Improvement Required
Goods and services are procured fairly and achieve value for money	Adequate

Number of actions agreed: High: 9 Medium: 17 Total: 26

Key improvements required

A Records Management Policy is being developed to guide users in the appropriate ways to collect, process, retain, transfer and destroy data and a full assets verification exercise is going to be conducted to confirm the location of assets.

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

A multi-year improvement plan is being developed setting out objectives and longer-term targets, which will be coterminous with a multi-year financial plan which demonstrates how the improvement plan will be resourced.

Action is also being taken to ensure:

- a monthly cash flow forecast is produced and reported to the Governing Body on a regular basis
- for all orders, purchase orders are raised on the financial management system (SIMS) to commit the expenditure, prior to it being submitted
- orders are authorised independently in line with the Financial Regulations, prior to receiving the invoice and the relevant goods or services when appropriate
- proposed changes to supplier details and new supplier details are independently confirmed via a School-instigated contact with a known company representative. Evidence of this will be retained and amendments to SIMS independently checked for accuracy.

This will strengthen the general financial management of the School.

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

Our Lady of Lourdes Catholic Primary School Overall Opinion Adequate

Audit Enquiry	Assessment
Governance	
The governing body is properly formed and governors are effectively recruited and trained	Adequate
Governors are provided with sufficient information to exercise their oversight role effectively	Adequate
Roles, responsibilities and powers are clearly defined and enforced	Good
Information and Asset Management	
Confidential, personal and sensitive information is effectively managed and secured	Adequate
Assets are secured and maintained	Improvement Required
Financial Management and Reporting	
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently	Adequate
There is effective financial planning that provides a clear view of how the school will use its resources to achieve objectives	Adequate
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the governing body	Good
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded	Improvement Required
Goods and services are procured fairly and achieve value for money	Good

Number of actions agreed: High: 8 Medium: 9 Total: 17

Key improvements required

A costed Asset Management Plan will be presented to the full Governing Body outlining the budget, reason and timing for proposed works and investment, and the funding source (revenue or capital). An annual programme for preventive maintenance of the school infrastructure will also be drawn up and linked to the overall Asset Management Plan.

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

The inventory is being enhanced with relevant details about assets which are above an agreed minimum value (i.e. a description, reference / serial number, current condition, location and value where relevant). Termly asset verification checks are also to be undertaken and appropriately evidenced.

More formal procedures are being introduced to verify that proposed changes to supplier details (particularly current suppliers) are genuine. These checks will be documented. An independent sample check of all changes will also be undertaken periodically, and evidenced

Appendix 2f: Schools Audit Opinion and Themes

Objective

To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place.

St Nicholas School

Overall Opinion

Adequate

Audit Enquiry	Assessment
Governance	
The governing body is properly formed and governors are effectively recruited and trained	Adequate
Governors are provided with sufficient information to exercise their oversight role effectively	Adequate
Roles, responsibilities and powers are clearly defined and enforced	Adequate
Information and Asset Management	
Confidential, personal and sensitive information is effectively managed and secured.	Improvement Required
Assets are secured and maintained	Adequate
Financial Management and Reporting	
There are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently	Good
There is effective financial planning that provides a clear view of how the school will use its resources to achieve objectives	Adequate
The budget position is accurately known, monitored on a regular, timely basis and reported to senior management and the governing body	Good
Financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded	Adequate
Goods and services are procured fairly and achieve value for money	Adequate

Number of actions agreed:

High: 6

Medium: 13

Total: 19

Key improvements required

A Records Management Policy will be created to guide users in the appropriate ways to handle, collect, retain and destroy data.

The Managing Critical Incidents Policy will be reviewed and approved by the Governing Body, as evidenced through a formal minute. It will be regularly tested; the results analysed and reported upon to identify any required improvements required.

This page is intentionally left blank

Appendix 3: Internal Audit Action Plans Requiring Sign Off

Dept	Audit Activity	Year	Status	By
Managing the Business				
	Evaluating Risk in Corporate Reporting	13/14	Report issued Jun 2014	Good Governance Report: Feb 2016
CS	Ethical Governance	14/15	Report issued Jun 2015	Good Governance Report: Aug 2016
Managing Service Delivery Risks				
PE	OFSTED Inspections of Children's Social Care Services and Schools	14/15	Report issued May 2015	Internal Audit: Apr 2016
PE	Education, Health and Care Plans	14/15	Report issued May 2015	Management: Feb 2016
PE	Safeguarding: Serious Case Review Action Plan Implementation	14/15	Report issued Dec 2014	Internal Audit: Apr 2016
PL	The Forum Governance Arrangements	14/15	Report issued Dec 2014	Internal Audit: Apr 2016
PE	Reablement	14/15	Report issued Aug 2015	Internal Audit: May 2016
CS	Welfare Reform	14/15	Report issued Apr 2015	Internal Audit: Apr 2016
PL	Traffic Management Schemes Implemented by Traffic Regulation Orders	14/15	Report issued May 2015	Internal Audit: Apr 2016
CS	ICT Asset Procurement	14/15	Report issued May 2015	Management: Feb 2016
CS	End User Devices Strategy	14/15	Report issued Jun 2015	Management: Feb 2016
PL	Licensing	15/16	Report issued Nov 2015	Internal Audit: Apr 2016
CS	Essential Living Fund	15/16	Report issued Sept 2015	Management: Feb 2016
PL	Development Control	15/16	Report issued Nov 2015	Management: Aug 2016
CS	Cleaning Services Contract Management	15/16	Report issued Dec 2015	Internal Audit: Aug 2016
CS	Third Party Hosting	15/16	Report issued Dec 2015	Internal Audit: Apr 2016

Appendix 3: Internal Audit Action Plans Requiring Sign Off

Dept	Audit Activity	Year	Status	By
Reports already revisited				
PE	Children's Social Care Services Internal Assurance Processes	14/15 15/16	Report issued Dec 2014 Follow up report issued Sep 2015	Management: Aug 2016
PL	Capital Project Management	14/15 15/16	Report issued Mar 2015 Follow up report issued Dec 2015	Management: Aug 2016
PL	Parking Management Schemes	13/14 14/15	Report issued Feb 2014 Follow up report issued Mar 2015 Progress report to Audit Committee Sept 2015	Internal Audit and Management: Aug 2016
PE	Southend Adult Community College	13/14 14/15 15/16	Report issued Jun 2013 Follow up report issued Feb 2014 Progress report to Audit Committee Sept 2015	Internal Audit: Apr 2016
PE	Accounts Receivable, Social Care Debt	14/15 15/16	Report issued Jun 2015	Internal Audit: Mar 2016
PE	Direct Payments – Mental Health	14/15	Report issued Jun 2015	Internal Audit: Apr 2016

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

Audit Committee

on

20 January 2016

Report prepared by: David Kleinberg, Group Manager
Counter Fraud & Investigation & Dan Helps,
Investigation & Forensics Manager

Agenda
Item No.

9

Counter Fraud & Investigation Directorate: Quarterly Performance Report
Executive Councillor – Councillor Ron Woodley
A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Committee on the progress made in delivering the Corporate Counter Fraud & Investigation Strategy for 2015/16.

2. Recommendation

- 2.1 The Audit Committee notes the Directorate's performance to date.**

3. Corporate Counter Fraud & Investigation Work Programme

- 3.1 The work programme consisted of four main strands:
- assessing compliance with relevant national frameworks
 - delivering:
 - a proactive programme of counter fraud work
 - Team Management Development Projects designed to fully integrate the working practices of the combined team and two councils.
 - investigating allegations of fraud, corruption, bribery and theft made to the Directorate.
- 3.2 The Directorate also received Government funding to spend during 2015/16 on developing the service against the business case submitted.
- 3.3 The Directorate's ability to deliver all aspects of the plan is influenced by both the volume and complexity of allegations received and the level of staff resources available during the year.
- 3.4 The current status of each of these work streams is summarised below.
- 4. Fighting Fraud Locally**
- 4.1 The original Local Government Fraud Strategy ran from 2012 to 2015. The Council has periodically assessed its compliance with this Strategy during this period and reported it to the Audit Committee.

4.2 There was an expectation that it was to be refreshed and reissued during 2015 so limited work has been done in this area although the current assessment did inform the Directorate's work programme for the year. It is now understood that the updated draft Strategy is in the process of being finalised. It is expected to be published within the next couple of months. The Council's arrangements will be assessed against the new Strategy once it is available.

5. Proactive work programme

5.1 **Appendix 1** sets out the current status of all the activities proposed in the Strategy for the year. The main areas of work that the Directorate has focused on to date, given the investigative caseload and resources available, has been:

- Housing Tenancy fraud
- Insurance fraud
- Social Care fraud
- National Fraud Initiative.

5.2 The **Housing Tenancy Fraud** project continues to go from strength to strength where a noticeable increase in referrals for investigation has been realised. Work continues in this area with South Essex Homes as well as other social housing providers such as Estuary Housing.

5.3 In order to develop both **awareness and referrals of potential frauds in new service areas**, each team member has been allocated an area to specialise in. They will be the key link with the service and others in relation to their allocated fraud risk. This approach has proved to be very effective with both insurance and social care whereby:

- one detected insurance case alone is valued at £150k
- indications of potential criminal misuse of welfare support are now being referred to the Directorate by staff, which helps protect vulnerable people.

5.4 **Appendix 2** summarises the number of **National Fraud Initiative** Data Matches received, split into categories and those that have already been dealt with. Action is now being taken to obtain target completion dates for those data sets with outstanding matches to be reviewed.

6. Team Management Development Projects

6.1 The Directorate only managed to recruit to its Investigations & Forensics Manager post in September 2015. As a result, limited progress has been made in progressing many of the projects set out in **Appendix 3**. Now that the management structure of the Directorate is complete and this work can be progressed, new implementation dates have been proposed.

7. Investigative caseload

7.1 In November 2015, all remaining housing benefit investigations were fully transferred to the Department of Works and Pensions (DWP) Single Fraud Investigation Service in line with national arrangements. Any cases where the Directorate completed the investigation prior to the transfer will be included in its year end caseload figures once the final outcome is advised by the DWP.

7.2 Despite this, the Directorate's investigative workload remains high although the cases now involve other types of fraud. This is reflected in **Appendix 4** which summarises Southend-on-Sea Borough Council cases for the 2015/16 financial year.

7.3 **Appendix 5** provides more detailed information and some case studies regarding the investigative work the Directorate has undertaken this year to date.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

Work undertaken to reduce fraud and enhance the Council's anti fraud and corruption culture contributes to the delivery of all its aims and priorities.

