



Public Document Pack

Jeff Hughes
Head of Democratic and Legal
Support Services

MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : TUESDAY 12 JULY 2011
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor J Ranger (Chairman)
Councillors W Mortimer, P Phillips, M Pope, R Radford, N Wilson and
J Wing

Substitutes

Conservative Group: Councillors C Rowley
Liberal Democrat Group: Councillor M Wood

(Note: Substitution arrangements must be notified by the absent Member to Democratic Services 24 hours before the meeting)

CONTACT OFFICER: LORRAINE BLACKBURN

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PERSONAL AND PREJUDICIAL INTERESTS

1. A Member with a personal interest in any business of the Council who attends a meeting of the Authority at which the business is considered must, with certain specified exemptions (see section 5 below), disclose to that meeting the existence and nature of that interest prior to the commencement of it being considered or when the interest becomes apparent.
2. Members should decide whether or not they have a personal interest in any matter under discussion at a meeting. If a Member decides they have a personal interest then they must also consider whether that personal interest is also prejudicial.
3. A personal interest is either an interest, as prescribed, that you must register under relevant regulations or it is an interest that is not registrable but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of the Council more than it would affect the majority of inhabitants of the ward(s) affected by the decision.
4. Members with personal interests, having declared the nature of that personal interest, can remain in the meeting, speak and vote on the matter unless the personal interest is also a prejudicial interest.
5. An exemption to declaring a personal interest applies when the interest arises solely from a Member's membership of or position of general control or management on:
 - any other body to which they have been appointed or nominated by the authority
 - any other body exercising functions of a public nature (e.g another local authority)

In these exceptional cases, provided a Member does not have a prejudicial interest, they only need to declare their interest if they speak. If a Member does not want to speak to the meeting, they may still vote on the matter without making a declaration.

6. A personal interest will also be a prejudicial interest in a matter if all of the following conditions are met:
 - the matter does not fall within one of the exempt categories of decisions
 - the matter affects your financial interests or relates to a licensing or regulatory matter
 - a member of the public, who knows the relevant facts, would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.
7. Exempt categories of decisions are:
 - setting council tax
 - any ceremonial honour given to Members
 - an allowance, payment or indemnity for Members
 - statutory sick pay
 - school meals or school transport and travelling expenses: if you are a parent or guardian of a child in full-time education or you are a parent governor, unless it relates particularly to the school your child attends
 - housing; if you hold a tenancy or lease with the Council, as long as the matter does not relate to your particular tenancy or lease.
8. If you have a prejudicial interest in a matter being discussed at a meeting, you must declare that interest and its nature as soon as the interest becomes apparent to you.
9. If you have declared a personal and prejudicial interest, you must leave the room, unless members of the public are allowed to make representations, give evidence or answer questions about the matter, by statutory right or otherwise. If that is the case, you can also attend the meeting for that purpose. However, you must immediately leave the room once you have finished or when the meeting decides that you have finished (if that is earlier). You cannot remain in the public gallery to observe proceedings.

AGENDA

1. The Role of Audit Committee - Training Item for Members

2. Apologies

To receive apologies for absence.

3. Chairman's Announcements

4. Minutes (Pages 7 - 18)

To confirm the Minutes of the meeting held on 23 March 2011.

5. Declarations of Interest

To receive any Member's Declarations of Interest and Party Whip arrangements.

6. External Auditor's Report - Review of Arrangements for implementation of International Financial Reporting Standards (Pages 19 - 26)

7. External Auditor's Report - Accounts Audit Approach Memorandum (Pages 27 - 40)

8. External Auditor's Report - Annual Governance Statement - Adding Real Value? (Pages 41 - 42)

9. External Auditor's Report - Certification Work - Planning Memorandum 2010 - 2011 (Pages 43 - 54)

10. External Auditor's Report - Indicative Audit Fees 2011/12 (Pages 55 - 58)

11. Statement of Accounts 2010-2011 (Pages 59 - 126)

12. Internal Audit Service 2010/11 (Pages 127 - 164)

13. Internal Audit Service Position Statement (Pages 165 - 190)
14. An Introduction to the Shared Internal Audit Service by Helen Maneuf Head of Assurance (Shared Service) (Pages 191 - 198)
15. Risk Management Monitoring 1 January 2011 - 30 April 2011 (Pages 199 - 208)
16. Update on Implementation of Annual Governance Statement Action Plan (Pages 209 - 220)
17. Draft 2010/11 Annual Governance Statement (Pages 221 - 242)
18. Audit Committee Work Programme (Pages 243 - 248)
19. Urgent Business

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 23 MARCH
2011, AT 7.00 PM

PRESENT: Councillor J O Ranger (Chairman)
Councillors M Pope, R A K Radford and
J P Warren

ALSO PRESENT:

Councillors W Ashley and P A Ruffles

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Committee Secretary
Chris Gibson	- Internal Audit and Business Improvement Manager
Alan Madin	- Director of Internal Services
Ceri Pettit	- Head of Strategic Direction (shared) and Performance Manager

ALSO IN ATTENDANCE:

Nick Taylor - Grant Thornton

646 MINUTES

RESOLVED – that the Minutes of the Audit
Committee meeting held on 19 January 2011 be
confirmed as a correct record and signed by the
Chairman.

647 CHAIRMAN'S ANNOUNCEMENTS

The Chairman referred to the recent sad loss of Councillor John Hedley who had previously been the Chairman of Audit Committee and had up until his recent death, been the current Vice Chairman. He asked those in attendance to observe a minute's silence.

The Chairman referred to the fact that he had recently attended a meeting at the External Auditors, Grant Thornton, where he had been provided with information relation to a number of important developments and with "Best Practice" in specific areas. The importance of the Annual Governance Statement was stressed. The Chairman stated that, during that meeting, what was highlighted was the fact that Audit Committee should be able to see real changes as a result of their work. He felt that it was a useful and productive meeting.

The Chairman advised that the Council continued to keep in touch with contacts in Japan following a previous visit there. He had received a letter recently referring to the fact that local government in Japan was moving towards how local government operated in the UK. The letter also sought the Council's sympathy and drew attention to the numerous relief funds which had been established to help the country following the recent disasters.

The Chairman sought Members' support to a suggestion that he respond on behalf of the Council, extending its sympathy and that the Council would draw attention to the various methods to contribute to the funding. This was supported.

Finally, the Chairman thanked Officers and Members for their support during his Chairmanship in the civic year.

648

COMMUTED SUMS - SECTION 106: MEMBER TRAINING

The Head of Planning and Building Control provided a presentation on the use of Commuted Sums: Section 106 Agreements. He explained what they were and what guidance was observed in developing such an agreement. He stressed that whilst the concept was to make an intended development acceptable which would otherwise be

unacceptable in planning terms, what needed to be borne in mind was that the benefits offered could not compensate for a substandard development. The Head of Planning and Building Control explained both the County Council's and East Herts Council's approaches to these agreements in terms of planning obligation priorities. He referred to the introduction of the Community Infrastructure Levy (CIL) and how this would impact on Section 106 Agreements.

The Chairman stated that many people living in villages felt aggrieved that they did not feel the benefit of the commuted sums and cited the village of Walkern where there had been three planning developments involving Section 106 agreements. He said that no monies had been invested back into the community. He was concerned that the County Council took the larger share and that this was used for secondary schools which were usually located in towns. He hoped that the Localism Bill would give people more say in their areas.

The Head of Planning and Building Control explained the difficulties in service provision for villages and of the role of Parish Councils and local committees in helping identifying local needs. He said that he was unsure what would come out of the Localism Bill. He explained that the split in relation to commuted sums between the County Council and the District was around 70:30; education and highways costs being high in relation to service provision.

In response to a query from Councillor R A K Radford regarding the percentage of affordable housing allocated for key workers, the Head of Planning and Building Control advised that current policy basis was to seek 40% provision but in the current market the percentage allocated depended on the actual financial viability of the development proposed. The issue of relaxing planning regulations in relation to using office for residential was considered. Councillor R A K Radford felt that there was a steady, widening gap between the needs of town and District Councils.

The Head of Building and Planning Control clarified the position in response to a question from Councillor P A Ruffles

regarding the grant of a planning application for 97 homes close to a school and how the County Council allocated the Section 106 monies.

The Chairman stated that, more worryingly, was the fact that the County Council had been remiss in allocating and spending Section 106 commuted sums and that some monies had been returned to the developers. It was acknowledged that some of the County's capital projects had a long lead in time. The Head of Planning and Building Control stated that this was not the case in relation to East Herts and no monies had had to be refunded. He explained that the County Council was becoming more sophisticated in monitoring spend on a more detailed basis.

The Chairman referred to the "new homes bonus" and how this might benefit the Council. The Head of Planning and Building Control said that further assessment needed to be undertaken as to how the appropriate amount of development was to be assessed in the post-Regional Plan period. The Director of Internal Services indicated that there was an expectation that there may be some means of donating funds back into the community where development was taking place.

Councillor J P Warren commented on the issue of affordable housing. He felt that when Developers had to comply with this planning requirement, then the loss was passed on in the shape of increased prices to other prospective buyers.

The Chairman, on behalf of Members, thanked the Head of Planning and Building Control for his presentation.

RESOLVED – that the presentation be received.

649

EXTERNAL AUDITOR'S REPORT - PROGRESS UPDATE

The External Auditor, Nick Taylor, submitted an Audit Progress Report up to March 2011. The report provided an update on the progress made on issues such as the Council's arrangements to restate the 2009/10 Balance Sheet to in line with IFRS requirements, Value for Money in relation to

securing financial resilience and how the Council challenge, secured economy, efficiency and effectiveness. The External Auditors also provided an update concerning a reduction in the Audit Fee as a result of recent changes to their work programme.

The Chairman thanked Nick Taylor for his update. He undertook to provide Members with an electronic copy of The Migration of Public Services document.

The Committee noted the report.

RESOLVED – that the report be noted.

650 **EXTERNAL AUDITORS REPORT - 2009/10 CERTIFICATION OF WORK**

The External Auditor submitted a report concerning the certification arrangements for the work undertaken in 2009/10 by Grant Thornton, acting as agent of the Audit Commission, on behalf of the Council. The results of the work, including the details of claims and returns certified for 2009/10, were set out in the report now submitted.

The External Auditor confirmed that everything was in order.

Members received the report.

RESOLVED – that the report be received.

651 **EXTERNAL AUDITOR'S REPORT - FINANCIAL RESILIENCE: TERMS OF REFERENCE**

The External Auditor submitted a report concerning a review of the Council's arrangements for securing financial resilience, specifically in relation to the Council's arrangements regarding performance, financial governance, strategic financial planning and financial control, including the robustness of the Medium Term Financial Plan.

Members noted the report.

RESOLVED – that the report be noted.

652 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE ACTION PLAN

The Internal Audit and Business Improvement Manager submitted a progress report on the Annual Governance Statement for Action Plan 2010/11. This included reviewing 19 measures to enhance the Council's internal control framework during 2010/10. These were set out in the Essential Reference papers, attached to the report now submitted.

The Internal Audit and Business Improvement Manager referred to Actions and provided updates regarding their changed status. Since the previous Audit Committee, two issues requiring action were considered to be completed.

The Chairman referred to the Pathfinder initiative identified as an outstanding issue and suggested that this action should be re-visited in view of shared service developments. The Chairman, on behalf of Members thanked the Internal Audit and Business Improvement Manager for progressing the actions.

Members received the report and noted the progress made against implementing the action plan contained in the 2009/10 Annual Governance Statement.

RESOLVED – that the report be received and the actions noted.

653 A SHARED INTERNAL AUDIT SERVICE

The Executive Member for Resources and Internal Support submitted a report providing an update on a shared internal audit service following a decision by the Executive on 8 March 2011 that East Herts Council participate with other four other Councils and Hertfordshire County Council in the "Shared Internal Audit Service".

The Director of Internal Service provided the background and rationale for this decision. Essential Reference Paper 'B',

attached to the report now submitted, explained the objectives of a shared internal audit service and the key benefits to be achieved. It was noted that existing staff, with the exception of the current head of service, would transfer to Hertfordshire County Council and TUPE arrangements would apply to those staff affected by the transfer.

The Director of Internal Service stated that the Council's internal audit service was excellent and explained that working in partnership would help reduce costs, and provide all staff within the partnership with a broader working spectrum of issues and thereby improve their skills base. He felt that the arrangement therefore provided long term sustainability and better management of costs. The Director added that working as a group also provided some resilience in terms of the management of workload. It was anticipated that the new service would be fully operational from 1 July 2011.

In response to a query from the Chairman regarding the need to maintain the quality of the current service under the new arrangements, the Director of Internal Services advised that all current Heads of Audit would be required to compare their existing working practices so that the new service would commence from the best of those, feed into the new system and provide a new framework. He stated that the Shared Internal Audit Service Head of Assurance would be responsible for the set up of the new organisation and be responsible for making sure it worked. The Director of Internal Services said that he intended to meet regularly with the new Head of Assurance.

The Director of Internal Services provided assurances that delivering high quality service was the aim and the key was in ensuring a strong appointment process.

Members received the report and the assurances provided by the Director of Internal Services regarding high quality service delivery.

RESOLVED – that (A) the report be received; and

(B) the assurances provided by the Director of Internal Services in relation to high quality service delivery be noted.

654 ANNUAL REVIEW OF DATA QUALITY STRATEGY

The Leader of the Council submitted a report introducing the 2010/11 revisions to the Data Quality Strategy following the cancellation of Comprehensive Area Assessments, Use of Resources and the abolition of the Audit Commission. The revisions to the strategy were set out the Essential Reference Papers attached to the report now submitted. The Head of Strategic Direction (Shared) and Performance Manager reminded Members that the aim of the Data Quality Strategy was to provide good quality performance data on which performance assessments and Council decisions could be based.

The Chairman expressed concern about the quality of data received from partners and other bodies. The Head of Strategic Direction (Shared) and Performance Manager acknowledged the risk, adding that the Council had its own checks and balances in terms of the information received and this would help to mitigate those risks.

Members received the report and noted the revisions made.

RESOLVED – that the report be received and the revisions noted.

655 BRIBERY ACT 2010

The Executive Member for Resources and Internal Support submitted a report detailing the implications of the Bribery Act 2010. The Director of Internal Services explained the context of the report in relation to the Council's functions. The Essential Reference Paper attached to the report now submitted, provided a policy on bribery and set out six principles for bribery prevention. The Director of Internal Services stated that the Council needed to show clear commitment and that it took its responsibility seriously.

The Chairman suggested that what was also important was to ensure that the staff were protected from any allegations and that safeguards, checks and balances, were in place for staff involved in major decisions. The Director of Internal Services referred to the Council's other policies such as "Whistleblowing" as one such policy to protect staff. It was noted that all Heads of Service are required to annually review their processes and report to Internal Audit through their Anti-Fraud and Anti-Corruption Assurance Statement. Employees were also annually asked to sign a declaration concerning, for example, whether they had secondary employment and that this year's declaration had included information in respect of the Bribery Act.

Members stressed the need for Heads of Service to be proactive in reviewing their processes annually.

RESOLVED – that (A) the Bribery Policy be approved; and

(B) the existing practices whereby Heads of Services are proactively involved in reviewing their processes continue.

656 DRAFT INTERNAL AUDIT PLAN 2011/12

The Internal Audit and Business Improvement Manager submitted a report outlining the content of the draft Internal Audit Plan for 1 April 2011 to 31 March 2012. The draft Internal Audit Plan was set out in the Essential Reference Paper attached to the report now submitted. The Plan will initially be delivered by the in-house team and subsequently the "Shared Internal Audit Service".

The Chairman referred to the contingency cut and suggested that Officers monitor this on a day by day basis. This was supported.

RESOLVED – that (A) the content of the Internal Audit Plan for the period 1 April 2011 to 31 March 2012 be noted; and

(B) the contingency element be monitored on a day by day basis.

657 INTERNAL AUDIT SERVICE - POSITION STATEMENT

The Internal Audit and Improvement Manager submitted a report on internal audit activity undertaken since the previous report to Members in January 2011. Updates were provided on what reports had been issued, of ongoing work and what support had been provided to various Town Councils. The Internal Audit and Business Improvement Manager explained that one of the Principal Internal Auditors had continued on a 50% secondment as a Lead Business Improvement Practitioner and that additional resources were being provided by North Herts District Council and Tribal Business Assurance.

The Internal Audit and Business Improvement Manager said that good progress had been made on outstanding recommendations set out in the Essential Reference Paper attached to the report now submitted.

In response to a query from the Chairman regarding whether all leavers completed a “debrief”, the Internal Audit and Business Improvement Manager explained that processes were in place even if an exit interview did not take place.

The Chairman, on behalf of Members congratulated the Internal Audit and Business Improvement Manager for progressing and resolving so many issues.