8.2 Financial Implications

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

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

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

8.3 Legal Implications

The Accounts and Audit Regulations 2015 Section 3 requires that:

The relevant authority must ensure that it has a sound system of internal control which:

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

The work of the Directorate contributes to the delivery of this.

8.4 People Implications:

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

8.5 Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity.

8.6 Consultation: None

8.7 Equalities Impact Assessment: None

8.8 Risk Assessment

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

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

8.9 Value for Money

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

8.10 Community Safety Implications and Environmental Impact: None

9. Background Papers

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

10. Appendices

- Appendix 1: Proactive Work Programme as at 31 December 2015
- Appendix 2: 2015 National Fraud Initiative Data Matches Update December 2015
- Appendix 3: Team Management Projects 2015/16
- Appendix 4: Counter Fraud & Investigation Directorate, Southend-on-Sea Borough Council Case Summary to 31 December 2015
- Appendix 5: Supporting summary regarding investigative work

Appendix 1: Proactive Work Programme as at 31 December 2015

Risk area	Tasks	Planned for	Current status
Housing Tenancy	Commence 'Operation Domus', the county-wide joint proactive drive to share data and intelligence on tenancy fraud.	February 2016	The work required to set this project up has now been completed. Preparations are being made to launch it.
Right to Buy	Evaluate whether application processes can be strengthened to minimise the risk of fraud.	July 2015	<p>Some work has been undertaken with South Essex Homes and the Allocations team on this, on an individual application basis.</p> <p>Consideration is being given to undertaking a formal review with Internal Audit in 2016/17.</p>
Insurance	Evaluate whether insurance processes can be strengthened to minimise the risk of fraud.	August 2015	<p>A joint working protocol is now in place with the Insurance service.</p> <p>As a result of this, £150k of fraudulent claims have been stopped to date.</p>
Business Rates	Conduct a data matching exercise to identify possible misuse of exemptions claimed for commercial property, including 'Phoenix Companies'.	June 2016	<p>There is no national standard model for data matching in this area. So the current focus of this work is to develop the data matching tool.</p> <p>At present, different data sets are being tested, in conjunction with the Revenue service to ensure the results are reliable.</p>
	Identify, from the data matching exercise, a tool that can be installed for use in the continual prevention of false exemption claims.	September 2015	
	Evaluate whether Business Rates processes can be strengthened to minimise the risk of fraud.	July 2015	
Council Tax	Evaluate whether Council Tax Discount and Exemption processes can be strengthened to minimise the risk of fraud.	August 2015	<p>A joint working arrangement has been established with the Revenues service in relation to this.</p> <p>This joint working has already identified fraud with student exemptions.</p>

Appendix 1: Proactive Work Programme as at 31 December 2015

Risk area	Tasks	Planned for	Current status
Social Care	Conduct a proactive exercise of Direct Payments and Financial Assessments to identify flags for potential fraudulent activity	June 2016	An exercise is being planned which involves test checking a random sample of 50 cases.
	Introduce a trial protocol with the service to enable information and intelligence to be shared, with a view to identifying potential fraudulent claims for support in cases where the claimant should have No Recourse to Public Funds.	September 2015	Agreement achieved with Home Office Bureau to create a better information sharing service for the Council. A draft protocol is with the Safeguarding Manager awaiting signoff.
	Produce newsletters, highlighting current fraud risks and trends with best practice advice and guidance and investigation outcomes.	January 2016	Draft newsletters have been produced and are with Media and Communications team for comment before being signed off.
Fraud Awareness	Introduce a formal, detailed intelligence alert system across all Council departments to inform services of immediate fraud risks.	January 2016	Draft intelligence alert templates have been produced are with Media and Communications team for comment before being signed off.
National Fraud Initiative, Data Matching Exercise	Investigate high level recommended data matches until the 2015 exercise is complete.	Will report progress made on quarterly basis	As detailed in Appendix 2.

Appendix 2: 2014/15 National Fraud Initiative Data Matches

Update - December 2015

Southend-on-Sea Borough Council has received a total of 5,775 matches to date as part of the National Fraud Initiative (NFI) 2014/15.

Background

The NFI issues matches with three different categories - High, Medium and Low - and within those categories highlights certain matches as "recommended".

Each report has guidance attached to it which advises that the report is filtered so the recommended matches are processed. As such, Southend-on-Sea Borough Council will normally **only process recommended matches on the high level reports**. However, some departments will process additional matches due to the nature of the report.

The summary table below lists the total number recommended matches for the high level reports and the number of recommended matches cleared.

If a department has processed additional matches, for example relating to deceased data, then additional matches will be classed as recommended.

Current Figures

- Southend-on-Sea Borough Council has a total of 1,684 recommended matches across 35 high level reports to be processed.
- 18 reports, comprising 788 high level recommended matches, have been fully processed and completed.
- 17 reports, comprising 896 high level recommended matches, are left to complete, with 43.4% of recommended matches left to view.

Notes

The following notes provide further explanation on the reports:

- Note 1: Further filters have been applied to these reports which have removed some high level recommend matches e.g. benefit claimants in receipt of a primary benefit as the Department for Work and Pensions would normally investigate those individuals.
- Note 2: 'Report not actioned' means that none of the data matches in the report have been reviewed at the time of reporting.
- Note 3: Indicates matches currently under investigation or awaiting response from an external body i.e. Department for Work and Pensions, Other Local Authorities or court hearings.
- Note 4: Unable to review matches in the foreseeable future due to staff resource issues.

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Blue Badge					
Blue Badge Parking Permit to Blue Badge Parking Permit	9	9	1 Data Error corrected.		
Blue Badge Parking Permit to DWP Deceased	220	220			
Concessionary Travel Passes					
Concessionary Travel Passes to DWP Deceased	471	471	1 Data Error corrected.		
Creditors					
Duplicate creditors by address detail	92		Note 2		
Duplicate creditors by bank account number	24		Note 2		
Duplicate creditors by creditor name	43		Note 2		
Duplicate creditors by creditor reference	4		Note 2		
Duplicate records by amount and creditor reference	331	329	Note 3		
Duplicate records by invoice number and amount but different creditor reference and name	7	7			

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Duplicate records by name, invoice number and amount but different creditor reference	1	1			
Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	1	1			
Duplicate records by reference, amount and creditor reference	11	11			
VAT overpaid	133	133			
Housing Benefit Matches					
Housing Benefit Claimants to DWP Deceased	62	62			
Housing Benefit Claimants to Housing Benefit Claimants	10	1	Note 3		
Housing Benefit Claimants to Housing Tenants	2		Note 2		
Housing Benefit Claimants to In-country Immigration	8	5	3 matches under investigation.		
Housing Benefit Claimants to Market Traders	1		Note 2		
Housing Benefit Claimants to Payroll	7		Note 2		

137

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Housing Benefit Claimants to Pensions	24		Note 2		
Housing Benefit Claimants to Right to Buy	1		Note 2		
Housing Benefit Claimants to Student Loans	229		Note 2		
Housing Benefit Claimants to Taxi Drivers	11		Note 2		
Payroll Matches					
Payroll to Creditors	7		Note 2		
Payroll to Payroll	3		Note 2		
Personal Budgets					
Personal Budgets to DWP Deceased	9	9			
Personal Budgets to Pensions	34		Note 2		
Private Residential Care Homes					
Private Residential Care Homes to DWP Deceased	28	28			

Report Name	Recommended Matches	Cleared Matches	Comments	Case Proven No. & (£)	Target Completion Dates
Resident Parking Permits					
Resident Parking Permits to DWP Deceased	17		Note 2		
Right to Buy					
Right to Buy to Housing Benefit Claimants	6	6			
Right to Buy to Right to Buy	2	2			

This page is intentionally left blank

Appendix 3: Team Management Projects 2015/16

	Tasks	Planned for	Current status
Corporate Arrangements (Fighting Fraud Locally)			
1	<p>Produce a standard Anti Fraud, Corruption, Bribery and Money Laundering Policy and Strategy that can be tailored by all organisations working with the Directorate.</p> <p>Include the requirements of any good practice guidance relevant to different sectors (e.g. local authorities, social housing providers, schools).</p> <p>Present to Corporate Management Team and Audit Committee for challenge before going to Cabinet for approval.</p>	June 2016	<p>This exercise still needs to be undertaken.</p> <p>The Council's current policy framework is satisfactory although it does not reflect the joint working arrangement with Thurrock Council.</p> <p>This will also need to take account of the pending CIPFA guidance on Bribery and Money Laundering.</p>
2	Check for consistency, any references to these policies within the Contract Procedure Rules, Financial Regulations or other elements of the Constitution being updated in 2015.	June 2016	This work will be completed as part of updating the policy framework outlined above.
3	Update the Bribery Act and Money Laundering risk assessment survey if necessary.	June 2016	This was delayed this year pending the new CIPFA guidance – see above.
4a	<ul style="list-style-type: none"> • Distribute the survey to Group Managers, collate the results and identify current, potential risk areas. 	September 2016	
4b	<ul style="list-style-type: none"> • Deliver targeted training to those services who have a high exposure to those risks. 	October 2016	
5	Update the posters and leaflets to reflect the new operating arrangements and distribute.	January 2016	<p>New posters have been designed and are being printed ready for distribution.</p> <p>Leaflets have been developed for each high risk fraud area.</p>
6	Collate and refresh, if necessary, the package of fraud awareness material to be used by all organisations working with the Directorate.	March 2016	<p>The new package has been developed.</p> <p>Training for staff and Members is being planned.</p>

Appendix 3: Team Management Projects 2015/16

	Tasks	Planned for	Current status
7	Deliver the business case that the grant funding was awarded for.	February 2016	Operation Domus, the regional tenancy fraud project funded by the grant is being launched on 1 st February 2016.
Working with other Services			
8	Develop a protocol with the Section 151 Officer that sets out the working arrangements when undertaking searches and arrests.	January 2016	A protocol has been drafted for the s151 Officer to consider.
9	Organise a workshop with HR to clarify working relationships when dealing with potential disciplinary issues as part of an investigation.	January 2016	A workshop between the two departments has been organised using real-world case studies. A draft protocol has been drafted setting out how the services will work together in these circumstances.
10	Organise a workshop with Legal Services to go through the Prosecution Manual.	June 2016	The Prosecution Manual is being re-drafted to reflect the recent changes arising due to the Department of Works and Pensions, Single Fraud and Investigation Service taking over all housing benefit fraud cases?
11	Implement a protocol with Regulatory Services with a view to providing: <ul style="list-style-type: none"> • shared intelligence on casework from both areas • Proceeds of Crime seizure, detention, restraint, investigation and confiscation support • joint operational support where a shared purpose exists. 	January 2016	A draft protocol has been developed between the two departments providing opportunities to share resources. The departments met in January 2016 to identify joint work streams.

Appendix 3: Team Management Projects 2015/16

	Tasks	Planned for	Current status
	Developing Performance Information		
12	Fully implement a new IT case management system and regular team based performance monitoring reports.	December 2015	The new system has been implemented.
13	Develop a financial reporting template that shows, for the Directorate and each individual organisation working with it: <ul style="list-style-type: none"> • potential funds to be recovered from cases • actual monies received • allocation of monies between the parties concerned. 	January 2016	A draft suite of report templates have been designed, for review and signoff.

This page is intentionally left blank

**Appendix 4 Counter Fraud & Investigation Directorate
Southend-on-Sea Borough Council Case Summary to 31st December 2015**

Case Status	Fraud Type				
	Revenues & Benefit	Housing Tenancy Fraud	Blue Badge	Other	Total

NB: Responsibility for investigating all Housing Benefit fraud transferred to the DWP on 2 November 2015. SBC no longer has any involvement in investigating benefit fraud.

Directorate Case Load					
Referrals Received (Between 1/4/15 – 31/1/16)	143	90	32	13	278
Passed to another agency**	63	0	0	0	63
No offences**	35	7	0	0	42
Under investigation**	26	35	9	8	78
Closed**	21	48	23	5	95

****These Figures represent the status of investigations conducted by the Directorate that commenced during 2015/16 but also those received in previous years but concluded in 2015/16.**

Outcomes Achieved					
Formal Caution	1	N/A	N/A	1	2
Administrative Penalty	4	N/A	N/A	N/A	4
Prosecution Action	12	5	1	3	13
Tenancy Property Recovered	N/A	48	N/A	N/A	48
Right to Buy Closed	N/A	6	N/A	N/A	3
Blue Badge Recovered	N/A	N/A	2	N/A	2
Warning Issues	N/A	N/A	23	0	23
Staff Dismissal	N/A	N/A	N/A	1	1
Fraud Prevention Saving	4	1	N/A	N/A	5

Value of Proven Fraud re Closed Investigations

Prosecution	Caution	Administrative Penalty	Other Fraud Savings
£600,736	£5,812	£9,133	£14,604
Right to Buy Fraud Savings	Tenancy Fraud Savings		TOTAL
£347,540	£864,000		£1,841,829

This page is intentionally left blank

Appendix 5: Supporting summary regarding investigative work

Introduction

This appendix provides more detailed information about the investigative work the Directorate has done this year to date with some detailed individual case studies.

Parking Fraud

23 Disabled Persons Parking Badge cautions have been issued for first instance of misuse. The misuse includes where a person had used the badge to park without the badge holder present.

Records of these cautions are held within the Directorate and contain details of the misuse and an acceptance by the user that if they misuse a badge again they may be prosecuted.

One Badge has been seized as it belonged to person who died in May 2015. This User has been interviewed under caution and fully admitted to 'routinely using the badge'. A prosecution file is to be sent to Legal Services for consideration of criminal prosecution action.

Awareness Training & Improvements

Previously the evidence of misuse being provided by Civil Enforcement Officers (CEOs) was not up to the criminal standard (as defined by the Criminal Procedures & Investigation Act) to enable it to be used as part of a criminal prosecution.

The Directorate has now developed a new training and a witness statement pro-forma for CEOs to use when they suspect misuse of a badge. This ensures that 'best evidence' is obtained and it can be used where a prosecution for offences of parking fraud is deemed appropriate.

Proactive Work

A programme of engagement with the Department for Place has seen an increase in reports of person's fraudulently obtaining resident parking permits to trade them for personal gain. These are currently under investigation.

The Directorate has also formulated an action plan to proactively data match parking permit records against single person discount on council tax in order to identify indicators of fraudulent applications or council tax fraud. It is anticipated that this work will take place in Q1 and Q2 of 2016/17 but is dependent on assistance from the other business areas.

Housing Benefit Fraud

On 2 November 2015, responsibility for preventing and detecting all housing benefit and historical council tax benefit fraud relating to the Council was transferred to the Department for Work and Pensions (DWP) under new legislation. So all:

- current investigations and new reports were transferred to the new DWP Single Fraud Investigation Service (SFIS)
- prosecution action was transferred to the Crown Prosecution Service.

Prior to the 'transfer date' on 2 November 2015, the Directorate identified more than £220,000 in benefit fraud. These fraud detections resulted in eight prosecutions that are being conducted by the DWP on behalf of the Council.

The Directorate has met with SFIS to ensure that these prosecutions still go ahead. SFIS has advised that it is dropping 'most prosecutions' that are transferred to it from any Local Authority nationally. The Directorate has requested that any decision not to prosecute is referred back to it, so the Council can continue the prosecution.

Appendix 5: Supporting summary regarding investigative work

The Directorate conducted three prosecutions in relation to benefit fraud itself. These include one where the claimant pleaded not guilty but was found guilty on 8 out of 9 charges after a three day trial.

The Directorate identified one claim for benefit where the overpayment was calculated as more than £50,000. Due to the claimant's health conditions it was deemed not to be in the public interest to conduct a prosecution. The Directorate did however identify assets which resulted in the full overpayment of benefit being repaid to the Council.

The Directorate currently has one person circulated as being wanted after absconding in relation to a benefit fraud totalling £4,388.53.

Council Tax

The Directorate has a gateway set up with the Council Tax service to refer suspected fraud. Currently referrals to the value of £13,333.78 are under investigation. These suspected frauds include single person discount, empty properties and student exemption.

There have also been three proven investigations where single person discount has now been removed.

National Non-Domestic Rates

NNDR or 'business rates' is an emerging area of fraud risk where the main opportunities exist by businesses or landlords presenting false information to avoid paying liable rates. The Directorate is involved in the national programme to increase the controls around the standards for the quality of data submitted by business owners and landlords.

There are two ongoing enquiries that involve a number of businesses who are suspected of producing false tenancy agreements to avoid liability using businesses and banks registered in overseas territories. This is the first time that enquiries can actually be progressed with these foreign territories due to the unique powers held by the Directorate.

Housing Fraud

The Directorate leads the Essex Tenancy Fraud Forum where all social housing providers across Essex, including Housing Associations and councils share best practice and resources to combat the issues.

Two members of the Directorate are Executive Committee Members and sit on the Executive Board of the National Tenancy Fraud Forum providing a lead in the direction of this type of work.

So far 48 properties have been recovered in Southend-on-Sea where fraud has been proven. These include instances of subletting, key selling and abandonment. Given the notional cost of tenancy fraud as £18,000 per year per property (National Fraud Authority) this equates to a saving of £864,000.

The majority of these recoveries have been without the need for costly legal process but utilise new legislation. Less than 5% have required civil court action. This is due to the levels of experience and expertise within the service and the evidential standards that the Directorate applies to its investigation. As a result of this, most fraudsters have returned the property once challenged instead of South Essex Homes / the Council having to obtain court orders.

The Directorate has also:

- forwarded one Unlawful Profit Order application to legal services
- sent one prosecution file to legal services. This will be one of the first prosecutions in the country under the new Prevention of Social House Fraud Act 2013.

Appendix 5: Supporting summary regarding investigative work

Four other prosecutions are currently being considered.

The Directorate has provided four training sessions to South Essex Homes, where around 20 staff attended each session. These sessions covered:

- types of tenancy fraud (sublet, key selling, abandonment, false right to buy/succession, misuse of premises)
- indicators of fraud
- how to record concerns correctly
- general fraud awareness advice
- case studies showing the types of evidence that the Directorate can obtain (utilities, full bank statements and history, mortgage accounts, vehicle registration, phone call data and subscribers and much more)
- how to report an allegation of fraud and what information is required.

Insurance Fraud

The Directorate has formed a great working relationship with the Insurance section where the Insurance service refers any suspicion in relation to an insurance claim to the Directorate. There are currently three claims under investigation and one claim is awaiting trial at criminal court. The total figure of these cases is in excess of £200k.

Social Care Fraud

Social Care fraud is an emerging risk to Local Authorities around the UK. The Directorate has successfully concluded an investigation elsewhere into one service user who defrauded five local authorities out of £439,168 by claiming direct payments from them all at the same time. Whilst the Council didn't fall victim to this fraud, the learning from investigating this matter has been shared with its partners to ensure the same offending doesn't happen at the Council.

There are currently five cases under investigation, including misuse of personal budget direct payments by adults in Southend-on-Sea. These allegations include where Personal Assistants have defrauded the Adult by submitting false invoices.

Schools

Nationally schools are targeted by criminals to take advantage of their contracts and suppliers. There have been a number of attempts to commit mandate fraud against schools. This is where an organised crime group send a false invoice or letter claiming to be a legitimate supplier and that they have changed their bank account details. The criminals then submit inflated invoices for payment as that supplier, receiving the fraudulent money. All of these instances have all been intercepted at source and fraud prevented.

The Directorate publish monthly (or more frequent when urgent) 'fraud alerts' giving details of known fraud scams to schools and other payment areas within the Council. This intelligence comes into the Directorate from other accredited agencies including Police, National Crime Agency and other local authorities.

One of the Directorate's Investigation Managers is a permanent member of the National Anti-Fraud Network, now known as NAFN.gov, Executive Board and has an oversight of new and emerging trends in these areas of fraud.

This engagement ensures that the Directorate provides a lead on Local Authority investigations especially given the upcoming legislative reforms in relation to obtaining data

Appendix 5: Supporting summary regarding investigative work

under the Regulations of Investigatory Powers Act, where the use of NAFN will be mandatory for Local Authorities.

Other Fraud & Economic Crime

The Directorate is one of the only agencies in the country that has officers accredited by the National Crime Agency to receive Suspicious Activity Reports for suspected money laundering. These alerts identify where persons or business may be attempting to misuse Council services to 'launder' the proceeds of crime. This engagement ensures that potential illegal activity is stopped at the outset.