Members received the report.

RESOLVED – that the report be received.

658 RISK MANAGEMENT MONITORING (OCTOBER - DECEMBER 2010)

The Leader of the Council submitted a report on action taken to mitigate and control strategic risks during the period 1 October 2010 to 31 January 2011. Members were encouraged to raise any key future risks that they anticipated.

The Chairman commented that the Council did not know what the Government might do in relation to local government finances in the third year and that this risk should be addressed. The Director of Internal Services referred Members to code 10SR9 (Significant variance from financial plan) which he suggested, should address the Chairman's concerns. Nick Taylor of Grant Thornton stated that as long as Members were aware of the risk, then that would be sufficient, adding that it did not have to be explicitly worded.

The Internal Audit and Business Improvement Manager undertook to reflect the development of shared services in relation to 10SR1 (Pathfinder Group) Members received the report.

RESOLVED – that (A) the report be received; and
(B) a variance of government grant is considered to be a financial risk and this should be reflected in the Strategic Risk Register.

659 WORK PROGRAMME 2011/12 CIVIC YEAR

The Internal Audit and Business Improvement Manager submitted the Audit Committee Work programme for the 2011/12 civic year.

The Director of Internal Services suggested that there might be a need to change the date of the next Audit Committee because of timing issues relating to the Council's Final Accounts. This was noted.

Members approved the report.

RESOLVED – that the work programme for Audit Committee be approved.

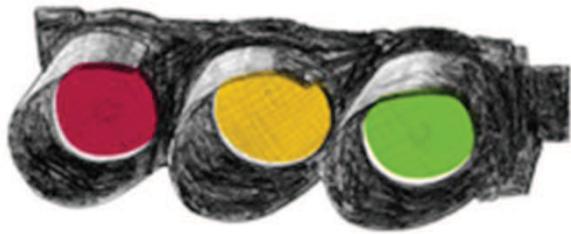
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Chairman

Date



East Hertfordshire District Council

Review of arrangements for implementation of International Financial Reporting Standards (IFRS)

April 2011

Introduction and background

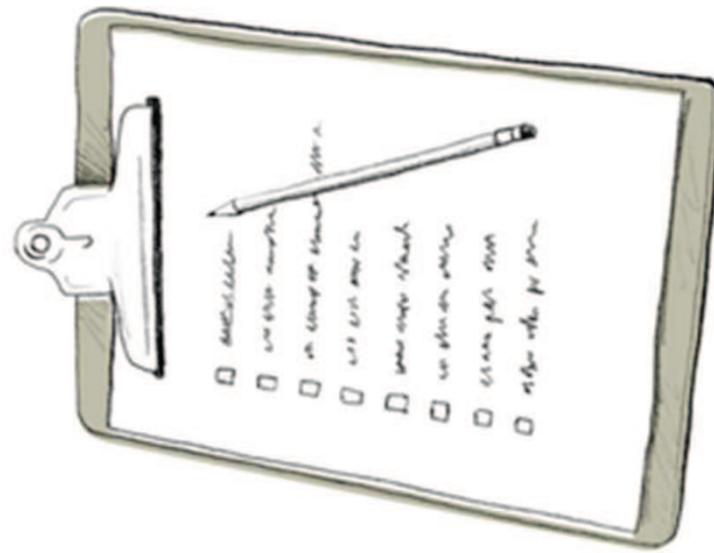
Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code will be based in International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). Effective transition to the Code is considered to require a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11.

Terms of engagement

Auditors do not have any direct reporting responsibilities in respect of transition balances although they will form the opening balances for the comparative period.

Our work has taken the form of an arrangements review intended to provide feedback on the Council's approach to restatement and is not an audit of the restated balance sheet figures. Detailed work on the restated figures will take place during the 2010/11 final accounts audit.

The arrangement review is primarily focused on 1 April 2009 restated balance sheet values, which will be required to report the 1 April 2010 opening balances for 2010/11. This work has been undertaken as part of our planning for the 2010/11 financial statements audit.



Adequacy of arrangements

Basis of assessment

This report details the findings of our review. For each significant balance sheet items we have considered the Council's arrangements against each of the following questions:

- Are the Council's arrangements for identifying and reporting their accounting policy adequate?
- As the Council's arrangements for identifying and reporting their adjusted UK GAAP values at 1 April 2009 adequate?
- Are the Council's arrangements for reporting IFRS values adequate?
- Are the Council's arrangements for restating their notes to the balance sheet adequate?
- Are the Council's arrangements for preparing quality supporting working papers adequate?

The Council's arrangements for each line in the balance sheet have been assessed using a red/amber/green RAG rating using the following definitions:

Green

Adequate arrangements appear to be in place for the balance sheet area to provide not materially misstated amounts for the restatement.

Amber

Adequate arrangements are in place in some respects for the balance sheet area to provide not materially misstated amounts for the restatement. Evidence that the Council is taking forward areas whether arrangements need to be strengthened.

Red

The Council's arrangements are generally inadequate to provide not materially misstated amounts for the restatement.

Our findings are detailed on pages 3 and 4 of this report. Where items and areas have been assessed as amber or red we have discussed these with officers and as appropriate made recommendations on page 5.

Adequacy of arrangements - Findings

Assets

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Property, plant & equipment	Green	Green	Green	Green	Green	Green
Investment properties	Green	Green	Green	Green	Green	Green
Intangible assets	Green	Green	Green	Green	Green	Green
Non-current trade & other receivables	Green	Green	Orange	Green	Green	Green
Trade & other receivables	Green	Green	Orange	Green	Green	Green
Investments	Green	Green	Green	Green	Green	Green
Cash & cash equivalents	Green	Green	Green	Green	Green	Green

Adequacy of arrangements - Findings

Liabilities

Balance sheet item	Accounting policies	UK GAAP values	IFRS values	Supporting notes	Working papers	Overall assessment
Trade & other payables	●	●	●	●	●	●
Bank overdraft	●	●	●	●	●	●
Non-current borrowings	●	●	●	●	●	●
Non-current other liabilities	●	●	●	●	●	●

Adequacy of arrangements - amber ratings

Balance sheet item

Reason for rating

Next steps

Trade and other receivables	The current note prepared by the Council analyses receivables into short and long term in the format prescribed by the Code. However, the balance is yet to be analysed out by receivable type	The Council should ensure that the detailed split if the receivables balance is completed.
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Trade and other payables	The current note prepared by the Council analyses payables into short and long term in the format prescribed by the Code. However, the balance is yet to be analysed out by payable type	The Council should ensure that the detailed split if the payables balance is completed.
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Overall conclusion and recommendations

The results of our work indicate that the Council's overall arrangements for IFRS restatement have been adequately planned, focusing its resources on the key risk areas.

The Council has identified all its key issues relating to the conversion, for instance, the treatment of leases in the accounts. In identifying these issues, the Council has discussed these with us to ensure there is clarity and agreement over the accounting treatment.

The Council has revised its accounting policies to be IFRS-compliant. Further to this they must ensure that the policies are reviewed by an appropriate committee of the Council (for example, the Audit Committee).

The Council always prepares high quality working papers and in restating the 2008/09 balance sheet has updated its working papers to reflect changes for IFRS.

We will continue to work with the Council as it prepares its 2010/11 financial statements. Any new issues that are identified as a result of the Council's own work and new guidance will be discussed as they arise to minimise the need to make adjustments during our audit of the accounts.

Recommendation	Priority	Responsibility	Agreed	Management comments	Date
<p>The Council should ensure that a detailed split of both the receivables and the payables balance is prepared in order to complete the required disclosure note.</p>	High				
<p>The Council should ensure that accounting policies are reviewed and approved by the Audit Committee.</p>	High				



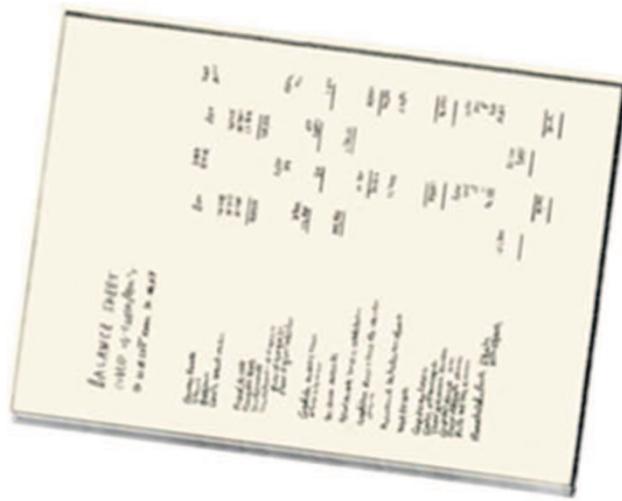
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East Hertfordshire District Council Accounts Audit Approach Memorandum

June 2011

Our accounts audit approach

Introduction

This memorandum is intended to provide additional detail regarding our audit approach, as set out in our Audit Plan 2010/11 issued in November 2010, as well as an update on our response to key risks from the results of interim audit work carried out to date.

Audit approach reminder

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved; and
- consider the materiality of transactions when planning our audit and when reporting our findings

The logistical details of our annual accounts audit, as agreed with the Head of Financial Support Services, are detailed in Appendix A to this memorandum.

In summary our audit strategy comprises:

Planning	<ul style="list-style-type: none">• Updating our understanding of the Council through discussions with management and a review of the management accounts
Control evaluation	<ul style="list-style-type: none">• Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact the financial statements• Assessing audit risk and developing and implementing an appropriate audit strategy• Testing the operating effectiveness of selected controls• Assessing the effectiveness of internal audit against the CIPFA Code of Practice
Substantive procedures	<ul style="list-style-type: none">• Reviewing material disclosure issues in the financial statements• Performing analytical review• Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none">• Performing overall evaluation• Determining an audit opinion• Reporting to Audit Committee

Our accounts audit approach (continued)

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Reliance on internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the effectiveness of the internal audit function.

Review of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved Technology Risk Services (TRS) team members during the audit, this was based on the complexity of IT used in the significant transaction cycles and the control risk assessment.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs.

However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the audit risks identified in our Audit Plan 2010/11 and have set out opposite the outcome of work completed to date and further work planned.

Our updated review of the risks facing the Council has not identified any new risk areas.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Issue	Audit areas affected	Work completed	Further work planned
	All areas of the financial statements	<ul style="list-style-type: none"> A specific review of the Council's preparedness for IFRS has been completed. The results of this review have been reported to the Finance Team in a red/amber/green (RAG) format We have maintained on-going liaison with the Finance Team regarding emerging IFRS issues and guidance has been provided for any proposed changes to accounting treatment being considered under IFRS 	<ul style="list-style-type: none"> We will continue to maintain on-going liaison with the Finance Team regarding emerging issues and new guidance released up until the signing of the 2010/11 financial statements Our substantive audit procedures will focus on the high risk areas identified as a result of the transition to IFRS, in particular property, plant and equipment (PPE)
	Accounting under IFRS		<ul style="list-style-type: none"> We will continue to monitor the financial position of the council as well as reviewing the use of general reserves during the year. We will also carry out specific review on the Council's financial resilience in the light of SR10.

Update on accounts audit risk assessment (continued)

The specific accounts assertion risks by cycle which we consider to present a 'reasonably possible' risk of material misstatement to the financial statements are detailed in appendix B to this memorandum

Issue	Audit areas affected	Work completed	Further work planned
	Property, plant and equipment Revaluation of fixed assets	<ul style="list-style-type: none"> System walkthroughs and controls testing have been undertaken in April to verify that controls relating to PPE activity and valuations are implemented and operating as expected. 	<ul style="list-style-type: none"> The use of valuation experts will be reviewed, to ensure that valuations have been completed in accordance with relevant IFRSs, in particular: <ul style="list-style-type: none"> - the appropriateness of data and instructions provided to the expert - the methods and assumptions applied by the expert
	All areas of the financial statements C3W project	<ul style="list-style-type: none"> We have continued to monitor the progress with the C3W project. 	<ul style="list-style-type: none"> The C3W project is on-going and there continues to be a risk that such a significant change might impact on the delivery of objectives. We will continue to monitor the progress of the project and consider any key impacts as they arise.

Results of interim audit work

Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we considered:

- the effectiveness of the Internal Audit function;
- internal audit's work on the Council's key financial systems;
- a review of closedown procedures in preparation for the final accounts under International Financial Reporting Standards (IFRS);
- walkthrough testing and tests of controls to confirm whether controls are implemented as per our understanding in areas where we have identified high accounting risk; and
- a review of Information Technology controls

In preparation for our final accounts audit, we sought to review internal audit's work on the financial systems.

In assessing the effectiveness of internal audit work, we reviewed three internal audit files to ensure that:

- systems were adequately documented;
- key controls have been identified and evaluated;
- key controls have been tested; and
- weaknesses have been reported to management

We were pleased to note from these files that no issues were identified with internal audit's work and these were produced to a high standard.

Closedown procedures

Our review considered the Council's timetable for closedown and the arrangements for preparing the draft IFRS accounts, including guidance provided on working papers required to be made available as part of the closedown process.

The Council has established a suitable timetable and expects to meet the accounts submission requirements in a timely manner. The Council also expects be able to provide detailed working papers to support the accounts at the start of our final accounts audit fieldwork, which is scheduled to commence on 8th August 2011, as well as providing the draft Annual Governance Statement in advance of this date.

The internal audit function

We review internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.

Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.

Results of interim audit work (continued)

Walkthrough testing and tests of controls

Walkthrough tests and tests of controls were scheduled to be undertaken in April 2011 in relation to the specific accounts assertion risks by cycle which we consider to present a 'reasonably possible' risk of material misstatement to the financial statements. (These risks are detailed in Appendix B to this memorandum).

No significant issues were noted where walkthrough testing was able to be completed as planned and in-year internal controls were observed to operate satisfactorily in accordance with our documented understanding.

Implementation of previous years recommendations:

- Recommendations from our previous audit had not been implemented including security management reporting, formulation of security policies and procedures, review of privilege user accounts and IT risk management. In addition, we noted that work was being completed towards addressing weaknesses in business continuity and single point of failure risks
- Management should ensure that effective policy and procedures are developed to monitor and measure progress towards the implementation of agreed audit recommendations.

Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

Security Management:

- Existing IT governance arrangements over IT security management are ineffective, as they fail to address roles, responsibilities and accountabilities for various aspects of security, including ownership.
- In the absence of effective governance over IT security, the infrastructure may be vulnerable to malicious exploitation.

We have, however, identified a number of areas for improvement during the course of our work in these areas. We do not consider these to pose a significant risk to the accounts. These have been covered opposite.

Results of interim audit work (continued)

Vulnerability Assessment:

- We have been informed that a penetration test has been performed on the external facing network. However, we have found no evidence of any vulnerability results for the internal facing network and associated devices/configurations
- By not carrying out regular vulnerability assessments of the entire network infrastructure, potential threats and weaknesses may go undetected leading to potential malicious exploits that can have a direct impact upon the integrity of applications and data that utilise such resources.

Remote access:

- Remote access to the Council's network is granted to employees who work from home and third parties, for example software suppliers who maintain the Council's software applications. The Council has no formal documented policy in place for remote access. We have been advised that Human Resources keep records of all employees who permanently work from home either on a full time or part time basis. However, they do not hold such records for employees who work on an ad hoc basis.

Firewall Policy:

- A firewall policy should define how the Council's firewalls should handle inbound and outbound traffic and should be based on the existing security policies that stipulate requirements of the Council.
- We have been given assurance that a firewall configuration standard is in place but at the time of the audit we were not provided with a copy to review. In the circumstances we are unable to form an opinion on the effectiveness of such arrangements.

User Account Management:

- The Council does not have any formal defined and documented policies and procedures for user account management. We have been informed that this is done on an ad hoc basis and notifications are not always received from Human Resources on a timely basis, especially when employees change roles within the Council.

Appendices

Page 36 **A. Logistics**

Accounts Audit Approach Memorandum

Timetables and milestones

The following proposed timetable and deadlines have been set and agreed with management:

Event	Date
Pre year end fieldwork including internal controls review	Mar-Apr 2011
Statutory accounts emailed to auditor	30 June 2011
Commence accounts audit fieldwork	8 August 2011
Manager visit to review work	August 2011
Partner visit to review work	August 2011
Clearance meeting to discuss our findings	August 2011
Report to Finance Audit and Risk Committee (ISA 260)	TBC

Engagement team

In accordance with our Audit Plan 2010/11 issued February 2011, the main engagement team for the accounts audit will include:

Name	Role	Contact details
Paul Dossett	Engagement partner	T: 0207 728 3180 E: paul.dossett@uk.gt.com
Nick Taylor	Audit manager	T: 07500 815358 E: nick.taylor@uk.gt.com
Simon Cooke	Audit senior	T: 0207 728 2790 E: simon.j.cooke@uk.gt.com

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, which was issued in March 2011.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable. An agreed format and schedule of informal update arrangements will be maintained throughout the course of our audit fieldwork in support of this aim.