Annual Regulatory Compliance and Quality Report

BDO LLP June 2015

Audit 2014/15

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

Contents

Summary report	4
Introduction	4
Overall performance	5
Detailed report	6
Quality review programme	6
Regulatory compliance	13
Recommendations	15
Appendix 1 – Weightings to calculate overall quality score	16
Appendix 2 - Audit quality and regulatory compliance RAG rating.....	17
Appendix 3 - Results of 2014/15 regulatory compliance monitoring	19
Appendix 4 - Summary of regulatory compliance and QRP improvement areas	22

Summary report

Introduction

- 1 Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of our monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.
- 2 There are two strands to our monitoring:
 - audit quality- applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
 - regulatory compliance- reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment^I.
- 3 The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:
 - a review of each firm's latest published annual transparency reports;
 - the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions, Whole of Government Accounts (WGA) and housing benefit (HB COUNT) work. Our review included assessing compliance with the HB COUNT guidance;
 - an assessment as to whether we could rely on the results of each firm's systems for quality control and monitoring^{II};
 - a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
 - the results of our inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
 - the results of each firm's compliance with 17 key indicators relating to Terms of Appointment requirements^{III};
 - a review of each firms' systems to ensure they comply with our regulatory requirements^{IV}; and
 - a review of each firm's client satisfaction surveys for 2013/14 work.
- 4 This report summarises the results of our monitoring work for BDO LLP (BDO).

^I Previously these requirements were set out in the Standing Guidance for Auditors issued by the Audit Commission.

^{II} These assessments were undertaken by the Audit Commission prior to 1 April 2015.

^{III} Results of compliance against the 17 indicators were published by the Audit Commission prior to 1 April 2015.

^{IV} These assessments were undertaken by the Audit Commission prior to 1 April 2015.

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2014/15, BDO's combined audit quality and regulatory compliance rating was amber.

Figure 1: 2015 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
-----	----	----	----	------	--------	-----

6 The firm has improved its performance against the regulatory compliance indicators since last year, with all but one of the 2014/15 indicators scored as green. However, the firm scored red against the indicator measuring delivery of whole of government accounts (WGA) submissions and it needs to ensure this is improved on for next year.

7 The firm's overall weighted audit quality score has decreased slightly from last year, however the satisfaction survey results show that audited bodies are satisfied with the performance of BDO as their auditor.

Detailed report

Quality review programme

FRC Inspection

8 Every year each firm provides a self-assessment in the form of a statutory transparency report. Our review of the BDO transparency report did not highlight any significant issues of note.

9 Annually, the FRC publishes reports on the audit firms subject to full scope FRC inspections (including firms in our regime), as well as an overall annual report. We place reliance on the work of the FRC, which reviews the firms' systems and processes for ensuring audit quality and reviews a sample of their audits of public interest entities. In its latest public report (May 2015) on the firm, the FRC concluded that audit procedures were performed to a good or acceptable standard for seven of the audit engagements reviewed, with one audit requiring significant improvement.

10 In addition, the FRC produces an annual overview report on the profession based on its audit quality inspection activities in the year. The FRC's overall conclusion in this report was that '*...the 2014/15 inspection results are consistent with our overall judgment that audit quality is improving.*' (FRC Annual Report 2014/15, 29 May 2015).

11 The FRC have identified key issues in its annual report which, profession wide, should be addressed in order to improve audit quality. These were:

- a need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;
- a need for an improvement in the sufficiency and appropriateness of audit procedures being performed. This is common to many audit areas including revenue recognition; and
- a need to adequately identify the threats and related safeguards to auditor independence and to appropriately communicate these to audit committees.

12 We have raised these issues with BDO and with all other firms in our regime; and we will continue to monitor progress in these areas.

13 We also commissioned inspections of all firms by the FRC for this year's QRP. The AQR inspected one 2013/14 audit file and one VFM conclusion file from BDO's PSAA work and did an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQR, we assessed the audits inspected as acceptable with limited improvements required for the financial statements audit and as acceptable overall with improvements required for the VFM conclusion work.

14 The improvement points raised by the AQR, from across the firms, following this year's programme of work for PSAA were:

- a continuing need to review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations; and in relation to the consideration of savings plans, the levels of reserves and budgetary controls;
- a need to clearly justify and document materiality considerations and not default automatically to the top of the materiality range;
- a need to consider property valuations as significant risk areas, particularly to ensure that when using external valuers in this respect they review and challenge management valuations. In addition, audit teams needs to verify the completeness and accuracy of source data used by

experts and to evidence the consideration of ensuring that assets are revalued on the appropriate cycle in accordance with accounting policies; and

- a need to evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing and following up on any identified control weaknesses.

15 We have combined our scores for the AQR inspections for PSAA with the firm's QMR scores in the relevant sections in the rest of this report. These improvement points are included in Appendix 4.

QMR programme

16 PSAA sets quality standards for its appointed auditors and monitors their performance against them. The principal means of monitoring and evaluating the quality of auditors' work is the annual QRP. For 2014/15 we relied on each firm's own quality monitoring arrangements.

17 All firms agreed to follow PSAA's methodology and reporting format for their QMRs for WGA returns, VFM conclusions and HB COUNT audit work and use their own methodology for assessing work on the financial statements (converting the financial statements results to our scoring system). We concluded that BDO's QMRs were sufficiently detailed and rigorous for us to place reliance on all of the reviews provided by the firm.

18 Each firm scored their QMRs using a common four-point scale, with 3 being the highest and 0 being the lowest. A score of 1 is our benchmark for acceptable performance. The full assessment scale is detailed in Table 1 and we calculated the score for overall audit quality on a weighted assessment using the weightings detailed in appendix 1.

Table 1- PSAA assessment scale

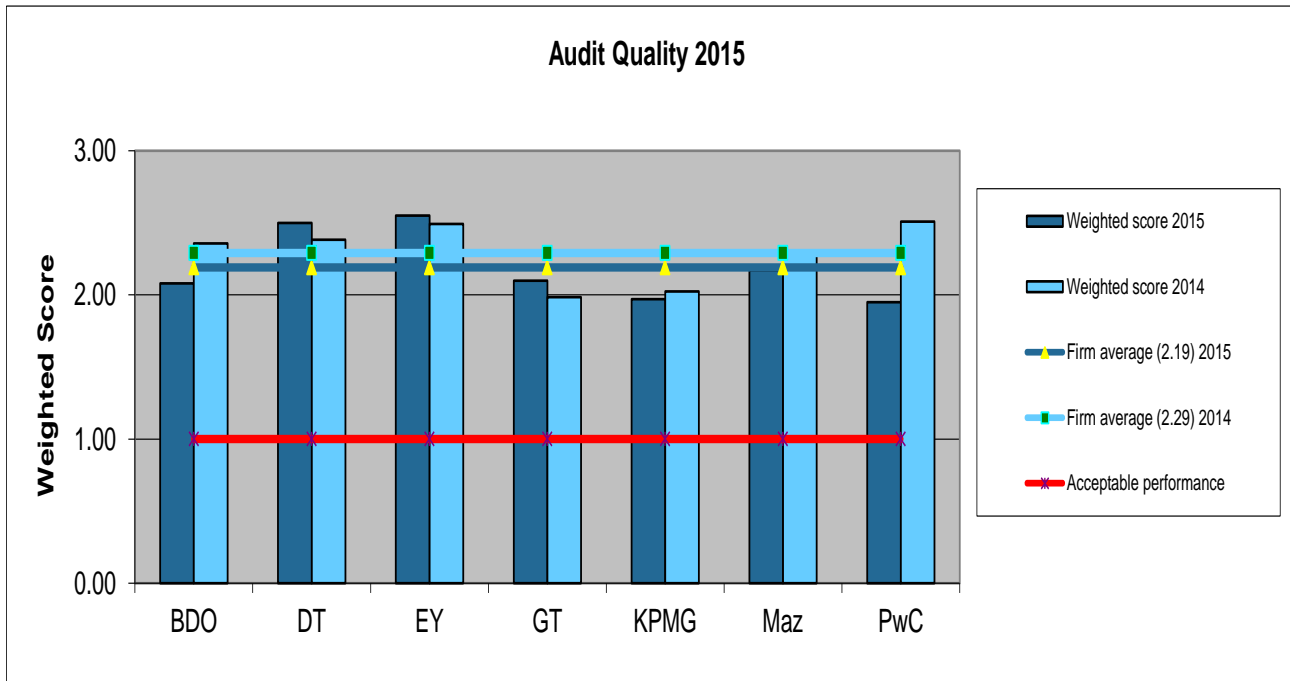
Score	Descriptor
3	Good, no improvement required
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Improvements required which are individually or collectively significant

19 BDO's score for overall audit quality was 2.08, compared to an all firm average of 2.19. This was a reduction on last year's score of 2.36, although this year we used a slightly amended scoring base¹.

20 Figure 2 shows the assessment of BDO's overall audit quality performance in comparison to other firms.

¹ The prior year assessment included consideration of Health Quality Accounts and Certification work which are not included in the current year assessment.

Figure 2: 2015 Comparative performance for audit quality

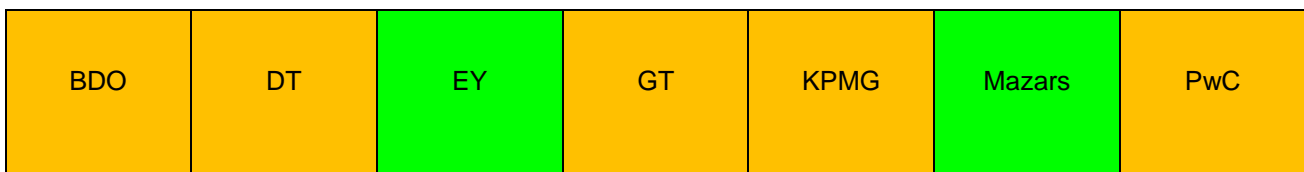


21 Our QRP methodology is designed to highlight any specific weaknesses at individual file level, specifically where our benchmark score of 1 is not met, which may have ordinarily been masked behind a high average score across the various elements (Financial statements, VFM, WGA and HB COUNT) of the QRP.

22 We have calculated a red, amber, green (RAG) indicator for each element of the QRP, using the principles detailed in Appendix 2, as well as for overall audit quality. Where a firm scores an average of less than 2, or has any scores of 0, a rating higher than amber in that element is not possible.

23 For 2014/15, BDO’s overall rating for audit quality was amber. We consider each of the individual elements making up this rating below.