B. Accounts assertion risks by cycle

A reasonably possible risk is defined as being where:

- Numerous and often very precise controls should be established by management
- Substantive procedures would vary if controls were tested
- Inherent risk factors increase the likelihood of a material misstatement

Property, plant and equipment

Valuation - Gross

Risks

Property, plant and equipment activity not valid

Intended control reliance

Tests of controls will be performed to verify that controls operate effectively

Revaluation measurements not correct

Walkthroughs will be performed to verify that controls are implemented

Valuation - Net

Risks

Allowance for depreciation not adequate

Intended control reliance

Walkthroughs will be performed to verify that controls are implemented

Operating expenses

Completeness

Page

Creditors understated or not recorded in correct period

Intended control reliance

Walkthroughs will be performed to verify that controls are implemented

Council Tax Revenue / NNDR Revenues

Completeness	Intended control reliance
Risks	Tax revenue transactions not recorded Walkthroughs will be performed to verify that controls are implemented
Existence/Occurrence	Intended control reliance
Risks	Recorded debtors not valid Walkthroughs will be performed to verify that controls are implemented
Valuation - Net	Intended control reliance
Risks	Allowance for doubtful accounts not adequate Walkthroughs will be performed to verify that controls are implemented
Grant Revenues	Intended control reliance
Risks	Recorded debtors not valid Walkthroughs will be performed to verify that controls are implemented

C. Action plan

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
IT recommendations				
1	Management should ensure that regular vulnerability assessments are carried out over the entire network estate, both internal and external facing, to identify potential risks so that these can be eliminated or mitigating controls put in place.	H		
2	Management should introduce improvements to existing governance arrangements by way of the IT Steering Group, which is tasked with addressing all IT security matters, including the formulation of corporate policy and procedures.	M		
3	Management should ensure that a user account management policy is established with related procedures and templates to ensure consistency in user set ups, modifications and deletion. This should also include privilege user accounts.	M		
4	Management should ensure that a documented policy is in place for remote access.	M		
5	Management should ensure that a corporate firewall is defined, documented and enforced that makes reference to pertinent procedures and baseline technical security configuration standards.	M		



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Annual Governance Statement: adding real value?

Spring 2011

Overview

Local authorities have been required to produce an Annual Governance Statement (AGS) since 2007/08. The AGS replaced the Statement on Internal Control as local government needed a holistic assurance rather than a narrow financial and control basis. The AGS produced by local authorities appears in the published annual accounts and is normally signed by the Chief Executive and leader of the Council. CIPFA/SOLACE have prescribed a framework for the AGS which requires authorities to document the scope, purpose and responsibility of the Governance Framework as well as reporting on its effectiveness and documenting any significant control weaknesses, and actions taken to mitigate them.

The AGS – still in development?

We have significant experience of the AGS and its development and our research has involved review of a number of 2009/10 AGSs across the country. It is our view that most authorities are still in the “compliance” phase of their development, and their main focus is ensuring compliance with the specified CIPFA/SOLACE framework. Many of the statements we review lack much local flavour or perspective and are often anodyne and bland. Conversely, others contain excessive commentary on local process, making it difficult to draw out the key messages. Most tellingly it is often difficult to understand why governance failings recorded in the document are deemed significant.

What are the main issues?

- **The AGS is static and lack status** – Our experience shows that in preparing the AGS authorities primarily concerned with “ticking the boxes” ready for member/audit review. The AGS is all too often:
 - a year end rather than year round exercise
 - not updated to reflect significant issues arising between the draft accounts and audit opinion
 - written and presented by internal audit
 - amended incrementally each year to document new control weaknesses and follow up last year’s issues, rather than fundamentally reviewed with the council’s strategic objectives and vision in mind
 - not challenged by officers, members and auditors on the value it adds to governance arrangements.
- **The overall purpose of the governance framework is rarely articulated** - The AGS is often a description of a long list of processes the Council has put in place to achieve sound governance. The AGS rarely addresses some basic questions such as: *What is the level of assurance we are trying to achieve? Will these processes and controls provide sufficient assurance?*

- **Assurances obtained from governance processes are very rarely articulated?** - Our experience shows that few AGS explicitly link the assurances actually obtained in the current year from the processes described. The better AGS have documented assurances obtained from external audit and inspection, and in some cases from internal audit. We have found very few examples where assurances obtained from internal governance procedures are documented or evidenced. Readers are unclear over: *What assurances have these processes actually given and to whom? Have we achieved the level of assurance we need?*

- **Significant weaknesses are often vague** - The majority but not all authorities include significant weaknesses at the end of the AGS. However:

- it is often unclear whether weaknesses recorded are significant in the context of achievement of the council’s vision and strategic objectives
- it is difficult to understand which part of the framework identified the weaknesses and what this means for the wider governance processes
- “significant weaknesses” identified in year and follow up of action on prior year issues are often vaguely articulated and action planning rarely meets the “SMART” test.

What needs to be done?

To add real value we believe the AGS should:

- Have greater status within the council’s management and reporting processes as the key document that records the planned and obtained assurances over achievement of the vision and strategic objectives
- Be owned from the top, used to plan and monitor internal and external assurance gathering throughout the year
- Be fundamentally reviewed each year so that it clearly includes what is significant and excludes what is not
- Have only significant weaknesses recorded with SMART action planning
- Provide a robust, transparent and honest assessment of the governance framework for the year.

Who should I contact?

The Grant Thornton Governance Institute will continue to issue briefing notes in the interests of wider awareness, and we intend to hold a variety of other promotional and thought-development events. For further information:

Paul Hughes
Grant Thornton Governance Institute
 T 020 7728 2256
 E paul.hughes@gt.uk.com

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East Hertfordshire District Council

Certification Work - Planning Memorandum 2010-11

June 2011

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3 Relationship between certification work and other work	5
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Appendices

A Summary of all claims and returns for the year ended 31 March 2011

1 Introduction and approach

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information. As East Hertfordshire District Council's (the Council) external auditors, Grant Thornton undertakes certification work at the Council, acting as an agent of the Audit Commission.

The Audit Commission makes certification arrangements with grant-paying bodies, this includes confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and they clearly set out the specific procedures to be applied in examining a claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return: The arrangements for 2010/11 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions;
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but were not required to undertake any testing of the eligibility of expenditure or data; and
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification work fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Hourly rates for certifying claims and returns for 2010-11

Role	2010/11
Engagement lead	£345
Manager	£195
Senior auditor	£125
Other staff	£95

2 Claims history

The most significant claims in 2009-10 were:

- housing and council tax benefit; and
- national non-domestic rates.

There are an estimated 3 claims and returns to be submitted for 2010-11.

In our 2009-10 grants report, we reported to the Audit Committee that our work identified no amendments as being required and no claims were subject to qualification.

The table below summarises performance against best practice targets.

Performance Target	Best Practice Target	Performance in 2009-10
Claims submitted on time	100%	100%
Claims amended	0%	0%
Claims qualified	0%	0%
Certified within Audit Commission deadline or 3 months from receipt	100%	100%

3 Relationship between certification work and other work

The 2010-11 accounts audit is due to be completed and the audit opinion signed by 30 September 2011. This is before the certification deadline for some of the major claims and returns.

In order to gain assurance that the accounts are not materially misstated with respect to grant income and related expenditure, we perform analytical procedures and key tests from the certification instructions which are material to the Council's accounts as a part of our accounts audit work.

By the earlier of 30 September and the date on which the accounts are signed, we will complete sufficient work on the certification of these material claims and returns to conclude that there were no material misstatements to the accounts due to expenditure incurred or income received. We will complete the remaining tests, to cover the requirements of the certification instructions, prior to the certification deadlines.

As in 2009-10, one integrated piece of work on benefits will be undertaken, covering claim certification, data quality and some elements relevant to the accounts opinion. The scope of this work is set out by the Audit Commission in the housing and council tax benefits certification instruction and HB COUNT workbooks.

We are required to complete enough work to inform our Value For Money conclusion and accounts opinion by 30 September 2011. All work on this claim, including any additional testing as a result of identifying errors in the initial sample, is required to be completed by the certification deadline of 30 November 2011.

4 Roles and responsibilities

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role and responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims.
Audit Commission	Issues certification instructions for auditor work.
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines.
Appointed Auditor	Certifies claims submitted in accordance with Audit Commission Instructions and within certification deadlines.

The Council's role can be further analysed areas as follows:

- the Director of Finance is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns;
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement;
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from the grant paying bodies;
- to comply with Audit Commission Certification Instructions, claims and returns should be supported by adequate working papers. The Council should have procedures in place to ensure that not only are the claims and returns prepared for external auditor certification but also that the documentation is in place to support the information declared;
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Director of Finance or an officer authorised by written delegated powers; and
- the Council should monitor arrangements with any third parties involved in the certification process.

5 Protocol for 2010-11 claims & returns

The following summarises the proposed protocol for the certification process during 2010-11.

- The Council has identified all claims and returns and this information is incorporated into Appendix A to this grants plan.
- When each expected claim or return is completed, a copy of the signed original version should be sent to Nick Taylor at the following address:

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

- The original claims and returns should be retained by the Council with one central named co-ordinator.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan.
- All claims and returns should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required where necessary. We are required to report the value for these claims to the Audit Commission in our annual certification work report.
- We will inform the Council's claim co-ordinator as to which claims and returns have been received, and also to highlight any which have not been received after a submission deadline. We can also provide an update as to which certifications have been completed and which are ongoing on a monthly basis if requested.
- Copies of the certification instructions can be provided on request for any new claims and returns received.
- Once claims and returns are received we will arrange staffing for the certification with the named contact for the particular claim or return.
- We intend to certify all claims and returns in accordance with the deadlines set out by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within the permitted three months from receipt.
- Once we have completed our on-site certification processes we will collect the original claim or return from the named co-ordinator.
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of a qualification letter if applicable.
- We will issue a bill at the end of each month (with the first bill being issued in July 2011), which will break down the overall fee on a claim by claim basis.

- We expect to complete the certification all of claims by late 2011. After this point we will issue a certification work report highlighting any issues we feel should be brought to the Council's and Audit Committee's attention.

6 Team and timing of work

The team will be led by Simon Cooke (Senior Auditor) and managed by Nick Taylor (Audit Manager). Nick Taylor will also review the certification work performed, except for the National Non-Domestic Rates return and the Housing and Council Tax benefits scheme, which will be reviewed by Richard Lawson (Audit Manager). Nick and Richard are responsible for the review of these claims and returns across local authorities audited by Grant Thornton in London and the South East. Paul Dossett and Paul Hughes (Engagement Leads) will be responsible for final review and certification of the claims and returns.

Our work will be undertaken between June and December 2011 to ensure completion of certification work in accordance with individual statutory deadlines.

Appendix A sets out details of the deadlines for submission of the claims to us, certification deadlines and an estimate of the input required.

The estimated time for each certification is set out in the appendix to the plan and makes the following assumptions:

- the certification instructions for 2010-11 do not vary from 2009-10 to any significant degree, except where there are known adjustments;
- the Council provides adequate working papers to support each entry in the claim/return;
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries; and
- we have assumed that there will be no change in the scope of our work due to the control environments in place during the year.

Should these assumptions not prove to be correct once we commence our work then the budgeted number of days will be increased or decreased accordingly.

A Summary of all claims and returns for the year ended 31 March 2011

Claim	Authority Deadline	Certification Deadline	Claim certified in prior year	Prior year outcome	Estimated number of days on site
Housing and council tax benefits scheme (BEN01)	31/05/11	30/11/11	Yes	No amendment, no qualification	15
Disabled Facilities (HOU21)	29/07/11	31/10/11	Yes	No amendment, no qualification	1
National Non Domestic Rates return (LA01)	24/06/11	23/09/11	Yes	No amendment, no qualification	5

(On this basis, and time required, we estimate that our fee for this work in 2010-11 will be approximately £25,000 (2009-10: £23,764).



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Agenda Item 10



Our Ref PD/EHDC/2011-12

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8 April 2011

Dear Anne

Indicative Audit Fees – 2011/12

I'm writing to summarise the audit work that we propose to undertake for the 2011/12 financial year at East Hertfordshire District Council (the Council) and the associated indicative fee.

Indicative Scale Fees

In prior years, we used a fee calculation to determine the scale fee. For 2011/12, the Commission has independently set scale fees based on the fee for 2010/11. All councils have received notification of this fee and it is publicly available at <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/fees/pages/individualfeeslocalgov/201112.aspx>.

The fee for 2011/12 has been set at £114,791. This represents a decrease of 5% on the 2010/11 fee.

The 2010/11 fees reflected our assessment of risk and complexity at the Council. We have not yet completed our 2010/11 audits, therefore the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses and the fee will be reviewed and updated as necessary.

The scale fee is also based on the assumption that detailed working papers, and other specified information, are provided to an agreed timetable. Where agreed timetables are not met and/or poor documentation is provided such that additional audit work is necessary, or the audit is delayed, we reserve the right to charge additional fees to cover the costs incurred. We must seek approval from the Audit Commission for any variance to the scale fee.

The fees noted above exclude any work requested by you that the Audit Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

Value for Money Conclusion

Under the Audit Commission Act, we must be satisfied that each Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

To arrive out our conclusion we will focus on the Council's arrangements for:

- Securing financial resilience; and
- Prioritising resources within tighter budgets

Our work to support our conclusions will be risk-based. We will agree the detail of this with the Council during the course of the year.

Other Work

The Audit Commission has specified we carry out additional audit work on the Whole of Government Accounts.

The lower threshold for certification of grants and returns has increased to £125,000. However, this is unlikely to affect the Council as the returns that we certify at the Council are above this threshold level. The Hourly rates for 2011/12 are:

Staff grade	Rate (£ per hour)
Partner	345
Manager	195
Senior Auditor	125
Other staff	95

Fee arrangements for objections do not change.

Audit Team

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

Engagement Lead – Paul Dossett	0207 728 3180	paul.dossett@uk.gt.com
Audit Manager – Nick Taylor	01223 225514	nick.taylor@uk.gt.com
Audit Executive – Simon Cooke	0207 728 2790	simon.j.cooke@uk.gt.com

Additional Support and Quality Control

Outside of our Code of Practice audit we are able to carry out non-Code work to support the Council in other areas they may require additional support. We would be happy to discuss with you options for how we may help further.

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the engagement lead in the first instance. Alternatively you may wish to contact the Head of Government Audit at Grant Thornton UK LLP, Sarah Howard at sarah.howard@gruk.com.

Yours sincerely

Paul Dossett
Engagement Lead
Grant Thornton UK LLP

EAST HERTS COUNCIL

AUDIT COMMITTEE – 12 JULY 2011

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

DRAFT STATEMENT OF ACCOUNTS 2010/11

WARD(S) AFFECTED: None specific

Purpose/Summary of Report

- This report sets out changes, in line with new Accounts and Audit Regulations and amendments to the Council's Constitution, to the arrangements for Members to approve Council's annual Statement of Accounts. The report provides, for Members' information, a copy of the Council's (unaudited) Accounts for 2010/11 as approved by the S151 Officer.

<u>RECOMMENDATION FOR AUDIT COMMITTEE :</u>	
(A)	that the production and authorisation (by the Section 151 Officer) of the Council's 2010/11 Accounts in line with statutory requirements be noted.

1.0 Background

- 1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out changes to the requirements for the production, approval and publication of a Council's annual Statement of Accounts.
- 1.2 The former (2003) Regulations required the approval (by a relevant body of Members) of the Council's Statement of Accounts by 30 June following the relevant accounting year with audited accounts to be published by 30 September of that year.
- 1.3 The new Regulations now require the Accounts to be signed by the Council's S151 officer by 30 June following the relevant accounting year and passed for audit before requesting approval by a relevant body of the Council (as defined within the Regulations) following audit and then published by 30 September. The S151 officer in signing the

accounts is required to certify that the accounts present “a true and fair view” of the financial position of the Council at the year end.

- 1.4 The change in requirements will mean that the relevant body (for this Council the Audit Committee following amendment of the Constitution) will have the benefit of receiving the External Auditor’s report on the accounts prior to Member approval.
- 1.5 In line with the new requirements the audited accounts will now be submitted to the committee, for its approval, at the meeting on 21 September 2011. Given that this new procedure would delay members consideration of the accounts the draft accounts are presented for information at this stage.
- 1.5 A separate report elsewhere on the agenda deals with requirements for the consideration and approval of the Council’s Annual Governance Statement, which is required to be included within the Council’s overall annual accounts.