Figure 3: 2015 Comparative performance for audit quality



Financial statements audit work

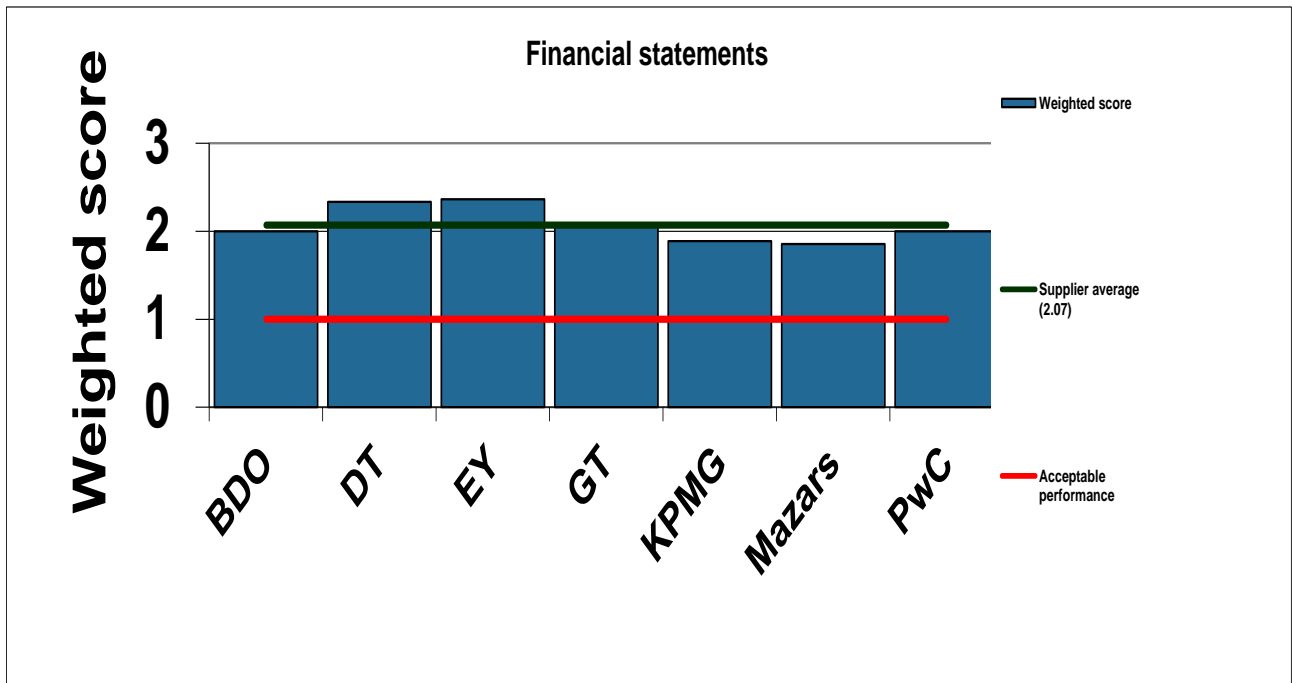
24 The firm provided the results of three QMRs for financial statement audit files. We reviewed the result for all of these files and agreed with two out of the three firm assessments. In one case, we scored an assessment lower by one grade, from a 3 to a 2 as limited improvement needs were identified by the reviewer. In addition, the AQR review for PSAA provided a score for one additional financial statements assessment.

25 The improvement areas from these individual QMRs and the AQR review included:

- ensuring there is sufficient explanation documented on file to support the conclusions from all audit testing;
- ensuring there is always sufficient challenge of the narrative disclosures within accounts.

26 Figure 4 shows the comparative performance for financial statement audit work based on the results of the QMRs and AQR review. BDO's average score was 2.00 compared to an all firm average of 2.07.

Figure 4: 2015 Comparative performance on financial statements work



27 For 2014/15, BDO's rating for financial statements work was green.

Figure 5: 2015 Comparative performance for financial statements audit work



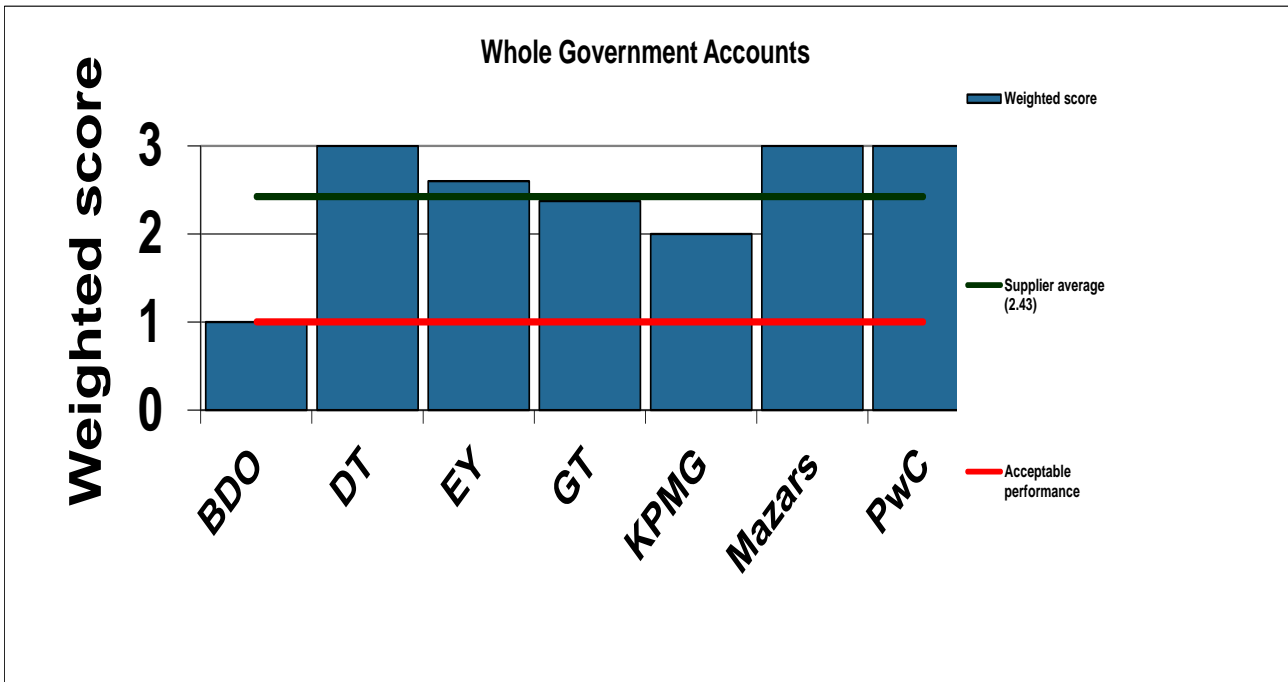
Whole of government accounts returns

28 The firm provided the results of two QMRs for WGA returns. We reviewed these and agreed with the assessments.

29 The main improvement area from these individual QMRs was to ensuring that the WGA pack is reconciled to the primary statements and notes on a line by line basis.

30 Figure 6 shows the comparative performance for WGA return audit work based on the results of the QMRs. BDO's average score was 1.00 compared to an all firm average of 2.43.

Figure 6: 2015 Comparative performance on WGA work



31 For 2014/15, BDO's rating for WGA work was amber because of the relatively low score (average less than 2) on WGA audit work.

Figure 7: 2015 Comparative performance for WGA work



VFM conclusion audit work

32 The firm provided the results of two QMRs for VFM conclusion audit files. We reviewed the results and agreed with both of the assessments.

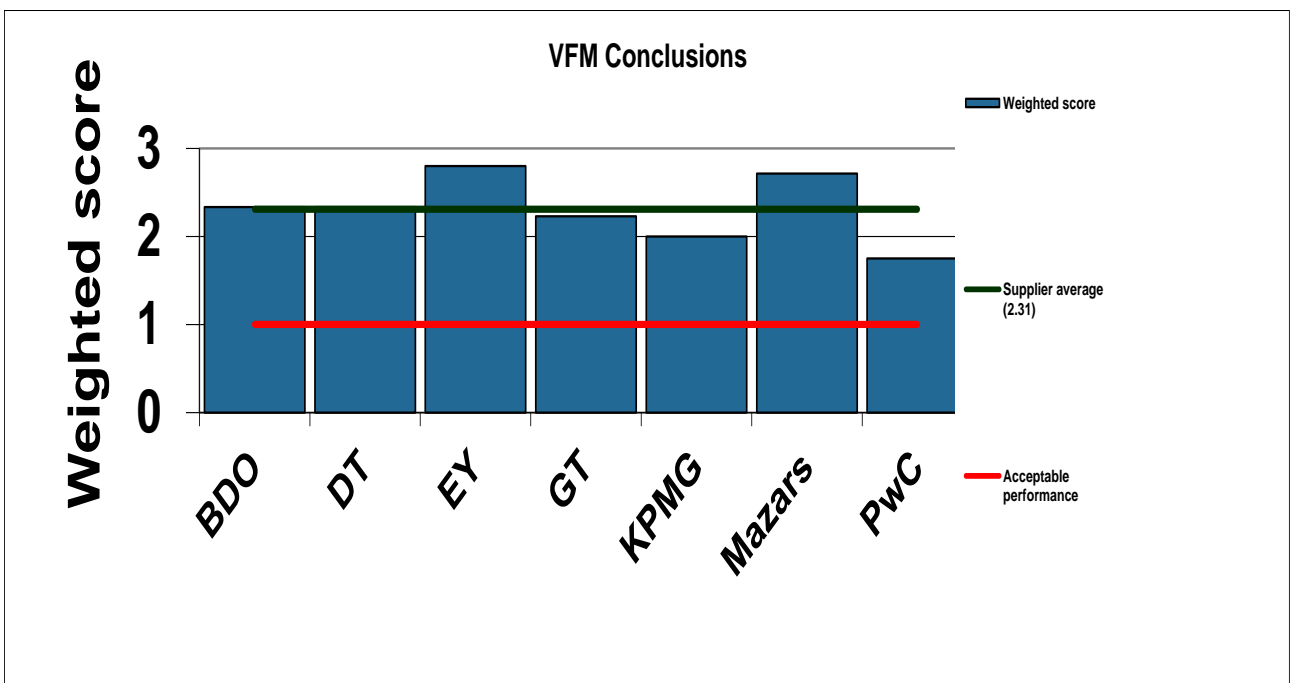
33 In addition, the AQR review for PSAA provided a score for one additional VFM conclusion assessment.

34 The improvement areas from these individual QMRs and the AQR review included:

- ensuring that VFM conclusion reporting makes clear the distinction between matters considered to be “significant risks” and other matters.

35 Figure 8 shows the comparative performance for VFM audit work based on the results of the QMRs and AQR review. BDO's score was 2.33 compared to an all firm average of 2.31.