2.0 Report

- 2.1 The Council’s Chief Finance Officer (S151 Officer) has statutory responsibility for the preparation of the Statement of Accounts. The Accounts, accounting policies and compliance with the 2010 Code of Practice on local authority accounting have been signed by the Council’s Director of Internal Services (as 151 Officer) for submission to Members. The Statement of Accounts was authorised for issue on 29 June 2011.
- 2.2 Although the new regulations do not require the accounts to be submitted to the Audit Committee at this stage in the process, officers consider that it is good practice in that the Committee can be assured that the accounts have been produced in line with the statutory requirements as well as affording the Committee an early opportunity of viewing and questioning the accounts.
- 2.3 The Statement of Accounts is attached at Essential Reference Paper “B” to the report.
- 2.4 In the wider interest of transparency and public accountability it is also intended that the accounts will be made available on the Council’s website but clearly marked as DRAFT and SUBJECT TO AUDIT. This will ensure an early opportunity for the public to consider the accounts prior to the appointed day for inspection of the accounts and supporting documents.

2.5 The Committee will be aware that the 2010/11 Accounts have been required to be produced for the first time in line with International Financial Reporting Standards (IFRS). The move to IFRS has required significant changes to both the format and presentation of the accounts including a complete restatement of prior year comparatives. Work has been ongoing on this “project” since April 2010.

2.6 As a result of the significant additional work, and new skills required in order to move to IFRS based accounts, the Council engaged Deloitte LLP to support the process. Arrangements have included appropriate staff training which will be invaluable in future years.

2.7 Regular liaison with the Council’s External Audit staff (Grant Thornton) has also taken place in order to assist the transition and discuss and agree the Council’s approach to key areas of change. A number of draft accounts (including the transitional balance sheet and 2009/10 restatements) together with draft policies and notes have been provided to Grant Thornton for their consideration during the process.

2.8 A report elsewhere on the agenda sets out Grant Thornton’s initial findings regarding the preparatory work and restatements. It is pleasing to note that no significant issues or concerns were identified.

2.9 It is intended to provide Members with a detailed accompanying report on the accounts at the September meeting when the Committee will be invited to formally approve the accounts. Members may, however, wish to be aware of the following key issues which have a significant impact upon this year’s accounts;

- The technical transition date for IFRS was 1 April 2009 which requires a “transitional balance sheet” to be prepared at this date. Together with the restated balance sheet at 31 March 2010 and the current year’s balance sheet the accounts present three balance sheets on this occasion.
- Note 2 to the statements (pages 21 to 26) include reconciliations between the former (UK GAAP) Statements and the new IFRS basis. These cover both balance sheet (total net worth) and Comprehensive Income and Expenditure Statement conversions.
- Asset revaluations continue to have a significant impact on the Comprehensive Income and Expenditure (CI&E) Statement.

Following the enhancement work to Hertford Theatre a revaluation of this asset has been undertaken. The accounting requirement for the basis of valuation to reflect a rental value (derived by reference to the underlying income stream) produces a significant reduction in value compared to the former depreciated replacement cost method. A revaluation adjustment of £3.91M is reflected in the CI&E Statement. Members should note that valuations will not necessarily represent the value of an asset to the organisation or its potential disposal value.

- The Committee will be aware that in the June 2010 budget statement the Government announced that from April 2011 public service pensions would be up-rated in line with the Consumer Price index(CPI) rather than the Retail Price Index (RPI). This change (in line with relevant accounting bulletins) has been treated within the accounts as a change in benefit. This has the effect of reducing the Council's pension liabilities at 31 March 2011 by some £9.7million. It is recognised in the Comprehensive Income & Expenditure Statement as a past service gain and shown as a non distributed cost within the net cost of services. This gain together with other favourable financial assumptions (compared to the March 2010 position) has resulted in an overall reduction in the Council's pension liabilities of £19.975 million.

2.10 It will be for Members and other readers to judge whether the new presentation aids understanding of the accounts (although in this transitional year the need to show reconciliations back to the March 2009 balance sheet means there is a lot of detail which will not be repeated going forward). The prominence now given to the movement on reserves, the detail in support of adjustments between Accounting Basis and Funding Basis and the notes on Resource Allocation Decisions may help understanding of why not every transaction in the accounts is relevant to setting the council tax. The volatility in the accounting for pensions where the year saw the deficit reduce by almost 50% remains an area where understanding the implications of the accounts will be of continuing difficulty.

2.11 Annual Governance Statement -

This Statement is required to be included as part of the Council's overall Statement of Accounts. A report (see agenda item xx) sets out the draft document for Members consideration.

3.0 Implications/Consultation

3.1 Information on any corporate issues and consultation associated with

this report can be found within Essential Reference Paper A (Page *)

Background Papers

Final Accounts Working Papers 2010/11

Contact Member: Councillor Mike Tindale, Executive Member for Resources and Internal Support

Contact Officers: Alan Madin, Director of Internal Services - Ext 1401
Simon Chancellor, Head of Financial Support Services
Ext 2050

Report Author: Simon Chancellor, Head of Financial Support Services

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives <i>(delete as appropriate):</i>	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	Consultations have taken place with relevant Officers and external audit staff as part of the closure process.
Legal:	The statutory requirements are set out within the report.
Financial:	As set out within the report.
Human Resource:	There are no human resource implications.
Risk Management:	Any issues arising through the External Audit process will need to be addressed prior to Member approval of the accounts in September.

EAST HERTS COUNCIL

STATEMENT OF ACCOUNTS

2010/11

These are draft accounts prior to Audit, presented for information only and not subject to formal approval.

STATEMENT OF ACCOUNTS 2010/11

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STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD

1. Summary of Contents

The Council's accounts for the year ended 31 March 2011 are set out on pages 6 to 57. They consist of :-

The Movement in Reserves Statement - shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Comprehensive Income & Expenditure Statement - a summary of the resources generated and consumed by the authority in the year.

The Balance Sheet - which sets out the financial position of the Council on 31 March 2011

The Cash Flow Statement - which summarises the Council's inflows and outflows of cash for the year.

Notes to the accounts - provide support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The Notes include a Statement of Accounting Policies which detail the legislation and principles on which the Statement of Accounts has been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the accounts.

Supplementary Financial Statements - The Collection Fund shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period.

Statement of Responsibilities for the Statement of Accounts - identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended.

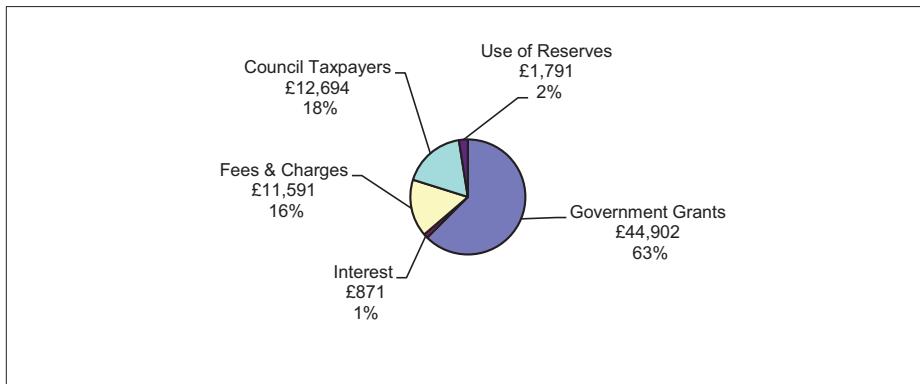
2. Overview of Council's Activities

This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position. The three charts which follow show in broad terms where the Council's money comes from, what it is spent on and what services it provides.

WHERE THE MONEY COMES FROM

Sources of income to the Council

£000



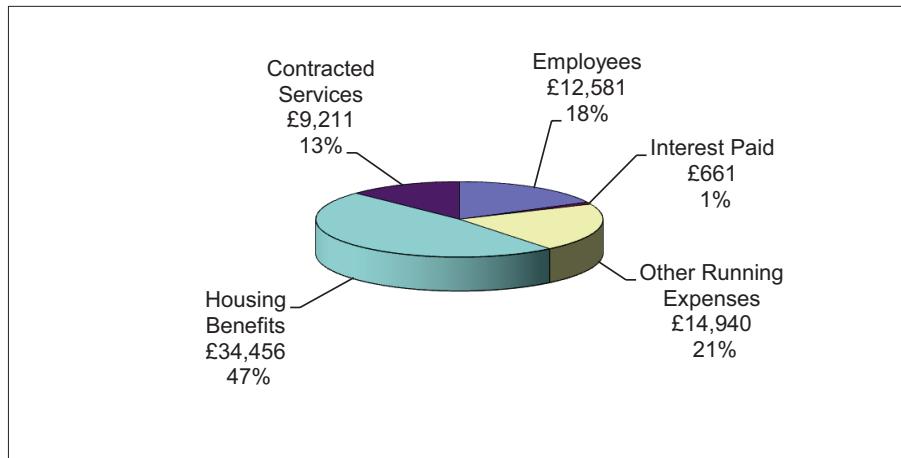
It can be seen that the largest source of the Council's income is from Government Grants.

STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD (continued)

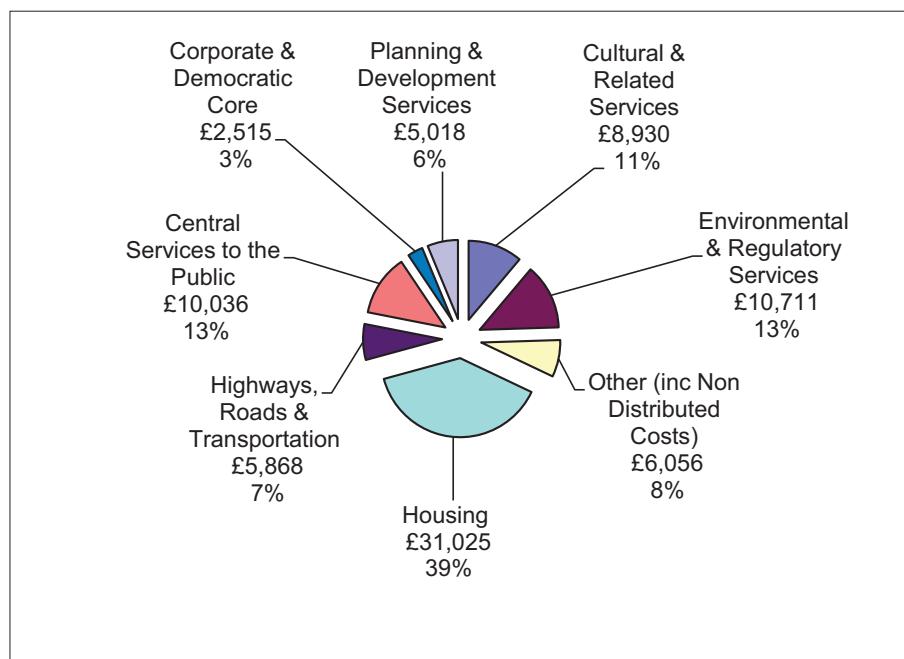
HOW THE MONEY IS SPENT

£000



THE SERVICES PROVIDED

£000



The cost of "The Services Provided" includes capital charges, impairments, revenue funded from capital under statute and capital government grants totalling £8,310k which have been excluded from the chart "How the money is spent". Also includes expenditure on investment properties not included in the "Net Cost Of Services" shown in the Comprehensive Income and Expenditure statement.

STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD (continued)

3. General Fund - Comparison of Actual Expenditure and Income with Budget

A comparison of the budget with actual income and expenditure for 2010/11 is shown below:

	Budget £000	Actual £000	Variance £000
Net Cost of Services (including Investment Properties)	23,586	25,829	2,243
Non Distributed Costs	0	(9,728)	(9,728)
Finance Transactions	(2,269)	(6,906)	(4,637)
Interest Transactions	(987)	(211)	776
Pensions Interest Cost & Expected Return on Pensions Assets	505	1,007	502
Appropriations - Financing Items	25	25	0
Appropriations - REFCUS (see Policy xix, page 20)	(2,511)	(1,404)	1,107
Movement on the Pensions Reserve	(34)	8,816	8,850
Net Expenditure	18,315	17,428	(887)
Collection Fund Contribution	16	16	0
Contribution from NNDR Pool	(7,144)	(7,144)	0
Revenue Support Grant	(1,037)	(1,037)	0
General Grant	0	(37)	(37)
Council Tax Raised	(9,196)	(9,196)	0
Balance to be appropriated (from) Reserves	(954)	(30)	(924)

The above variance is represented by:	£000
An underlying underspend against the 2010/11 estimate	(964)
Less:-	
Contribution from General Reserve relating to budgets b/fwd from 2009/10	40
	<u>(924)</u>

Overall, this has resulted in £30k being drawn from the Council's Reserve balances.

The variances relating to the Net Cost of Services and Finance Transactions include £4.36m of revaluation adjustments / impairments in respect of tangible fixed assets. The balance of the variance within the net cost of service relates to changes in capital charges, in particular REFCUS and the underlying underspend.

Costs identified under Non Distributed Costs, Pensions Interest Cost & Expected Return on Pension Assets and the Movement in Pensions Reserve represent accounting transactions required to be shown in line with accounting reporting standards (IAS 19). Together with pension costs included within the net cost of services they total £1.98m (this being the actual cost to the Council). As some of these accounting entries are not available until year end and do not impact on the level of Council Tax to be levied, they are not reflected within the budget figures. The Non Distributed Costs figure is largely offset within the Movement on Pensions Reserve figure and relates primarily to the change in indexation of pensions from being based on the Retail Price Index (R.P.I.) to being based on the Consumer Price Index (C.P.I.) which substantially reduces the Pension Fund deficit.

The favourable underlying variance of £0.964m against original budget demonstrates the Council's commitment to sound financial management and its prudent approach to funding. The significant variances contributing to this position were;

The cost of the recycling service which showed a net reduction of £1.06m compared to the original estimate. This arose principally from the ongoing success of ARC (alternate refuse collection) arrangements which resulted in significant additional income through the Hertfordshire Waste Partnership funding formula. The service also benefited from lower contract and material handling costs and increased income from the sale of recyclable materials.

STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD (continued)

3. General Fund - Comparison of Actual Expenditure and Income with Budget (cont.)

Other variances contributing to the overall underspend included:

Net savings in delivering the Council's Benefits service (£253k) relating in part to additional recovery of overpaid benefit.

A reduction in the cost of delivering the Council's Planning and Building Control services of £270k due to a combination of reduced costs, increased fee income and a reprofiling of work relating to the Local Development Framework review process.

Reduced costs relating to IT licences, Members Allowances, Legal fees and Audit fees of £221k. A reduction in the net cost of housing related services, including additional hostel rent income of £48k resulted in a favourable variance of £121k.

This was offset by a reduction in investment interest of £779k due to the economic climate and low level of prevailing interest rates and reduced car parking income of £184k.

The Council worked hard during the year to continue to drive down costs and identify efficiencies whilst maintaining quality services in line with its priorities.

In light of the underspend position, the Council has reviewed its financial reserves. Appropriations, in line with the Council's MTFP should ensure that the Council has resources to meet future initiatives in priority services and funding to meet the cost of key processes such as the Local Development Framework review. In line with financial planning assumptions the Council has set aside £400k in order to meet transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings.

The General Reserve balance will be increased by a net £992k after taking into account appropriations relating to budgets approved to be brought forward from 2009/10 of £40k. This compares to a budgeted increase of £159k. Use of earmarked Reserves total £1.022m compared to the budgeted use of £1.112m.

The Comprehensive Income and Expenditure Statement (see page 7), shows a surplus of £13.9m. This compares to a nil net movement on the Council's General Fund working balance. The difference relates primarily to pension transactions (in particular actuarial gains) under IAS 19 and capital related transactions including impairment.

4. Capital Expenditure & Financing

During 2010/11 the Council incurred expenditure of £5.909m (see page 45, note 25) on capital projects compared with an original budget of £6.426m.

The underspend of £517k against the original estimate arose from a combination of strategic decisions regarding the delivery of a number of key projects, in particular the contract to refurbish Wallfields together with delays to some projects resulting in them slipping into 2011/12. In particular, Social Housing schemes, support for the Drill Hall and various asset enhancement works.

Nearly £1.1m was spent on the refurbishment of the "new" Hertford Theatre. This invest to save project has provided the Council with a flagship community asset that will enable the delivery of a number of Council priorities through a more diverse range of programmes.

The policy of giving capital grants towards community projects (inc. partnership funding) continued and over £200k was spent in the year. Over £848k was given in grants to private sector owners for renovation and provision of disabled facilities.

STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD (continued)

4. Capital Expenditure & Financing (cont.)

Expenditure on environmental projects included £168k on play sites and equipment, £180k on Town Centre Enhancements, £1.65m on car parks including the acquisition of two car parks (under an invest to save scheme) and a major refurbishment of Gascoyne Way as well as £134k on refuse and recycling schemes.

Details of the Council's financing arrangements for the year are set out on page 45.

No borrowing was undertaken in 2010/11 and the Council's overall long term borrowing is £7.5m as at 31st March 2011. The balance sheet shows a liability of £7.71m, however, this includes accrued interest of £210k (see note 30 on page 53).

6. Pensions Liabilities

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Since the introduction of (the former) FRS17 in 2003/04 the impact of any pension liability must be shown in the balance sheet. The Council's liability at 31st March 2011 is £22.093m which is a decrease of £19.975m compared to the position at 31st March 2010. This change is largely due to a reduction in the present value of fund liabilities. Further information is given on pages 48 - 50.

7. Financial Reporting and the Euro

It is a Council requirement that all new financial software packages be capable of accommodating conversion to the Euro and as such there are no readily identifiable costs to report.

8. Further Information

Interested parties have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

Further information about the accounts can be obtained by contacting the Head of Financial Support Services, Council Offices, Charrington House, The Causeway, Bishop's Stortford, Herts. CM23 2ER.

If you would like to receive this document in large print, Braille, audio, electronic format, or translation into another language, please contact Communications at East Herts Council on 01992 531688 or e-mail : pr@eastherts.gov.uk.

STATEMENT OF ACCOUNTS 2010/11

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the economic cost of providing the Council's services with more details shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	General Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2009	3,854	3,642	11,251	512	2,997	22,256	93,269	115,525
Movement in reserves during 2009/10								
Deficit on provision of services	(5,666)	-	-	-	-	(5,666)	-	(5,666)
Other comprehensive Income and Expenditure	-	-	-	-	-	-	(23,833)	(23,833)
Total Comprehensive Income and Expenditure	(5,666)	-	-	-	-	(5,666)	(23,833)	(29,499)
Adjustments between accounting basis and funding basis under regulations	Note 4	5,494	-	2,941	315	-	8,750	(8,750)
Net Increase/Decrease before Transfers to Earmarked Reserves		(172)	-	2,941	315	-	3,084	(32,583)
Transfers to/(from) Earmarked Reserves	Note 5	172	56	(6,578)	-	(227)	(6,577)	6,577
Increase/Decrease in Year		0	56	(3,637)	315	(227)	(3,493)	(26,006)
Balance as at 31 March 2010 carried forward		3,854	3,698	7,614	827	2,770	18,763	67,263

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	General Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2010	3,854	3,698	7,614	827	2,770	18,763	67,263	86,026
Movement in reserves during 2010/11								
Surplus on provision of services	2,916	-	-	-	-	2,916	-	2,916
Other comprehensive Income and Expenditure	-	-	-	-	-	-	11,018	11,018
Total Comprehensive Income and Expenditure	2,916	-	-	-	-	2,916	11,018	13,934
Adjustments between accounting basis and funding basis under regulations	Note 4	(2,946)	-	1,289	(173)	-	(1,830)	1,830
Net Increase/Decrease before Transfers to Earmarked Reserves		(30)	-	1,289	(173)	-	1,086	12,848
Transfers to/(from) Earmarked Reserves	Note 5	30	(1,022)	(5,182)	-	992	(5,182)	5,182
Increase/Decrease in Year		0	(1,022)	(3,893)	(173)	992	(4,096)	18,030
Balance as at 31 March 2011 carried forward		3,854	2,676	3,721	654	3,762	14,667	85,293

STATEMENT OF ACCOUNTS 2010/11

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; generally this will be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000	2009/10 Net Expenditure Restated £000
Central Services to the Public	10,036	(8,085)	1,951	2,131
Cultural & Related Services	8,930	(868)	8,062	6,543
Environmental & Regulatory Services	10,711	(3,611)	7,100	7,426
Planning & Development Services	4,664	(1,856)	2,808	2,601
Highways and Transport Services	5,868	(4,402)	1,466	3,928
Other Housing Services	31,025	(28,888)	2,137	2,056
Corporate & Democratic Core	2,515	(14)	2,501	2,675
Non Distributed Costs	0	(9,728)	(9,728)	242
NET COST OF SERVICES			16,297	27,602
Payments of precepts to parishes			3,514	3,454
Payments of housing capital receipts to government			5	15
(Gain) on disposal of non current (fixed assets)			(748)	(4,030)
OTHER OPERATING EXPENDITURE/(INCOME)			2,771	(561)
Interest payable and similar charges			661	681
Pensions interest costs and expected return on pension assets			1,007	1,562
Interest receivable and similar income			(871)	(2,494)
Income from investment properties			(549)	(642)
Direct expenditure incurred on investment properties.			353	325
Changes in Fair Value of Investment Properties			(1,414)	-
(Gain)/Loss on disposal of investment properties			(6)	575
FINANCING AND INVESTMENT (INCOME)/EXPENDITURE			(819)	7
Recognised capital grants and contributions			(160)	(590)
Council tax income			(12,787)	(12,411)
Non domestic rates			(7,144)	(6,614)
Non service related government grants			(1,074)	(1,767)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 23)			(21,165)	(21,382)
(SURPLUS) / DEFICIT ON PROVISION OF SERVICES			(2,916)	5,666
Revaluation (Gains) / Losses			(25)	79
Impairment losses (chargeable to Revaluation Reserve)			188	-
(SURPLUS)/DEFICIT ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			163	79
(Surplus)/Deficit on revaluation of available for sale financial assets			(23)	463
Actuarial (gain) / losses on pension liability			(11,158)	23,291
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			(11,018)	23,833
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			(13,934)	29,499

All operations arise from continuing activities.

STATEMENT OF ACCOUNTS 2010/11

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

		31 March '11 £000	31 March '10 Restated £000	01 April '09 Restated £000
Property, Plant & Equipment				
- Other land and buildings		39,786	43,205	49,235
- Vehicles, plant, furniture and equipment		4,884	5,001	4,231
- Infrastructure assets		3,602	3,919	4,245
- Community assets		1,193	797	755
		49,465		
Investment Properties		9,764	8,439	11,688
Intangible Assets	Note 8	712	640	510
		59,941	62,001	70,664
Long Term Investments		8	8	8
Long Term Debtors	Note 12	178	7,536	207
		60,127	69,545	70,879
Short Term Investments		66,914	71,128	75,904
Short Term Debtors	Note 12	13,160	6,400	6,183
Cash and Cash Equivalents	Note 13	1,986	2,150	2,025
		82,060	79,678	84,112
CURRENT ASSETS				
Bank Overdraft		(1,749)	(2,538)	(934)
Short Term Borrowing		-	-	(401)
Short Term Creditors	Note 14	(10,088)	(5,399)	(5,195)
		(11,837)	(7,937)	(6,530)
CURRENT LIABILITIES				
Provisions	Note 15	(61)	(57)	(42)
Long Term Borrowing	Note 30	(7,710)	(7,710)	(7,710)
Deferred liabilities	Note 14	(222)	(5,101)	(6,790)
Deferred credits	Note 31	(266)	(324)	(452)
Net Pension Liability	Note 17	(22,093)	(42,068)	(17,942)
Capital Grant Receipts in Advance	Note 23	(38)	-	-
		(30,390)	(55,260)	(32,936)
LONG TERM LIABILITIES				
NET ASSETS		99,960	86,026	115,525
USABLE RESERVES				
- General Fund	Note 16	3,854	3,854	3,854
- General reserve	Note 16	3,762	2,770	2,536
- Earmarked reserves	Note 5	2,676	3,698	4,103
- Capital Receipts Reserve	Note 16	3,721	7,614	11,251
- Capital grants Unapplied	Note 16	654	827	512
		14,667	18,763	22,256
UNUSABLE RESERVES				
- Revaluation Reserve	Note 17	2,838	3,110	3,287
- Available-for-Sale Reserve	Note 17	23	-	463
- Pensions Reserve	Note 17	(22,093)	(42,068)	(17,942)
- Capital Adjustment Account	Note 17	104,384	106,173	107,527
- Deferred Capital Receipts	Note 17	159	160	161
- Collection Fund Adjustment Account	Note 17	62	(31)	(147)
- Short-term Accumulating				
Compensated Absences Account	Note 17	(80)	(81)	(80)
		85,293	67,263	93,269
TOTAL RESERVES		99,960	86,026	115,525

STATEMENT OF ACCOUNTS 2010/11

THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2010/11	2009/10 Restated £000
	£000	£000
OPERATING ACTIVITIES		
Cash Inflows		
Council Tax receipts	(11,791)	(11,649)
NNDR receipts from national pool (Grant)	(7,144)	(6,614)
Revenue Support Grant	(1,037)	(1,527)
DWP grants for benefits	(35,406)	(35,388)
Other Government grants	(663)	(1,047)
Cash received for goods and services	(10,095)	(10,376)
Interest received	(697)	(2,729)
Cash inflows generated from operating activities	(66,833)	(69,330)
Cash Out Flows		
Cash paid to and on behalf of employees	12,581	12,981
Housing Benefit paid out	26,877	25,846
Other operating cash payments	19,515	22,341
Precepts paid to other authorities	3,514	3,454
Cash paid to suppliers of goods and services	-	258
Interest paid	661	681
Cash outflows generated from operating activities	63,148	65,561
Net Cash (Inflow)/Outflow from operating activities	(3,685)	(3,769)
INVESTING ACTIVITIES		
- Purchase of property plant and equipment, investment property and intangible assets	5,029	5,290
- Purchase of short-term and long-term investments	-	-
- Other payments for investing activities	5	15
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,294)	(606)
- Capital grants	(558)	(797)
- Proceeds from short-term and long-term investments	(4,214)	(4,776)
- Other receipts from investing activities	-	(87)
Net cash (inflow)/outflow from investing activities	(1,032)	(961)
FINANCING ACTIVITIES		
- Cash receipts of short and long-term borrowing	-	-
- Other receipts from financing activities	(1,141)	-
- Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts (Principal)	-	102
- Repayments of short and long-term borrowing	-	401
- Other payments for financing activities	5,233	5,706
Net cash (inflow)/outflow from financing activities	4,092	6,209
Net (increase) or decrease in cash and cash equivalents	(625)	1,479
Cash and cash equivalents at the beginning of the reporting period	388	(1,091)
Cash and cash equivalents at the end of the reporting period	(237)	388

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Income from the provision of services in the form of sales, fees, charges and rents is recognised and accounted for in the period to which they relate.

Expenses in relation to services received (including services provided by employees, transport related, premises related and supplies and services related expenditure) are recorded as expenditure when the services are received rather than when payments are made, with the exception of quarterly utility payments where no actual apportionment is made for bills spanning two financial years.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision is made for doubtful debts and known uncollectable debts are written off.

iii. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

See Note 2 Transition to IFRS for details of prior period adjustments made as a result of the transition to IFRS.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

v. Charges to Revenue for Non - Current Assets (Property, Plant and Equipment and Intangible Assets)

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

depreciation attributable to the assets used by the relevant service

revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

vi. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Post Employment Benefits (Pensions)

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds [iBoxx Sterling Corporates AA Over 15 years Index at the IAS19 valuation date with one slight amendment - the removal of recently re-rated bonds from the index]).

The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- Unit trust and managed fund investments (including property) – current bid price.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

vi. Employee Benefits - continued

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

Further information can be found in Hertfordshire County Council's Pension Fund's Annual Report which is available upon request from Hertfordshire County Council, Corporate Services, County Hall, Hertford, SG13 8DQ.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

vii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted where material to reflect such events

those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Guarantees

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2011 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 17 to the Notes to the Core Statements.

No other financial guarantees were identified in 2010/11

Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. The Council loans falling within this category relate to the assisted car purchase scheme, the amount of which is considered immaterial.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

viii. Financial Instruments - continued

Financial Assets

Financial assets are classified into two types:

loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available -for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on quoted market prices.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

ix. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

With the exception of Section 106 receipts amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been substantially satisfied. Section 106 receipts are credited to the Comprehensive Income and Expenditure Statement on receipt given that under current agreements any liability to repay will not arise for ten years. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) and Revenue Support Grant(RSG)

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ringfenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

x. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

xi. Investments

The majority of the Council's internally managed investments are money market deposits but investments placed with our External Fund Managers in money market instruments include Certificates of Deposit and Treasury Stock which are valued at fair value. (See Note 29)

xii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment (embedded leases) are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

xiii. Leases - continued

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Council as a Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Investment Properties) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xiv. Minimum revenue provision

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the calculated MRP is now nil.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The basis of allocation used for the main areas is outlined below:

Cost	Basis of allocation
Support Services	Actual time spent by staff
Administrative Buildings	Area occupied
Information Technology	Time spent/actual use

xvi. Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

Operational non specialised property – fair value based on existing use value. The multi-storey car parks but not surface car parks, and Hertford Theatre have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.

Operational specialised property – depreciated replacement cost (DRC).

Community assets and Infrastructure – nominal value or historical cost.

All other assets – depreciated historical cost.

In the event of a future disposal the market value at that time may realise more or less than the carrying value

From 1 April 2010, the Council revalues the assets on a four year rolling basis (formerly five year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The current asset values used in the accounts are based upon a certificate issued by the Council's Internal Asset & Valuation Manager, Martin H Shrosbree MRICS as at 31 March 2011. The certificate is based on both valuations undertaken by the Council's Manager as well as valuers engaged from Wilks Head Eve (MRICS) and reviewed by the Council's Manager. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

All Property, Plant and Equipment, other than freehold land and Community Assets (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	20 years
Equipment, Furniture and Fittings	5 to 10 years
Community Assets	No depreciation (30 years for exceptions)
Non operational assets	60 years
Enhancement to leased properties	10 to 25 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

In line with accounting requirements the Council will consider the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1Million for individual assets with a de-minimis component percentage of 20% of the individual asset value.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Provision for bad debt

The value of receivables (debtors) shown on the balance sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision.

The following methods are used:-

Trade Accounts Receivable	- Age and collectability
Housing Benefit Overpayments	- Age and collectability
National Non Domestic Rates	- 0.6% against the net debit due reviewed against sums written off and opening yearly balances
Council Tax	- 0.3% against the net debit due reviewed against sums written off and opening yearly balances
N N Domestic Rates costs	- 25% against arrears
Council Tax costs	- 20% against arrears

xviii. Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

xix. Revenue expenditure funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Capital receipts

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be "usable" and are held within the Capital Receipts Reserve. Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be "set aside" and are retained within the Capital Adjustment Account as provision for the repayment of debt.

xxi. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (April 2009)

Note	Reported - 31/03/2009	EFFECT OF TRANSITION TO IFRS								IFRS
		Short-term accumulating compensated absences		Arrangement containing leases		Grants	Intangible Assets	Investment Properties	Cash and Cash Equivalents	
		1	2	3	4	£000	£000	£000	£000	
Tangible Assets										
- Other Land & Buildings	49,235									49,235
- Vehicles, plant & equipment	4,136		95							4,231
- Software	509						(509)			0
- Infrastructure assets	4,245									4,245
- Community assets	755									755
Investment Properties	11,951				(263)					11,688
Intangible assets	1						509			510
	70,832	-	95	(263)	-	-	-	-	-	70,664
Long Term Investments	8									8
Long Term Debtors										0
- Mortgages	47									47
- Finance Leases					160					160
LONG TERM ASSETS	70,887	-	95	(103)	-	-	-	-	-	70,879
Current Assets										
- Temporary Investments	77,929							(2,025)		75,904
- Debtors	6,182				1					6,183
- Cash and Cash Equivalents								2,025		2,025
CURRENT ASSETS	84,111	-	-	1	-	-	-	-	-	84,112
TOTAL ASSETS	154,998	-	95	(102)	-	-	-	-	-	154,991
Current Liabilities										
- Bank Overdraft	(934)									(934)
- Temporary Borrowing	(401)									(401)
- Creditors	(5,013)	(80)	(102)		-	-	-	-	-	(5,195)
CURRENT LIABILITIES	(6,348)	(80)	(102)		-	-	-	-	-	(6,530)
TOTAL ASSETS LESS CURRENT LIABILITIES	148,650	(80)	(7)	(102)	-	-	-	-	-	148,461
Provisions	(42)									(42)
Long Term Borrowing	(7,710)									(7,710)
Deferred Liabilities (finance lease liability)	(6,790)									(6,790)
Deferred Credits	(452)									(452)
Government/Other Grants	(3,956)					3,956				0
Deferred										
Liability related to Defined Benefit Pension Scheme	(17,942)									(17,942)
Capital Grants received in advance										0
TOTAL ASSETS LESS LIABILITIES	111,758	(80)	(7)	(102)	3,956	-	-	-	-	115,525
Usable Reserves:										
General Fund	3,854									3,854
Other Earmarked Reserves	3,642									3,642
Usable Capital Receipts	11,251									11,251
Reserve	-					512				
Capital Grants Unapplied										512
General Reserve	2,997									2,997
Unusable Reserves:										0
Revaluation Reserve	6,656				(68)			(3,301)		3,287
Available for Sale Reserve	463									463
Pensions Reserve	(17,942)									(17,942)
Capital Adjustment Account	100,984		(7)	(195)	3,444		3,301			107,527
Capital receipts deferred	-			161						161
Collection Fund adj account	(147)									(147)
Short-term Accumulating Compensated Absences Account	-		(80)							(80)
TOTAL NET WORTH	111,758	(80)	(7)	(102)	3,956	-	-	-	-	115,525