Figure 8: 2015 Comparative performance for VFM conclusion audit work



36 For 2014/15, BDO's rating for VFM conclusion work was green.

Figure 9: 2015 Comparative performance for VFM conclusion audit work



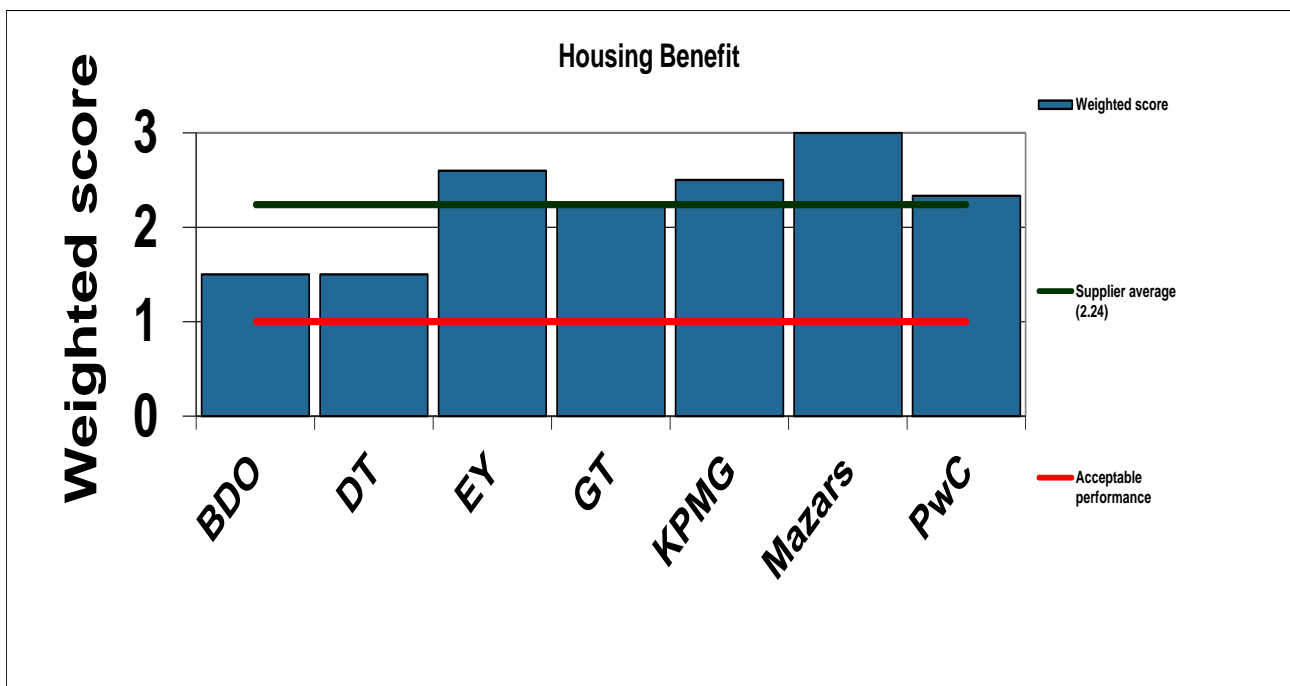
Housing benefit work

37 Each year auditors certify local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP). They are required to undertake this work using specific guidance and tools (HB COUNT) which are agreed annually with the DWP. HB COUNT sets out the approach and work needed to certify the subsidy claim form. It includes a requirement to test a sample of cases to check that benefits have been awarded in accordance with benefit regulations and that subsidy has been properly claimed.

38 The firm provided the results of two QMRs for HB COUNT audit work. We reviewed the results of these and we agreed with one of the firm’s assessments. For the other review we scored the assessment lower by two grades, from a 2 to a 0. This was because of the type of improvement needs identified, specifically around the need to follow the specified procedures agreed with DWP for the HB COUNT approach for all areas and substantively test where issues had been identified in the prior year.

39 Figure 10 shows the comparative performance of each firm based on the QMRs. BDO's average score was 1.50 compared to an all firm average of 2.24.

Figure 10: 2015 Comparative performance for HB COUNT audit work



40 For 2014/15, BDO’s rating was amber because one score of 0 was awarded to HB COUNT audit work.

Figure 11: 2015 Comparative performance for HB COUNT audit work

BDO	DT	EY	GT	KPMG	Mazars	PwC
-----	----	----	----	------	--------	-----

Regulatory compliance

Systems for compliance with our regulatory requirements

41 In 2013/14 the Audit Commission (the Commission) reviewed the systems and procedures at BDO for ensuring compliance with our regulatory requirements. The Commission's conclusion was that it could place reliance on the firm's systems and procedures for monitoring compliance with its regulatory requirements.

42 For the 2014/15 review, BDO confirmed to the Commission that the systems and procedures for regulatory compliance and information assurance arrangements were the same as those in the previous year. Nothing came to the Commission's attention in year to suggest this is not correct, and it concluded that it could continue to rely on BDO's systems. We have placed reliance on the work undertaken by the Commission for this assessment.

Quarterly monitoring of our regulatory requirements

43 The Commission reported the details in the quarterly monitoring reports issued to the firm during the year, including fee variation request and requests for non-audit services from the firm. Figure 12 details the firm's overall regulatory compliance RAG rating compared to other firms as report by the Commission.

Figure 12: 2015 Comparative performance for regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
-----	----	----	----	------	--------	-----

44 The firm performed well across all of the regulatory compliance requirements, with all but one of the 17 indicators being rated as green. We have included a summary at Appendix 3 of the results of the 2014/15 regulatory compliance monitoring RAG ratings, comparing the firm's performance against the overall performance for all firms. However, BDO was scored as red against the indicator measuring the timely delivery of whole of government accounts (WGA) submissions and it needs to ensure this is improved on for next year.

Client satisfaction surveys

45 All firms agreed to undertake client satisfaction surveys for 2013/14 audits, and to report the results to PSAA. We specified questions to be included in the survey and asked firms to provide us with an analysis of the results.

46 The firm engaged independent consultants to conduct telephone interviews with a sample of audited bodies (32% of its portfolio of audits) on completion of their 2013/14 audit and achieved an overall response rate of 100% against this sample. Table 1 details the questions and the average score.

Table 2- Satisfaction survey results

Question	Average score (max. 10)
How satisfied are you overall with your audit?	8.1
How satisfied are you with the amount of contact with your Engagement Lead?	8.4
How satisfied are you with the amount of contact with your Audit Manager?	8.6
How satisfied are you with the technical competence and skills of your audit team?	8.3
How satisfied are you with your auditor's performance at committee meetings?	8.9
How satisfied are you with your auditor's understanding of the key issues and risks specific to your organisation?	8.5
How satisfied are you with the usefulness of your auditor's reports?	7.5
How satisfied are you with the timeliness of your auditor's reports?	7.1

47 These results show that audited bodies are, on the whole, satisfied with the level of service received from BDO and for 2014/15, BDO's rating for client satisfaction was green.

Figure 13: **2015 Comparative performance for client satisfaction**

BDO	DT	EY	GT	KPMG	Mazars	PwC
-----	----	----	----	------	--------	-----

48 The firm has undertaken an analysis of any improvements points raised in the survey and has committed to action any individual improvement points identified.

Recommendations

Recommendations arising from the 2014/15 quality review programme

49 The key areas for improvement identified this year from file reviews are noted below, as taken from the body of this report:

Financial statements

- ensuring there is sufficient explanation documented on file to support the conclusions from all audit testing;
- ensuring there is always sufficient challenge of the narrative disclosures within accounts.

WGA

- ensuring that the WGA pack is reconciled to the primary statements and notes on a line by line basis.

VFM

- ensuring that VFM conclusion reporting makes clear the distinction between matters considered to be “significant risks” and other matters.

HB

- ensuring compliance with the certification instructions on housing benefit work, particularly around the need to substantively test where issues had been identified in the prior year.

50 Appendix 4 provides details of the actions the firm has, or intends to take to address these improvement areas. We understand the findings from the QMR will be considered by the firm's Leadership Team and then communicated to staff.

Appendix 1 – Weightings to calculate overall quality score

Table 3- weightings

Audit element	Local government	NHS
	%	%
Financial statements	60	70
WGA	5	-
VFM Conclusions	25	30
HB	10	-
Total	100	100

Appendix 2 - Audit quality and regulatory compliance RAG rating

Table 4- QRP elements of financial statements, VFM conclusions, WGA assessments, health quality accounts, certification instructions and housing benefit work.

Rating	Firm level: Overall Audit Quality score	Firm level: Individual QRP element
Green	Firm audit quality score ≥ 2 and no scores of '0' at file review level	Average element score ≥ 2 and no scores of '0' at file review level
Amber	Firm audit quality score ≥ 1 with up to two scores of '0' at file review level	Average element score ≥ 1 with up to one score of '0' at file review level
Red	Firm audit quality score < 1 , or Firm audit quality score ≥ 1 but three or more scores of '0' at file review level	Average element score < 1 , or Average element score ≥ 1 but two or more scores of '0' at file review level

Table 5- Regulatory compliance RAG rating based on 17 quarterly monitoring indicators

Rating	Overall firm level score- indicators
Green	12 or more at green and no more than two at red.
Red	Six or more indicators at red.
Amber	Neither green nor red.

Table 6- Combined audit quality and regulatory compliance RAG

		QRP RAG		
		Red	Amber	Green
Regulatory compliance RAG	Red	R	R	A
	Amber	R	A	A
	Green	A	A	G

Table 7- RAG rating the results of satisfaction survey results

Firm 0-10 assessment (average)	Firm unsatisfactory – satisfactory assessment (average)	PSAA RAG rating
0-3	very dissatisfied / dissatisfied / unsatisfactory	R
4-6	reasonable / good / satisfied	A
7-10	very good / very satisfied / outstanding	G

Appendix 3 - Results of 2014/15 regulatory compliance monitoring

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
Number of planning letters issued – all sectors.	100% issued by 30 April 2014 (all sectors).	95.8 (34)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of audit opinions issued – NHS.	100% issued by 6 June 2014 (CCG) and 9 June 2014 (NHS Trusts).	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of VFM conclusions issued – NHS.	100% issued by 6 June 2014 (CCG) and 9 June 2014 (NHS Trusts).	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Confirmation of final fee reported to audited body – NHS.	100% by 31 July 2014.	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of annual audit letters issued – NHS.	100% by 31 July 2014.	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of audit opinions issued– local government.	100% issued by 30 September 2014.	98.2 (9)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of VFM conclusions issued - local government.	100% issued by 30 September 2014.	97.9 (11)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of WGA returns issued.	100% issued by 3 October 2014.	96.4 (16)	80.0 (3)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
Confirmation of final fee reported to audited body – local government.	100% by 31 October 2014.	98.6 (7)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of annual audit letters issued - local government.	100% by 31 October 2014.	99.0 (5)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of certified claims and returns.	100% submitted by the relevant deadlines.	98.3 (9)	96.0 (1)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Submission of data returns to the Commission by the required deadline.	100% submitted by the relevant deadlines.	97.7 (105)	97.5 (4)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Assessment of the quality of the submitted data returns.	Quality and accuracy of submitted data returns.	97.8 (100)	99.4 (1)	G >95.01% or 1 not at required quality level. A 90.01 - 95.00% or 2 not at required quality level. R <90.00% or 3 not at required quality level.
Number of complaints upheld against auditors.	No complaints upheld against auditors.	1	0	G = 0 upheld A = 1 R = 2 or more
Instances of non-compliance with standing guidance requirements on independence issues.	No instances of non-compliance with standing guidance.	1	0	Firm G = up to 1 A = 2 R = 3 or more Regime G = up to 7 A = 8 R = 9 or more.