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (31 March 2010)

	UK GAAP	EFFECT OF TRANSITION TO IFRS						IFRS
	Reported - 31/03/2010	Short-term accumulating compensated absences	Leases	Grants	Intangible Assets	Investment Properties	Cash and Cash Equivalent	
	£000	£000	£000	£000	£000	£000	£000	£000
Note							Cash and Cash Equivalent	
		1	2	4	5	6	7	Restated
Tangible Assets								
- Other land & Buildings	43,205							43,205
- Vehicles, plant & equipment	5,001							5,001
- Software	620							0
- Infrastructure assets	3,919							3,919
- Community assets	797							797
Investment Properties	8,702			(263)				8,439
Intangible assets	20				620			640
	<u>62,264</u>			<u>(263)</u>				<u>62,001</u>
Long Term Investments		8						8
Long Term Debtors	7,350			159				7,509
- Mortgages	27							27
- Finance Leases	-							0
LONG TERM ASSETS	<u>69,649</u>			<u>(104)</u>				<u>69,545</u>
Current Assets								
- Temporary Investments	73,278						(2,150)	71,128
- Debtors	6,399			1				6,400
- Cash and Cash Equivalents	-						2,150	2,150
CURRENT ASSETS	<u>79,677</u>			<u>1</u>				<u>79,678</u>
TOTAL ASSETS	<u>149,326</u>			<u>(103)</u>				<u>149,223</u>
Current Liabilities								
- Bank Overdraft	(2,538)							(2,538)
- Temporary Borrowing	-							0
- Creditors	(5,318)			(81)				(5,399)
CURRENT LIABILITIES	<u>(7,856)</u>			<u>(81)</u>				<u>(7,937)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>141,470</u>			<u>(81)</u>				<u>141,286</u>
Provisions		(57)						(57)
Long Term Borrowing	(7,710)							(7,710)
Deferred Liabilities (finance lease liability)	(5,101)							(5,101)
Deferred Credits	(324)							(324)
Government/Other Grants Deferred	(4,231)				4,231			0
Liability related to Defined Benefit Pension Scheme	(42,068)							(42,068)
Capital Grants received in advance	-							0
TOTAL ASSETS LESS LIABILITIES	<u>81,979</u>			<u>(81)</u>				<u>86,026</u>
Usable Reserves:								
General Fund	3,854							3,854
Other Earmarked Reserves	3,698							3,698
Usable Capital Receipts Reserve	7,614							7,614
Capital Grants Unapplied	-				827			827
General Reserve	2,770							2,770
Unusable Reserves:								0
Revaluation Reserve	5,119			(68)			(1,941)	3,110
Available for Sale Reserve	0							0
Pensions Reserve	(42,068)							(42,068)
Capital Adjustment Account	101,023			(195)	3,404		1,941	106,173
Capital receipts deferred	-			160				160
Collection Fund adj account	(31)							(31)
Short-term Accumulating Compensated Absences Account	-			(81)				(81)
TOTAL NET WORTH	<u>81,979</u>			<u>(81)</u>				<u>86,026</u>

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

Reconciliation of total comprehensive income and expenditure under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (year ended 31 March 2010)

Note	UK GAAP Reported - 31/03/2010	EFFECT OF TRANSITION TO IFRS						IFRS Restated £000	
		Short-term accumulating compensated absences		Arrangement containing leases		Investment Properties			
		1 £000	2 £000	3 £000	4 £000	6 £000			
Gross expenditure, gross income and net expenditure of continuing operations									
Central Services to the Public	2,125	-	-	-	6	-	2,131		
Cultural & Related Services	6,510	-	-	-	33	-	6,543		
Environmental & Regulatory Services	7,303	1	-	(9)	131	-	7,426		
Planning & Development Services	2,337	-	14	-	10	240	2,601		
Highways and Transport Services	3,733	-	-	-	118	77	3,928		
Other Housing Services	2,043	-	-	-	13	-	2,056		
Corporate & Democratic Core	2,671	-	-	-	4	-	2,675		
Non Distributed Costs	242	-	-	-	-	-	242		
NET COST OF SERVICES	26,964	1	14	(9)	315	317	27,602		
Other Operating Expenditure	14	-	-	-	-	(575)	(561)		
Financing and Investment Income & Expenditure	(240)	-	(13)	2	-	258	7		
Taxation and Non-Specific Grant Income	(20,792)	-	-	-	(590)	-	(21,382)		
Deficit on Provision of Services	5,946	1	1	(7)	(275)	0	5,666		
Deficit on revaluation of non current assets	79	-	-	-	-	-	79		
Deficit on revaluation of available for sale financial assets	463	-	-	-	-	-	463		
Actuarial losses on pension liability	23,291	-	-	-	-	-	23,291		
Other Comprehensive Income and Expenditure	23,833	-	-	-	-	-	23,833		
Total Comprehensive Income and Expenditure	29,779	1	1	(7)	(275)	-	29,499		

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

NOTES

1. Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulating Absences Account until the benefits are used.

2. Leases

The Authority has one property lease where the accounting treatment has changed following the introduction of the Code, relating to Pinders Lodge. The lease term is 50 years from March 1997. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been reclassified as a finance lease.

As a consequence of classifying the buildings element of the lease as a finance lease, the financial statements have been amended as follows:

- The Council has derecognised an asset (the building) and recognised a finance lease debtor.
- The operating lease income within Planning & Development services has been reduced by the amount that relates to the buildings element of the lease payments.
- The interest element of the lease payment in respect of the buildings element is credited to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

The net increase in the Deficit on the Provision of Services is removed by the transfer of the capital element of the operating lease repayments of £1k from the Deferred Capital Receipts Reserve, as per statutory guidance. This transfer is shown in the Movement in Reserves Statement.

3. Arrangements containing a lease

The Council has also identified an arrangement containing a lease relating to vehicles used in the Refuse and Recycling contract with Enterprise. Under the Code, the Council is seen as effectively leasing 16 vehicles from Enterprise. The lease term is for 7 years starting from August 2002. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the vehicles are now classified as a finance lease.

As a consequence of classifying the vehicles element of the contract as a finance lease, the financial statements have been amended as follows:

- The Council has recognised an asset (the vehicles) and a finance lease liability.
- The contract payments within Environmental and Regulatory Services has been reduced by the notional lease payments (principal and interest) relating to the new finance lease in respect of the vehicles.
- The interest element of the notional lease payments in respect of the vehicles is charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services. The principal element of the notional lease payments has been charged against the finance lease liability.
- A depreciation charge has been included within Environmental and Regulatory Services.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.

The net increase of £7k in the Deficit on the Provision of Services is removed by the transfer of the depreciation charge of £95k and the capital element of the lease payments of £102k to the Capital Adjustment Account. These transfers are shown in the Movement in Reserves Statement.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

4. Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government/Other Grants Deferred Account at 31 March 2009 has been transferred either to the Capital Adjustment Account in the opening 1 April 2009 balance sheet (when conditions have been met and expenditure has been incurred at 31 March 2009) or to the Capital Grants Unapplied Account, when conditions have been met but expenditure not yet incurred as at 31 March 2009.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- There were new grants received in 2009/10 where conditions had been met but no expenditure had been incurred as at 31 March 2010. Following the change in accounting policy, these grants have been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet. New grants received in 2009/10 where conditions had been met and expenditure incurred at 31 March 2010 have been transferred to the Capital Adjustment Account.

5. Intangible Assets

Following review of the provisions of the Code, the Authority has reclassified the carrying amount of Software included within tangible fixed assets to intangible assets, as it is deemed not to be an integral part of the hardware.

6. Investment Properties

Under the Code, gains or losses arising from a change in the fair value of investment properties should be recognised in Surplus or Deficit on the Provisions of Services. This is a change in accounting policy that requires Local Authorities to restate their opening balances appropriately.

As a consequence of adopting the new accounting policy required by the Code, the financial statements have been amended as follows:

- The balances on the Revaluation Reserve in respect of investment properties as at 1 April 2009 have been transferred to the Capital Adjustment Account.
- There has been no changes in the fair value of investment properties in 2009/10, thus no transitional adjustments are required for the 2009/10 accounts.

The Code also requires the rental income and direct expenditure on investment properties to be disclosed as part of Financing and Investment Income & Expenditure in the Comprehensive Income and Expenditure Statement. Previously, they were disclosed as part of the Net Cost of Services.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

6. Investment Properties

Under the Code, gains or losses arising from the disposal of investment properties should be recognised in Financing and Investment Income & Expenditure rather than in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. This is a change in accounting policy that requires Local Authorities to restate their prior year balances appropriately.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The loss on disposal of investment properties has been reclassified from Other Operating Expenditure to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- The gains in the Revaluation Reserve relating to investment properties that were disposed off have been reclassified to the Capital Adjustment Account, as under the Code, all gains on revaluation of investment properties are recognised initially in the Surplus or Deficit on Provision of Services and then reclassified to the Capital Adjustment Account in the Movement in Reserves Statement.

7. Cash and cash equivalents

The Code requires local Authorities to disclose cash and cash equivalents on the face of the Balance Sheet. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Reclassifying items to cash equivalents following IAS 7 is a change of accounting policy that requires councils to restate their opening balances in respect of cash and cash equivalents.

As a consequence of adopting the new accounting policy required by the Code, a portion of the balance on the Temporary Investments account as at 31 March 2009 and 31 March 2010 which meets the definition of a cash equivalent has been reclassified to Cash and Cash Equivalents.

3. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information.

Items included within the Council's Balance Sheet at 31.3.11 for which there is a risk of material adjustment in the forthcoming year are:

- Pension Liability - actuarial assumptions, fund returns
- Property, Plant and Equipment - valuations, useful lives
- Arrears - bad debt provision

Assumptions regarding these items are set out within the relevant accounting note(s) for the item.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable Reserves			
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
2009/10 comparative figures				
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,096			(2,096)
Charges for depreciation refuse vehicles	97			(97)
Revaluation / Impairment on Property Plant and Equipment	5,480			(5,480)
Amortisation of intangible assets	328			(328)
Capital grants and contributions applied	(272)			272
Revenue expenditure funded from capital under statute	1,223			(1,223)
Revenue grants written down to the Capital Adjustment Account	(294)			294
Disposal of non current assets	(2,364)			2,364
Disposal of investment properties	1,864			(1,864)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal payment for finance lease	(102)			102
Capital expenditure charged against the General Fund	(25)			25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(317)			317
Application of grants to capital financing transferred to the Capital Adjustment Account			(2)	2
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,956)		2,956	
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	15		(15)	
Adjustments involving the Deferred Capital Receipts Reserve				
Statutory adjustment relating to capital element of principal payment for finance lease	1			(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	2,809			(2,809)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,974)			1,974
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(116)			116
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1			(1)
Total Adjustments	5,494	2,941	315	(8,750)

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves			
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Usable Reserves £000
2010/11				
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,618		(2,618)	
Revaluation / Impairment on Property Plant and Equipment	4,363		(4,363)	
Movements in the market value of Investment Properties	(1,414)		1,414	
Amortisation of intangible assets	296		(296)	
Capital grants and contributions applied	(160)		160	
Revenue expenditure funded from capital under statute	1,404		(1,404)	
Revenue grants written down to the Capital Adjustment Account	(321)		321	
Disposal of non current assets	450		(450)	
Disposal of investment properties	90		(90)	
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Capital expenditure charged against the General Fund	(25)		25	
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(48)		48	
Application of grants to capital financing transferred to the Capital Adjustment Account			(221)	221
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,294)	1,294		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	5	(5)		
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1			(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	(6,838)		6,838	
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,979)		1,979	
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(93)		93	
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1)		1	
Total Adjustments	(2,946)	1,289	(173)	1,830

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11.

	Balance 1 April 2009 £'000	Transfers Out 2009/10 £'000	Transfers In 2009/10 £'000	Balance 31 March 2010 £'000	Transfers Out 2010/11 £'000	Transfers In 2010/11 £'000	Balance 31 March 2011 £'000
Interest equalisation reserve	(2,204)	1,019	-	(1,185)	1,185	-	0
Insurance fund	(34)	24	-	(10)	-	-	(10)
Emergency Planning Reserve	(37)	-	-	(37)	-	-	(37)
VAT Partial Exemption Reserve	(145)	-	-	(145)	-	-	(145)
Service Improvement Fund	(899)	104	-	(795)	127	-	(668)
LDF/Green Belt Reserve	(142)	-	(221)	(363)	-	(150)	(513)
Housing Condition Survey Reserve	(28)	60	(55)	(23)	-	(14)	(37)
Council Elections Reserve	(25)	-	(25)	(50)	-	(25)	(75)
LABGI Reserve	(461)	145	-	(316)	182	-	(134)
AWC Reserve	(128)	128	-	-	-	-	-
Sinking fund - Leisure Utilities / Pension Reserve	0	-	(60)	(60)	-	(60)	(120)
Restructure fund	0	-	(33)	(33)	-	-	(33)
Legal Fees Reserve	0	-	(31)	(31)	19	-	(12)
Performance Reward Grant Reserve	0	-	(217)	(217)	178	(28)	(67)
Pension Strain Costs Reserve	0	-	(158)	(158)	79	(21)	(100)
Waste Recycling Reserve	0	-	(275)	(275)	-	-	(275)
Footbridge Reserve	0	-	-	-	-	(50)	(50)
Cost of Change Reserve	-	-	-	-	-	(400)	(400)
Total	(4,103)	1,480	(1,075)	(3,698)	1,770	(748)	(2,676)

Interest Equalisation Reserve	This reserve was established at 31 March 2006 to assist the Council in managing the financial implications of adverse interest rate fluctuations. The balance on the reserve has been fully applied in 2010/11 in line with a Council decision.
Insurance Fund	This fund has been established to support the Council's insurance and risk management process and funding of small claims arising due to uninsured losses.
Emergency Planning Reserve	This reserve has been set up in order to facilitate arrangements in the future and support the work of an Emergency Planning Officer Group that has been established within the Council.
VAT Partial Exemption Reserve	New rules were introduced from 1 April 2007 relating to the provisions which allow Local Authorities to recover exempt input tax. The position has increased the possibility of the Council being unable to recover its exempt input tax in full in certain circumstances. To enable the Council to meet the additional cost of any unrecoverable VAT which cannot be budgeted for precisely, a VAT (Partial Exemption) Revenue Reserve was established at 31 March 1999 in the sum of just over £145,000.
Service Improvement Fund	This reserve has been established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term.
During 2008/09 the Council established the following reserves in order to smooth the incidence of expenditure over the period of the Council's Medium Term Financial Plan (MTFP);	
	Local Development Framework, Stansted G2 and Green Belt review Reserve
	Housing Condition Survey Reserve
	Council Elections Reserve

Planned appropriations have been made to each of these reserves in 2010/11.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

Local Authority	
Business Growth Incentives (LABGI) Reserve	In line with the Council's MTFP appropriations have been made in 2010/11 to support the economic development service and general Council Tax.
Sinking Fund - Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009 the Council has provided guarantees in respect of utilities and employers pension costs. The reserve will be used to meet any calls on the Council to make payments under the guarantees in the event that either utility prices and/or employers pension contributions (on a cash rather than IAS19 basis) increase by more than general indexation as provided for under contract
Restructure Fund	A small reserve of £33k has been created in order to assist the Council in meeting any future requirements in support of organisational structural change
Legal Fees Reserve	The reserve was established at 1 April 09 in order to assist in meeting legal costs including tribunals as well as enabling the provision of staff cover for maternity leave in the legal section. A further £19k has been applied in 2010/11.
Performance Reward Grant Reserve	The council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. In line with the planned use of the funding stream to support both the Council Tax and schemes by the Local Strategic Partnership, a total of £150k has been applied in 2010/11.
Pension Strain Costs Reserve	In line with Council decisions relating to flexible and early retirements an earmarked reserve was at 31 March 2010. This balance on the reserve represents the outstanding pension strain costs arising from decisions taken prior to 31 March 2011.
Waste Recycling Reserve	Further to the receipt of additional income of £275k under the county wide funding formula for waste recycling the Council determined to establish an earmarked reserve to assist with future initiatives in respect of its waste and recycling strategies. Release of the reserve is dependant on the Council's acceptance of a worked up business case for any initiative further to the re-letting of the waste collection contract
Footbridge Reserve	The Council's MTFP includes setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the river Stort.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

Cost or Valuation	As at 01/04/2010		Additions £000	Disposals £000	Reclassification £000	Revaluations £000	Total as at 31/03/2011 £000
	£000	£000					
Other Land & Buildings	43,582	2,854	(458)	-	25	46,003	
Vehicles, Plant, furniture & Equip.	11,329	816	-	-	-	-	12,145
Infrastructure	7,507	63	-	-	-	-	7,570
Community Assets	815	403	-	-	-	-	1,218
	63,233	4,136	(458)	0	25	66,936	
	£000	£000	£000	£000	£000	£000	

Depreciation & Impairment	As at 01/04/2010		Charge for Year £000	Disposals £000	Revaluations £000	Total as at 31/03/2011 £000	Balance Sheet as at 31/03/11 £000
	£000	£000					
Other Land & Buildings	377	1,296	(8)	4,552	6,217	39,786	
Vehicles, Plant, furniture & Equip.	6,328	933	-	-	7,261	4,884	
Infrastructure	3,588	380	-	-	3,968	3,602	
Community Assets	18	7	-	-	25	1,193	
	10,311	2,616	(8)	4,552	17,471	49,465	
	£000	£000	£000	£000	£000	£000	

Reconciliation of Additions in the year to Capital Spend

	2010/11 £000
Additions in the year (as above)	4,136
Intangible assets	369
	4,505
plus REFCUS (not included in note 6)	1,404
Total Capital Spend as per Note 25	5,909

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NOTES TO THE FINANCIAL STATEMENTS

7. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

	2010/11 £000	2009/10 £000
Rental income from investment property	(549)	(642)
Direct operating expenses arising from investment property	353	325
Net gain	<u>(196)</u>	<u>(317)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases the Council has repairing obligations which are met through revenue expenditure.