Activity	Target	All firms % (no).	BDO % (no).	Red, amber, green (RAG) status
Objections decided upon within nine months.	100% of objections decided upon within nine months.	11	1	Firm G = up to 1 A = 2 R = 3 or more Regime G = up to 7 A = 8 R = 9 or more.
Attendance of Contact Partners (or appropriate representative) at Auditors' Group, Auditors' Group sub groups/technical groups.	No meetings missed.	2	0	Firm G = up to 2 A = 3 R = 4 or more Regime G = up to 7 A = 8 R = 9 or more.

Appendix 4 - Summary of regulatory compliance and QRP improvement areas

Table 7- improvement areas

Area	Improvement required	Firm response
Profession wide FRC annual report	<p>A need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation.</p> <p>A need for an improvement in the sufficiency and appropriateness of audit procedures being performed. This is common to many audit areas including revenue recognition.</p> <p>A need to adequately identify the threats and related safeguards to auditor independence and to appropriately communicate these to audit committees.</p>	<p>These are generic findings about the profession and are not all included in the report on this firm. However, we recognise that all of these are areas where all firms need to maintain constant focus and vigilance.</p> <p>At any one time, the firm has several initiatives aimed at maintaining and enhancing the scepticism of audit teams and the sufficiency and appropriateness of audit procedures being performed, including training, our internal quality assurance processes and our performance appraisal process. Similarly, we continually refine and improve our processes aimed at communicating threats and safeguards regarding independence to audit committees.</p> <p>The firm has an action plan in place to respond to the FRC's findings on the firm and which also has regard to profession-wide findings. The action plan remains under constant review to ensure that it is updated if new issues arise.</p>
AQR review on PSAA work (across all firms)	Review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations; and in relation to the	We recognise the importance of learning from the AQR reviews of all firms and we will disseminate these findings to audit teams involved in PSAA work, asking them to pay particular attention to these matters in future audits.

	<p>consideration of savings plans, the levels of reserves and budgetary controls.</p> <p>Clearly justify and document materiality considerations and not default automatically to the top of the materiality range.</p> <p>Consider property valuations as significant risk areas, particularly to ensure that when using external valuers in this respect they review and challenge management valuations. In addition, audit teams needs to verify the completeness and accuracy of source data used by experts and to evidence the consideration of ensuring that assets are revalued on the appropriate cycle in accordance with accounting policies.</p> <p>Evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing and following up on any identified control weaknesses.</p>	
Financial statements	<p>The firm should ensure there is sufficient explanation documented on file to support the conclusions from all audit testing.</p> <p>The firm should ensure there is always sufficient challenge of the narrative disclosures within accounts.</p>	<p>The Technical Liaison Group (TLG) has provided further guidance to staff on relevant aspects of documentation.</p> <p>A training event was held in April 2015 for relevant staff and emphasised the importance of audit challenge to the contents of disclosure notes.</p>
WGA	<p>The firm should ensure that the WGA pack is reconciled to the primary statements and notes on a line by line basis.</p>	<p>Seniors and above were reminded at a training event in April 2015 that due care must be taken with this work and discussed how this process can be made foolproof. Procedures to strengthen further the calling</p>

		<p>over procedures are being introduced.</p> <p>We will review the work programme to make it clearer that below threshold returns should check each line for PPE and pensions and not just the final total.</p> <p>We will update the 'common errors' schedule for these discrepancies for explicit checking by the auditor.</p>
VFM conclusions	The firm should ensure that VFM conclusion reporting makes clear the distinction between matters considered to be "significant risks" and other matters	Where relevant, when reporting in the future we will ensure significant risks are clearly distinguished from other matters of potential interest to those charged with governance and other stakeholders, and this message will be reinforced through our programme of sector-specific staff training. It should be noted that the context of this reporting was the transitional year for clinical commissioning groups where there were no set criteria to report against.
Housing benefit	The firm should ensure compliance with the certification instructions on housing benefit work, particularly around the need to substantively test where issues had been identified in the prior year.	<p>Our cold review identified a need for a minor improvement on one HB assignment, although we consider the circumstances meant that the consequences would necessarily have been very limited. Specifically, the file did comply with the certification instructions in substantively testing all areas where issues had been identified in the prior year with one isolated exception, and in this case other work was undertaken.</p> <p>Clarification of the guidance has been issued, requiring that if any similar circumstance were to arise in future, teams would carry out additional sample testing, regardless of other audit work done.</p>

Regulatory compliance	The firm should ensure that all WGA assurance statements are issued by the deadline.	In these particular instances this was outside the firm's control, as we are dependent on audited entities providing the information on time. We will, of course, continue to urge audited entities to provide us with the required information in accordance with agreed timetables. External consequences to audited entities for failing to provide auditors with timely returns and supporting working papers would assist in ensuring this deadline is complied with.
-----------------------	--	--

This page is intentionally left blank

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 18

Self-assessment and Improving Effectiveness

Appointment and Procurement of External Auditors

Regular Briefing on Current Issues

November 2015

Introduction

Dear audit committee member,

This is the 18th issue of Audit Committee Update and our main focus this time is on self-assessment and effectiveness.

For audit committees in the public services making the most of the available resources, supporting good governance and ensuring accountability are core areas of concern on the audit committee agenda. It makes sense therefore that the same standards are applied to the operation of the committee itself. This issue aims to support that process with some practical suggestions about undertaking a self-assessment and reviewing your own effectiveness.

The remainder of this issue focuses on keeping you up to date with new developments. As well as our regular briefing covering recent reports and guidance we also feature a more detailed briefing on the recent decisions about the timetable for the appointment of external auditors.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010		
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	Issue 1
2	Reviewing the Annual Governance Statement – Issue 10 includes an update on this topic.	Issue 2
3	Countering Fraud – Please note that Issue 15 provides an updated review of this topic.	Issue 3
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12

Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15
Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17

Workshops and Training for Audit Committee Members in 2015/16 from CIPFA

Introduction to the audit committee

This event is particularly suitable for those relatively new to the audit committee and it is applicable for audit committees in all parts of the public and not for profit sector. It includes an overview of the roles, responsibilities and core functions of the committee, together with sessions on working with the internal and external auditors.

[23 November 2015, London](#)

16 March 2016, Birmingham

13 September 2016, Leeds

20 September 2016, London

Development day for local government audit committees

The workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition it will feature the revised governance framework, internal audit developments and counter fraud.

[3 December 2015, York](#)

[9 December 2015, Birmingham](#)

[20 January 2016, London](#)

[27 January 2016, Manchester](#)

Developments in police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners and chief constables. These events are run in conjunction with CIPFA's Police Network.

21 September 2016, London

28 September 2016, York

Developing the knowledge and skills of the audit committee

14 September 2016, Leeds

21 September 2016, London

CIPFA events information and dates are available on the website: www.cipfa.org/Events.

In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](http://www.cipfa.org) where we have a brochure to download outlining the support we have available for audit committees.

Self-assessment and Improving Effectiveness

Do you know if you are doing a good job as an audit committee? And does it matter? Hopefully these are questions that audit committee members can answer positively. It isn't always obvious how an audit committee should be judged. It is easy to tick off 'compliance' points such as having an approved terms of reference and it is easy to count the number of meetings. But the real value of an audit committee comes from the quality of discussion, the questions asked, the recommendations for improvement made and the support provided to audit, financial management, risk management and governance. Evaluating these areas is harder to do, but worthwhile.

Reflecting back on how you've done things and what could be improved is a valuable learning activity for everyone, but I think it is of particular merit for the audit committee as part of its role in supporting good governance. It also helps the committee to demonstrate its openness and improve its accountability by feeding back the results of a review to stakeholders.

A suggested approach for self-assessment

There are four broad areas that should be considered:

- whether the committee is meeting recommended practice for committees in its sector
- whether the committee is addressing its areas of responsibility adequately
- whether the members have acquired the necessary knowledge and skills to be effective
- whether the committee is adding value to the organisation.

The approach you take to addressing these questions can obviously vary, from a detailed checklist to a more qualitative approach. If a checklist is used care should be taken to ensure that it gives adequate coverage of all the areas above and doesn't only look at aspects that can be easily checked off.

Meeting recommended practice

Links to commonly used self-assessment templates are provided at the end of this article but an internet search will provide other examples. If you use a checklist with detailed questions about the make-up of the committee, the number of meetings held etc, it is important to ensure that the questions are appropriate for the recommended practice in your sector. For example, Welsh local authorities must comply with the Local Government (Wales) Measure 2011 and ensure that their audit committees include at least one lay member. For English, Scottish and Northern Irish committees there is no such requirement, although some do opt to do this. The audit committee of a clinical commissioning group must include two lay members and a police audit committee must be made up of all independent members. So it is important to ensure questions are relevant.

Addressing your areas of responsibility

If there are recommended terms of reference for audit committees in your sector then that provides the basis for a review of performance. Are your committee's terms of reference up to date and in accordance with that recommended? If they are not, think about the reasons for that and consider the following questions:

- Are there gaps in coverage?
- Does another committee perform roles which might better lie with the audit committee?

- Is the committee taking on additional responsibilities beyond those recommended? If so does this result in a conflict of interest or crowd out audit committee core business?

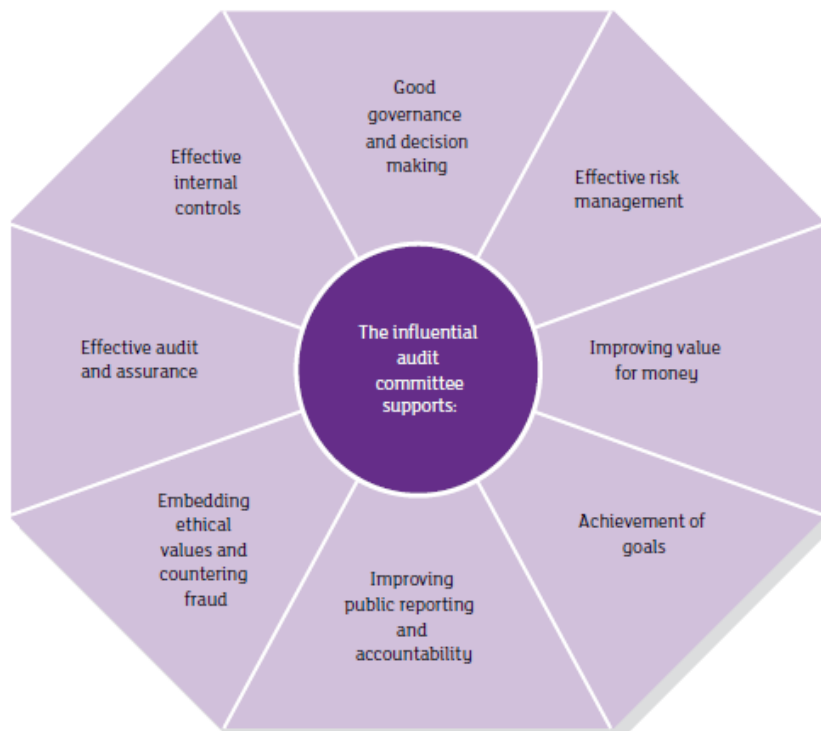
Look at how the business of the committee aligns to the terms of reference too. Is the balance right or do some areas of responsibility consistently fall down to the bottom of the agenda?

Acquiring the right knowledge and skills

The make-up of the committee and having committee members with relevant knowledge and skills is an important contribution to the effectiveness of that committee. The audit committee doesn't need to be made up solely of qualified accountants, auditors and risk managers but usually they are welcomed onto a committee! Ensuring a proportionate level of knowledge and skills is a reasonable aim for all committees. As part of its guidance to local authority and police audit committees CIPFA put together a knowledge and skills framework of the core areas that audit committee members should acquire. Putting those knowledge and skills into practice is also important. CIPFA is also planning further work to support members in this area.

Adding value

The final area to consider is the impact that the committee is having in practice and the added value it brings. The simplest way to do this is to reflect back on previous meetings and recommendations and identify the actions and changes that resulted from the work of the committee. Hopefully you will be able to identify a range of things where the committee has helped to improve internal control, risk management or governance. Sometimes the beneficial impact of the committee can be felt one step removed. For example where the audit committee shows strong support for its internal auditors that can help the internal auditors to be more effective and have greater impact. The diagram below is from the CIPFA publication and shows how audit committees can support improvement across a range of organisational objectives.



Source: *Audit Committees, Practical Guidance for Local Authorities and Police (CIPFA, 2013)*

Undertaking the assessment

So who is best placed to carry out an assessment of the audit committee? An assessment led by audit committee members is best to ensure ownership of the outcome and recommendations, but I would also recommend that an assessment incorporates input from those who interact with the committee on a regular basis such as the head of internal audit, head of finance and external auditor. This should help make the assessment as rounded as possible. However where the committee is struggling an external facilitator may be able to cut through to the core issues and make recommendations for improvement.

Acting on the results of the assessment

Once the assessment is completed, agree an action plan for an appropriate period of time and build reviews of the plan into the audit committee agendas. Where significant changes are needed then wider consultation and agreement may be required to gain support or funding for proposed changes.

If your committee publishes an annual report then I would encourage you to include within it a summary of your assessment process and improvement plans for the year. This will help stakeholders to recognise that the committee is aiming to do its best to fulfil its responsibilities.

References and resources

[Audit Committees, Practical Guidance for Local Authorities and Police \(CIPFA, 2013\)](#)

The publication includes a short (20 questions) good practice self-assessment based on the guidance. It also includes a suggested approach for assessing effectiveness and the knowledge and skills framework.

[Audit Committee Self-assessment Checklist \(National Audit Office, 2012\)](#)

The NAO checklist is based on the Treasury's Audit Committee Handbook (2007) and is aimed at central government audit committees. It includes 89 questions, some of which are highlighted as of particular importance.

[Scottish Government Audit Committee Handbook \(2008\)](#)

The guidance is for members of audit committees in organisations to which the Scottish Public Finance Manual is directly applicable. It includes a self-assessment checklist.

[NHS Audit Committee Handbook \(2014\)](#)

The handbook for NHS audit committees also includes checklists on process issues and effectiveness.

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

Appointment and Procurement of External Auditors

For local authorities, police, fire authorities, clinical commissioning groups and health trusts that currently have external auditors appointed for them by the Audit Commission, the provisions of the [Local Audit and Accountability Act 2014](#) will soon be coming into force. The Audit Commission closed on 31 March 2015 but the current external audit contracts continue to be managed by Public Sector Audit Appointments Ltd. This is a company established by the Local Government Association and staff previously employed by the Audit Commission transferred here to continue their roles. The objective of the Act is to put in place new arrangements for the appointment of auditors, with local bodies having the opportunity to appoint their own.

Decisions taken

The Department of Health has announced that health bodies will adopt the provisions of the Act with effect from the 2017/18 financial year. This means that auditors will need to be appointed by the end of December 2016 as the Act requires appointments to be in place three months before the start of the financial year.

The Department for Communities and Local Government (DCLG) has decided that existing audit contracts for principal authorities (for instance local authorities) can be extended by one year so that new auditors will need to be appointed for 2018/19. This means that the auditor must be appointed by the end of December 2017.

Options for appointment

There are two main options that local bodies have: to undertake a procurement exercise using an 'auditor panel' (either independently or in conjunction with other bodies), or to opt into a sector-led procurement. Regulations have been issued under the Act to give further guidance on the implementation of these. [Issue 16](#) of Audit Committee Update included a list and links to the regulations.

Guidance available

The Department of Health commissioned the Healthcare Financial Management Association (HFMA) to write guidance on auditor panels specifically for health bodies. This guidance can be accessed on the [Department of Health website](#) and is of value for audit committees of health bodies.

The DCLG commissioned CIPFA to write guidance on the appointment of auditor panels. This is currently being finalised with the DCLG and will be available soon. The guidance will be freely available. Training will also be available in 2016 on establishing auditor panels.

Steps to take now

Although decisions do not have to be taken straight away it is important to start the evaluation of options soon. Plenty of time is required to plan a procurement and it is also necessary to think through the governance implications of auditor panels, their make-up and relationship to your existing audit committee.

Also watch out for any announcements about whether a sector led body will be appointed by the secretary of state. This will be crucial for evaluation of this option.

We will include updates on developments in later issues of this briefing and Better Governance Forum events.

Recent Developments You May Need to Know About

Legislation and regulations

Governance Framework for Local Government

Over the summer CIPFA and Solace consulted on a new governance framework for local government, including police, fire and combined authorities. The consultation document can be viewed on the [CIPFA website](#). The consultation responses were very positive about the change and some helpful suggestions were received for improving the supporting principles and guidance to accompany the framework. The consultation responses were considered by the working group in October 2015 and the final framework will be published early in 2016.

To achieve good governance, each local authority should be able to demonstrate that its governance is consistent with the principles contained in the framework. The seven core principles are:

- A. behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. ensuring openness and comprehensive stakeholder engagement
- C. defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. determining the interventions necessary to optimise the achievement of the intended outcomes
- E. developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. managing risks and performance through robust internal control and strong public financial management
- G. implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Cities and Local Government Devolution Bill

The [Cities and Local Government Devolution Bill](#) is currently at the committee stage in the House of Commons. The current version of the bill includes provisions for the devolvement of additional functions to combined authorities and provision for elected mayors. The bill also includes provisions for all combined authorities to appoint their own overview and scrutiny committee and audit committee. The bill sets out functions that the audit committee should cover, including reviewing the risk management, internal control and governance arrangements of the authority. The audit committee should include at least one independent person.

Consultation on police, fire and ambulance collaboration

The DCLG, Home Office and Department of Health have issued a consultation [Enabling Closer Working between the Emergency Services](#). The proposals aim to increase joint working between the services and make savings.

Reports, recommendations and guidance

The NAO's Role in Local Audit

The Local Audit and Accountability Act 2014 introduced a new local audit framework in England. Within the new audit framework the NAO prepares and issues the Code of Audit Practice, which sets out what local auditors are required to do. In [The NAO's Role in Local Audit](#) the NAO sets out what it does, including examples of recent value-for-money work focused on local services and contact details.

Managing the Risk of Procurement Fraud

This [guidance](#) has been developed by the LGA and CIPFA Counter Fraud Centre to help authorities understand the main areas of risk and appropriate mitigations. It includes useful references, 'red flags' and a checklist.

Assessing your counter fraud arrangements

When preparing their annual governance statements local authorities should review the adequacy of their counter fraud arrangements and CIPFA's guidance to local authority and police audit committees is that they should review the assurances underpinning this assessment. Following the publication of the [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) in 2104 there is now an assessment tool available that will enable your organisation to assess itself against the counter fraud code. The tool includes reports and charts which would be of interest to an audit committee. A benchmarking option is also available to allow you to compare your arrangements against your peers. The assessment tool has been provided free to all subscribers of the Better Governance Forum.

A Short Guide to the NAO's Work on Local Authorities

The National Audit Office has published [A Short Guide to the NAO's Work on Local Authorities](#). It is designed to provide a quick and accessible overview of how local government is funded, the pressures local authorities face, staffing, and major recent and future developments.

Managing Provider Failure

In [Principles Paper: Managing Provider Failure](#) the NAO explores the principles public bodies should use to manage provider failure. The report draws on the findings from previous NAO reports that have examined examples of failures. Given the extent of outsourcing and selection of alternative service delivery models the risks around provider failure are important for all parts of the public services.

Monitoring the quality of external audit

Following the closure of the Audit Commission, the body established by the LGA, Public Sector Auditor Appointments Ltd, took on the responsibility for monitoring the current contracts for local audit. The results of their compliance and quality monitoring are published in an [Annual Regulatory Compliance and Quality Report](#). Quarterly reports are also available on each of the firms holding contracts for local audit.

[Issue 14](#) of Audit Committee Update describes the audit committee role in relation to monitoring the external audit they receive.

Local Government Auditor's Report 2015

This report from the [Northern Ireland Audit Office](#) comments on a range of topics arising from audit work in local government bodies during the 2013/14 financial year. The report includes comments on strengthening the role of the audit committee, including recommendations that they should be constituted as a full committee and include independent members to strengthen independence and widen the range of specialist skills.

CIPFA Fraud and Corruption Tracker

Earlier in 2015 CIPFA undertook a survey of levels of fraud and corruption detected across the public sector in the 2014/15 financial year. The results of this survey will be published in the next few weeks and will provide a valuable insight into current levels of detected fraud and corruption.

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ www.cipfa.org

© 2015 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.