The following table summarises the movement in the fair value of investment properties over the year:

	2010/11 £000	2009/10 £000
Balance at start of the year	8,439	11,688
Additions:		
Subsequent expenditure	-	16
Disposals	(90)	(3,265)
Net gains/losses from fair value adjustments	1414	-
Balance at end of the year	<u>9,763</u>	<u>8,439</u>

8. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years.

The movement on Intangible Asset balances during the year is as follows:

	2010/11			2009/10		
	Software	Other intangible assets	Total	Software	Other intangible assets	Total
	£000	£000	£000	£000	£000	£000
Balance at start of year:						
• Gross carrying amounts	2,238	21	2,259	1,799	2	1,801
• Accumulated amortisation	(1,618)	(1)	(1,619)	(1,290)	(1)	(1,291)
Net carrying amount at start of year	620	20	640	509	1	510
Additions:						
• Purchases	368	-	368	439	19	458
Amortisation for the period	(291)	(5)	(296)	(328)	-	(328)
Net carrying amount at end of year	697	15	712	620	20	640
Comprising:						
• Gross carrying amounts	2,606	21	2,627	2,238	21	2,259
• Accumulated amortisation	(1,909)	(6)	(1,915)	(1,618)	(1)	(1,619)
	697	15	712	620	20	640

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NOTES TO THE FINANCIAL STATEMENTS

9. Financial Instruments Balances

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown in the Balance Sheet to be further analysed into various defined categories. The investments, lending & borrowing disclosed in the Balance Sheet are made up of the following categories of 'financial instruments'

	31 March '11 £000	Long Term			Current		
		31 March '10 £000	01 April '09 £000	31 March '11 £000	31 March '10 £000	01 April '09 £000	
Borrowing							
Financial Liabilities at amortised cost	7,932	12,811	7,710	10,822	6,685	6,363	
Total Borrowing	7,932	12,811	7,710	10,822	6,685	6,363	
Investments							
Loans and Receivables	194	7,544	215	14,861	6,821	12,367	
Available for Sale Financial Assets	-	-	-	65,867	70,062	68,309	
Total Investments	194	7,544	215	80,728	76,883	80,676	

See also Notes 29 and 30 to the Core Statements. (Investments and Borrowings)

Available for Sale Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Available-for-Sale Financial Instruments Reserve. This records unrealised revaluation gains arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets.

The table below sets out the transactions for the year

	2010/11 £000
Balance brought forward	-
Net unrealised gain on investments	23
Realised gain to Revenue	-
Balance carried forward	23

See also Note 17, page 38.

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NOTES TO THE FINANCIAL STATEMENTS

10. Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

2010/11	Financial Liabilities		Financial Assets		
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets	Total	
	£000	£000	£000	£000	£000
Interest Expense	(661)	-	-		(661)
Realised losses	-	-	-		0
Interest Payable and Similar Charges	(661)	0	0		(661)
Interest Income	-	42	368	410	
Realised Gains	-	-	461	461	
Interest and Investment Income	0	42	829		871
Gains on revaluation	-	-	23	23	
Impairments taken to I & E	-	-	-		0
Loss arising on revaluation of financial assets	0	0	23		23
Net Gain / (Loss) for year	(661)	42	852		233

2009/10	Financial Liabilities		Financial Assets		
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets	Total	
	£000	£000	£000	£000	£000
Interest Expense	(681)	-	-		(681)
Realised losses	-	-	-		0
Interest Payable and Similar Charges	(681)	0	0		(681)
Interest Income	-	130	502	632	
Realised Gains	-	-	1,862	1,862	
Interest and Investment Income	0	130	2,364		2,494
Gains on revaluation	-	-	-		0
Impairments taken to I & E	-	-	-		0
Loss arising on revaluation of financial assets	0	0	0		0
Net Gain / (Loss) for year	(681)	130	2,364		1,813

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NOTES TO THE FINANCIAL STATEMENTS

11. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- PWLB has provided the Fair Value Calculation for their loans.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2011		31st March 2010		1st April 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	18,532	22,223	19,496	22,965	14,073	18,352

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

	31st March 2011		31st March 2010		1st April 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	13,992	14,097	13,292	13,189	11,594	11,764

* Excludes Fund Managers cash included within Note 9.

The fair value is greater than the carrying amount because the Council's long term debtors includes a lease debtor where the discount factor increases the value of the payment to that at balance sheet date.

Also see notes 29 and 30 to the Core Statements. (Investments and Borrowings)

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NOTES TO THE FINANCIAL STATEMENTS

12. Debtors

Short Term Debtors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Central government bodies	1,278	2,362	1,965
Other local authorities	448	939	1,678
Bodies external to general government (ie all other bodies)	11,434	3,099	2,540
	13,160	6,400	6,183

Long Term Debtors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Bodies external to general government (ie all other bodies)	178	7,536	207
	178	7,536	207

13. Cash and Cash Equivalents

Short-term deposits with banks	31 March '11 £000	31 March '10 £000	01 April '09 £000
	1,986	2,150	2,025
Total Cash and Cash Equivalents	1,986	2,150	2,025

14. Creditors

Short Term Creditors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Central government bodies	1,208	1,366	314
Other local authorities	205	207	211
Bodies external to general government (ie all other bodies)	8,675	3,826	4,670
	10,088	5,399	5,195

Long Term Creditors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Bodies external to general government (ie all other bodies)	222	5,101	6,790
	222	5,101	6,790

Deferred liabilities

The deferred liability of £5.101m at 31 March 2010 consists of a £5m deferred premium (including dilapidation compensation) in respect of the Council's surrender of the Causeway Lease and £101k liability in respect of a rent accrual for the Causeway Car Park.

At 31 March 2010 this deferred liability was offset by a long term debtor representing deferred consideration on disposal of the Causeway.

At 31 March 2011 both the liability and debtor relating to this transaction are included within short term creditors/debtors.

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NOTES TO THE FINANCIAL STATEMENTS

15. Provisions

Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities the most significant being amounts in respect of assisted car purchase.

	Other Provisions £000	Total £000
Balance at 1 April 2010	57	57
Additional provisions made in 2010/11	9	9
Amounts used in 2010/11	(5)	(5)
Balance at 31 March 2011	61	61

16. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 4 Adjustments between accounting basis and funding basis under regulations and Note 5 Transfers to/from Earmarked Reserves.

17. Unusable Reserves

	31 March '11 £000	31 March '10 £000	01 April '09 £000
Revaluation Reserve	2,838	3,110	3,287
Available for Sale Financial Instruments Reserve	23	-	463
Capital Adjustment Account	104,384	106,173	107,527
Deferred Capital Receipts Reserve	159	160	161
Pensions Reserve	(22,093)	(42,068)	(17,942)
Collection Fund Adjustment Account	62	(31)	(147)
Accumulated Absences Account	(80)	(81)	(80)
Total Unusable Reserves	85,293	67,263	93,269

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11 £000	2009/10 £000
Balance at 1 April	3,110	3,287
Upward revaluation of assets	25	299
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(214)	(379)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(189)	(80)
Difference between fair value depreciation and historical cost depreciation	(83)	(97)
Balance at 31 March	2,838	3,110

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NOTES TO THE FINANCIAL STATEMENTS

17. Unusable Reserves - continued

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2010/11 £000	2009/10 £000
Balance at 1 April	-	463
Upward revaluation of investments	23	-
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0	(463)
Balance at 31 March	23	0

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 4 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2010/11 £000	2009/10 £000
Balance at 1 April	106,173	107,527
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
· Charges for depreciation of non current assets	(2,618)	(2,193)
· Charges for depreciation on revalued assets	84	97
· Revaluation/Impairment on Property, Plant and Equipment	(4,363)	(5,480)
· Amortisation of intangible assets	(296)	(328)
· Revenue expenditure funded from capital under statute	(1,404)	(1,223)
· Revenue grants written down to the Capital Adjustment Account	321	294
· Disposal of property, plant and equipment	(450)	2,364
· Disposal of investment properties	(90)	(1,864)
	<u>(8,816)</u>	<u>(8,333)</u>
Capital financing applied in the year:		
· Use of the Capital Receipts Reserve to finance new capital expenditure	5,182	6,578
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	160	272
· Application of grants to capital financing from the Capital Grants	221	2
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	-	102
· Capital expenditure charged against the General Fund	25	25
	<u>5,588</u>	<u>6,979</u>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,439	0
Balance at 31 March	104,384	106,173

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NOTES TO THE FINANCIAL STATEMENTS

17. Unusable Reserves - continued

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11 £000	2009/10 £000
Balance at 1 April		
Actuarial gains or (losses) on pensions assets and liabilities	(42,068)	(17,942)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	11,158	(23,291)
Employer's pensions contributions and direct payments to pensioners payable in the year	6,838	(2,809)
Balance at 31 March	1,979	1,974
	<u>(22,093)</u>	<u>(42,068)</u>

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2010/11 £000	2009/10 £000
Balance at 1 April	160	161
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	<u>159</u>	<u>160</u>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2010/11 £000	2009/10 £000
Balance at 1 April	(31)	(147)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	93	116
Balance at 31 March	<u>62</u>	<u>(31)</u>

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010/11 £000	2009/10 £000
Balance at 1 April		
Settlement or cancellation of accrual made at the end of the preceding year	(81)	(80)
Amounts accrued at the end of the current year	81	80
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<u>(80)</u>	<u>(81)</u>
Balance at 31 March	1	(1)
	<u>(80)</u>	<u>(81)</u>

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NOTES TO THE FINANCIAL STATEMENTS

18. Amount reported for Resource Allocation Decisions

The income and expenditure of the Authority's principal (directorates) recorded in the budget reports for the year is as follows:

Services Income & Expenditure 2010/11										
	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Other £000	Total £000	
Fees, charges and other service income	(248)	(521)	(1,376)	(449)	(1,060)	(4,162)	(2,004)	(12)	(9,832)	
Government grants	(35,762)	(331)	(17)	(571)	(730)	(212)	(270)	0	(37,893)	
Total Income	(36,010)	(852)	(1,393)	(1,020)	(1,790)	(4,374)	(2,274)	(12)	(47,725)	
Employee expenses	1,469	3,616	2,114	1,840	0	0	2,869	578	12,486	
Other service expenses	34,808	2,979	398	819	2,025	2,647	8,962	86	52,724	
Support service recharges	0	(161)	0	(25)	0	0	0	33	(153)	
Depreciation, amortisation & Impairment	73	599	95	1,237	170	1,178	5,322	19	8,693	
Total Expenditure	36,350	7,033	2,607	3,871	2,195	3,825	17,153	716	73,750	
Net Expenditure	340	6,181	1,214	2,851	405	(549)	14,879	704	26,025	

Services Income & Expenditure 2009/10 Comparative Figures										
	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Other £000	Total £000	
Fees, charges and other service income	(248)	(537)	(1,203)	(562)	(1,327)	(4,275)	(2,355)	(7)	(10,514)	
Government grants	(33,868)	(278)	(408)	(467)	0	0	(71)	0	(35,092)	
Total Income	(34,116)	(815)	(1,611)	(1,029)	(1,327)	(4,275)	(2,426)	(7)	(45,606)	
Employee expenses	1,389	3,558	1,959	1,786	0	0	2,717	604	12,013	
Other service expenses	32,943	3,173	499	992	2,013	2,265	9,832	113	51,830	
Support service recharges	0	(132)	0	0	0	0	0	32	(100)	
Depreciation, amortisation & Impairment	49	584	110	1,035	141	3,911	3,374	19	9,223	
Total Expenditure	34,381	7,183	2,568	3,813	2,154	6,176	15,923	768	72,966	
Net Expenditure	265	6,368	957	2,784	827	1,901	13,497	761	27,360	

Reconciliation of Service Income and Expenditure to cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/11 £000	2009/10 £000
Net expenditure in the Service Analysis	26,025	27,360
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(9,728)	242
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	16,297	27,602

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NOTES TO THE FINANCIAL STATEMENTS

18. Amount reported for Resource Allocation Decisions - continued

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a summary analysis of the surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Service Analysis	Amounts not reported to Management	Net Cost of Services	Corporate amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(9,832)		(9,832)		(9,832)
Interest and Investment income				(1,420)	(1,420)
Income from Council Tax				(12,787)	(12,787)
Government grants and contributions	(37,893)		(37,893)	(8,378)	(46,271)
Total Income	(47,725)	0	(47,725)	(22,585)	(70,310)
Employee expenses	12,486	(9,728)	2,758	1,007	3,765
Other service expenses	52,724		52,724	353	53,077
Support Service recharges	(153)		(153)		(153)
Depreciation, amortisation and impairment	8,693		8,693		8,693
Interest payments				661	661
Precepts and Levies				3,514	3,514
Payments to Housing Capital Receipts Pool				5	5
Changes in value of Investment Properties				(1,414)	(1,414)
Gain or loss on disposal of fixed assets				(754)	(754)
Total Expenditure	73,750	(9,728)	64,022	3,372	67,394
Surplus or deficit on the provision of services	26,025	(9,728)	16,297	(19,213)	(2,916)

2009/10 comparative figures	Service Analysis	Amounts not reported to Management	Net Cost of Services	Corporate amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(10,514)		(10,514)		(10,514)
Interest and Investment income				(3,136)	(3,136)
Income from Council Tax				(12,411)	(12,411)
Government grants and contributions	(35,092)		(35,092)	(8,971)	(44,063)
Total Income	(45,606)	0	(45,606)	(24,518)	(70,124)
Employee expenses	12,013	242	12,255	1,562	13,817
Other service expenses	51,830		51,830	325	52,155
Support Service recharges	(100)		(100)		(100)
Depreciation, amortisation and impairment	9,223		9,223		9,223
Interest payments				681	681
Precepts and Levies				3,454	3,454
Payments to Housing Capital Receipts Pool				15	15
Gain or loss on disposal of fixed assets				(3,455)	(3,455)
Total Expenditure	72,966	242	73,208	2,582	75,790
Surplus or deficit on the provision of services	27,360	242	27,602	(21,936)	5,666

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NOTES TO THE FINANCIAL STATEMENTS

19. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members' Allowance Scheme for the year ending 31 March, was as follows:

	2010/11 £000	2009/10 £000
Basic Allowances	235	250
Special Responsibility Allowances	149	166
	384	416

A full disclosure of payments is available on the Council's website.

20. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:-

Remuneration Band	Number of Employees			
	2010/11		2009/10	
	Total	Left During Year	Total	Left During Year
£50,000 to £54,999	2	-	2	-
£55,000 to £59,999	5	-	3	-
£60,000 to £64,999	6	1	8	-
£65,000 to £69,999	1	-	-	-
£70,000 to £74,999	-	-	-	-
£75,000 to £79,999	1	-	1	-
£80,000 to £84,999	1	-	1	-
£85,000 to £89,999	-	-	-	-
£90,000 to £94,999	1	-	2	1
£95,000 to £99,999	-	-	-	-
£100,000 to £104,999	2	-	1	-
£105,000 to £109,999	-	-	-	-
£110,000 to £114,999	-	-	-	-
£115,000 to £119,999	-	-	-	-
£120,000 to £124,999	-	-	-	-
£125,000 to £129,999	-	-	-	-
£130,000 to £134,999	-	-	1	-

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NOTES TO THE FINANCIAL STATEMENTS

21. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 20, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance)	Benefits in Kind	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£
2010/11					
Chief Executive	98,918	2,102	101,020	54,916 *	155,936
Director of Neighbourhood Services	85,365	5,909	91,274	19,256	110,530
Director of Customer and Community	78,670	3,061	81,731	16,249	97,980
Programme Director	79,260	-	79,260	16,385	95,645
Director of Internal Services	103,508	-	103,508	21,800	125,308
2009/10					
Chief Executive	130,930	1,362	132,292	61,986 *	194,278
Director of Neighbourhood Services	84,568	6,582	91,150	19,421	110,571
Director of Customer and Community	78,132	1,902	80,034	16,249	96,283
Programme Director	78,011	-	78,011	16,249	94,260
Director of Internal Services	103,477	-	103,477	21,800	125,277

* This includes £33k in respect of pension strain costs arising from the exercise of flexible retirement giving rise to future salary savings

22. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2010/11 East Herts District Council incurred the following fees relating to external audit and inspection:

	2010/11 £000	2009/10 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	132	154
Fees payable to the Audit Commission in respect of statutory inspection	(9)	9
Fees payable to Grant Thornton for the certification of grant claims and returns	21	23
Fees payable to the Audit Commission in respect of the National Fraud Initiative	1	1
145	187	

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

23. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2010/11 £000	2009/10 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,787	12,411
Non-Domestic Rates	7,144	6,614
Revenue Support Grant	1,037	1,527
Area Based Grant	37	23
Performance Reward Grant	-	434
Big Lottery - capital grant	-	123
Other Capital Grants	160	12
HCC Blue Box contribution	-	151
Developer Contributions	-	87
	21,165	21,382
Credited to Services		
<u>Grants</u>		
DWP	35,753	33,847
DCLG	438	792
Environment Agency	223	190
LAA	80	99
DCMS	39	63
DEFRA	8	24
Home Office	5	12
Go East	49	71
EEDA	116	-
	36,711	35,098
<u>Other Contributions</u>		
Contributions from Other Authorities	1,347	973
Income from Other Bodies	732	811
	2,079	1,784

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

Capital Grants Receipts in Advance	2010/11 £000	2009/10 £000
Performance Reward Grant	31	-
Other grant	7	-
	38	-

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

24. Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Related parties to this authority would include :

central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund.

Members of the close family, or the same household of an individual identified as a related party are also presumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed elsewhere in this Statement of Accounts. The Hertfordshire County Council are a related party in respect of various transactions including pensions contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

There are no transactions to report in respect of Members or Chief Officers.

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties.

The principal year end balances with related parties included in these totals are shown on page 36 within notes 12 & 14.

25. Capital Expenditure and Capital Financing

In 2010/11 capital expenditure of £5,908,544 was incurred as follows:

	£000
Housing	214
Renewal and Other Housing Grants	848
Information Technology	650
Community Grants	209
Leisure Centres and Swimming Pools	140
Other Leisure & Cultural Projects	1,507
Planning & Town Centre Schemes	253
Recycling & Environment	1,951
Other	137
Total	5,909

The capital expenditure programme is financed as follows:

FINANCED:	£000	CAPITAL EXPENDITURE:	£000
Government Grants	292	Fixed Assets	4,136
Revenue Financing	25	Intangible Assets	369
Capital Receipts	5,182	REFCUS	1,404
Other Contributions	410		
	5,909		5,909

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

26. Leases

Council as a lessee

Finance leases

As a result of transition to IFRS, the Council has identified an arrangement containing a lease relating to vehicles used in the Refuse and Recycling contract with Enterprise. Under the Code, the Council is seen as effectively leasing 16 vehicles from Enterprise. The lease term is for 7 years starting from August 2002. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease.

The assets acquired under the lease are carried as Vehicles, Plant and Equipment in the Balance Sheet at nil carrying value, due to the assets being fully depreciated at 31 March 2011.

The Council has no commitment to make minimum payments under the lease as at 31 March 2011, as the lease ended in August 2009, and all outstanding payments had been made by 31 March 2010.

Operating leases

The Council leases the Buntingford Service Centre, a unit at Bircherley Green Hertford, and offices at Charrington House which have been accounted for as operating leases. The Waitrose Car Park was disposed in the year ended 31 March 2010.

Previously, the Council had leased the car park and accounted for it as an operating lease where the Council is a lessor. There was a pre-existing agreement between the lessee and the Council, and it was agreed that the lessee will continue to pay the Council the lease payments due, and the Council will forward the payment received to the new owners of the car park. The amounts due to the new owner has been accounted for as lease payments below. In 2010/11, the lease payments received from the lessee which was subsequently paid over to the new owners was £97,000.

The Council has granted leases to various occupiers of shops, offices, industrial units and other miscellaneous assets for varying number of years. These arrangements are accounted for as operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 11 £000	31 March 10 £000
Not later than one year	449	449
Later than one year and not later than five years	1,775	1,780
Later than five years	5,960	6,404

The expenditure charged to Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2010/11 £000	2009/10 £000
Minimum lease payments	449	284
Contingent rents	0	113
Lease payments payable	(97)	(45)
	352	352

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

26. Leases - continued

Council as a lessor

Finance leases

The Council has one property lease where the accounting treatment has changed following the introduction of the Code, relating to Pinders Lodge. The lease term is 50 years from March 1997. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	£000
Finance lease debtor as at 31 March 2011	159
Unearned finance income	343
Gross investment in lease as at 31 March 2011	502

The gross investment in the lease which is the minimum lease payments will be received over the following periods:

	Gross investment in lease 31 March '11
Not later than 1 year	14
Later than 1 year and not later than 5 years	56
Later than 5 years	432
	502

Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March '11 £000
Not later than one year	474
Later than 1 year and not later than 5 years	1,557
Later than 5 years	25,568

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £180k contingent rents were receivable by the Council (2009/10 £258k).

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

27. Pension Scheme

As part of the terms and conditions of employment the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit final salary scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year.

The following transactions set out the position for the year:

Comprehensive Income & Expenditure Statement:	2010/11 £000	2009/10 £000
Net Cost of Services:		
Current service cost	1,883	1,005
Non Distributed Costs	(9,728)	242
Net Operating Expenditure:		
Interest cost	5,165	4,424
Expected returns on assets in the scheme	(4,158)	(2,862)
Costs charged against CI&E	(6,838)	2,809
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	8,817	(835)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	1,979	1,974

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2010/11 £000	2009/10 £000
1 April		
Current Service Cost	102,115	64,699
Interest Cost	1,883	1,005
Contributions by scheme participants	5,165	4,424
Actuarial gains and losses	590	610
Benefits paid	(10,921)	34,188
Past service costs (Gains)	(3,788)	(3,053)
Losses on Curtailments	(9,764)	170
	36	72
31 March	85,316	102,115

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Council's liabilities in the Hertfordshire County Council Pension Fund by £9,764k and has been recognised as a past service gain in accordance with guidance set down in UTIF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

27. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2010/11 £000	2009/10 £000
1 April	60,047	46,757
Expected rate of return	4,158	2,862
Actuarial gains and losses	237	10,897
Employer contributions	1,979	1,974
Contributions by scheme participants	590	610
Benefits paid	(3,788)	(3,053)
 31 March	 63,223	 60,047

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £14,264,000 (2009/10 £14,859,000).

Scheme history

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000	31 March 2007 £000
Present value of liabilities	(85,316)	(102,115)	(64,699)	(67,273)	(81,005)
Fair value of assets	63,223	60,047	46,757	61,676	66,648
(Deficit) in the scheme	(22,093)	(42,068)	(17,942)	(5,597)	(14,357)

The Council elected not to restate fair value of schemes from mid-market to bid price as permitted by IAS 19. On the basis of immateriality, as advised by the actuary, 2006/07 and 2007/08 have not been restated.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £85,316k has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £22,093k.

The deficit on the pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the pension scheme by the authority in the year to 31 March 2012 is £1,847k.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

27. Pension Scheme - continued

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	31 March '11	31 March '10
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.5%	7.8%
Bonds	4.9%	5.0%
Other	10.1%	10.6%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.0	years
Women	23.8	years
Longevity at 65 for future pensioners:		
Men	22.9	years
Women	25.7	years
Rate of inflation/ Pension increase	2.8%	3.8%
Rate of increase in salaries	5.1%	5.3%
Expected Return on Assets	6.8%	7.0%
Discount Rate	5.5%	5.5%
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%	50%
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%	75%

The County Council Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March '11	31 March '10
	%	%
Equity investments	73	71
Bonds	19	19
Other assets	8	10
	<u>100</u>	<u>100</u>

	31 March 2011 %	31 March 2010 %	31 March 2009 %	31 March 2008 %	31 March 2007 %
History of experience gains and losses					
Differences between the expected and actual return on assets	1.30	19.98	(40.90)	(13.70)	1.39
Experience gains and losses on liabilities	1.76	0.00	0.02	8.89	(0.03)

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

28. Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council in the annual Treasury Strategy Statement specifies the counterparty to be used and the priority is the security of the capital. It also sets out the borrowing requirement, prospects on interest rates and exposure limits. (This document is available on our website www.eastherts.gov.uk).

1 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisors and to restrict lending to a prudent maximum amount for each institution. The Council expects full repayment on the due date of deposits placed with its counterparties. (There has been no history of any past defaults on the Council's investments).

The following analysis summarises the Council's exposure and historic experience of default:-

	Long Term Rating	Short Term Rating	Limits per category £000	Amounts as @ 31.3.11 £000	Historical Experience Default
UK Treasury	AAA	F1	No limit	0	0
Canadian Banks	AA	F1	5,500	4,700	0
UK Banks	AA	F1	30,000	14,366	0
French Banks	AA	F1	5,500	4,729	0
Netherlands Banks	AA	F1	5,500	3,531	0
Building Societies	AA	F1	5,500	2,928	0
German bank	AA	F1	5,500	3,419	0
SWIP Money Market Funds	AAA		No limit	34,239	0
SWIP Cash Fund	AAA		No limit	988	0
				68,900	

Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts. The table recognises the changes in accounting arrangements for Council Tax and National Non Domestic Ratepayers. The past due amount can be analysed by age as follows: (see policy xvii, page 20)

	31 March '11 £000	31 March '10 £000
Less than three months	932	491
Three months to six months	192	129
Six months to one year	476	446
More than one year	1,163	949
	2,763	2,015

In addition to the above there is a debtor of £7,350,000 where payment is not due until 16 October 2011. The Council pursues all debts in line with its established debt recovery policy.

2 Liquidity Risk

The Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council reviews its borrowing requirements as part of its annual Treasury Management strategy in order to optimise financial performance and reduce exposure to interest rate risk. This includes safeguards that if borrowing is undertaken then the maturity profile would be monitored to alleviate any future funding problems in any one year. As no new borrowings have been entered into in recent years this has not been relevant. (see note 30, page 53).

The Council's cash flows are managed on a day to day basis in line with established procedures.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

28. Nature and Extent of Risks arising from Financial Instruments (cont.)

3 Market Risk

Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2011 was fixed rate. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to manage the budgets during the year. This allows any adverse changes to be accommodated. The strategy will also consider new borrowing opportunities.

The prolonged low interest rates resulted in lower returns than originally budgeted for in 2010/11. The Council had established an Interest Equalisation Reserve (£1.185m) in order to assist in managing interest rate fluctuations. The balance on the reserve has been fully applied in 2010/11 in line with a Council decision

Based on the current Treasury Management position at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	20
Increase in government grant receivable for financing costs	de-minimis
Impact on Income and Expenditure Account	<hr/> <hr/> <hr/>
Decrease in fair value of fixed rate investment assets (impact on Comprehensive I & E Statement)	<hr/> <hr/> <hr/>
Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive I & E Statement)	<hr/> <hr/> <hr/>

The impact of a 1% fall in interest rates would be as above but with the movement being reversed.

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

28. Nature and Extent of Risks arising from Financial Instruments (cont.)

4 Price Risk / Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further losses.

29. Investments

The Council's investments consists of:

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Long term investments	8	8	8
Temporary investments:			
Money market fund	34,239	34,697	33,355
Building Society Deposits	2,928	5,302	5,210
Bank deposits	29,747	31,129	34,325
UK Treasury Securities	-	-	3,014
	66,922	71,136	75,912

30. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding	
		31 March '11 £000	31 March '10 £000
Public Works Loan Board	8.875 - 10.125	1,521	1,521
Bonds	8.785	6,189	6,189
		7,710	7,710

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	-	-
Maturing in 10-15 years	6,189	6,189
Maturing in 40-45 years	1,521	1,521
	7,710	7,710

Also see notes 9 and 11 to the Core Statements.

31. Deferred Credits

Deferred Credits include amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses and sums receivable under planning agreements.

	2010/11		
	Mortgages £000	Sec 106 £000	Total £000
Balance as at 1 April	28	296	324
Movements in the year	(7)	(51)	(58)
Balance as at 31 March	21	245	266

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE FINANCIAL STATEMENTS

32. Publicity

The Council's spending on publicity, as required to be disclosed under Section 5 (1) of the Local Government Act 1986 was as follows:

	2010/11 £000	2009/10 £000
Recruitment Advertising	6	13
Local Authority Periodical	41	44
Total	47	57

33. Building Regulations Charging Account

The Local Authority Building Control Regulations 1998 require the disclosure of information regarding the cost of operating the building control service.

The following statement sets out the costs and income for 2010/11 divided between chargeable and non-chargeable activities.

	2010/11		
	Chargeable £000	Non Chargeable £000	Building Control £000
Expenditure			
Employee Expenses	404	107	511
Premises	28	7	35
Transport	28	7	35
Supplies and Services	48	13	61
Support Service Charges	151	33	184
Total Expenditure	659	167	826
Income			
Bldg Regulation Charges	651	0	651
Total Income	651	0	651
(Surplus) / Deficit	8	167	175

34. Analysis of Fixed Assets

	31 March '11 (Nos.)	31 March '10 (Nos.)
Council Dwellings	Hostels	1
	Houses	3
Council Offices	Freehold	1
	Leasehold	1
Service Centre	Leasehold	1
Cash Offices	2	1
Off-Street Car Parks (incl. Leasehold)	31	2
Swimming Pools (including 3 joint-use pools)	5	31
Parks and Recreation Grounds/Open spaces	187 HA	5
Public Halls/Community Centres (incl leasehold)	9	187 HA
Commercial Property Rented Out	51 Units	9
Land Awaiting Development	3 Acres	52 Units
		3 Acres

35. Post Balance Sheet Event

With effect from May 2011 the Council relet its Refuse, Recycling and Street Cleansing contract which will result in revenue savings of £1.469m compared to 2010/11.

On 20 April 2011 the Council placed a Structured Deposit of £10m with Lloyds TSB bank for a period of 4 years.

STATEMENT OF ACCOUNTS 2010/11

THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT - (SUPPLEMENTARY NOTE)

		2010/11 £000	2009/10 £000
INCOME			
Council Tax	<i>Note 2</i>	79,795	78,662
Transfers from General Fund - Council Tax Benefits	<i>Note 2</i>	6,896	6,722
Income collectable from business ratepayers	<i>Note 3</i>	40,513	39,998
Contribution towards previous years deficit		108	898
		<u>127,312</u>	<u>126,280</u>
EXPENDITURE			
Precepts and Demands	<i>Note 4</i>	85,911	85,267
Business Rate - Payment to National Pool	<i>Note 3</i>	40,310	39,793
- Costs of Collection	<i>Note 3</i>	203	205
Bad Debt Provision - Increase: Council Tax		260	221
		<u>126,684</u>	<u>125,486</u>
MOVEMENT ON FUND			
Net (Income)/Expenditure		(628)	(794)
Balance as at 1 April		211	1,005
(Surplus)/Deficit as at 31 March	<i>Note 5</i>	<u>(417)</u>	<u>211</u>

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1. General

As a billing authority The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The funds key features relevant to accounting for council tax in the core financial statements are:

(a) As a billing authority the Council acts as an agent: it collects and distributes Council Tax income on behalf of the major preceptors and itself.

(b) while the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.

From 1 April 2009, for both billing authorities and major preceptors, the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Council's accounts now reflect recognised position as agent acting on behalf of the major precepting authorities and the Government.

2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

Band	Estimated No. of Taxable Properties after effect of discounts	Ratio	Band D Equivalent Dwellings
A	707.50	6/9	471.67
B	4,881.25	7/9	3,796.53
C	12,917.25	8/9	11,482.00
D	13,323.00	9/9	13,323.00
E	9,528.75	11/9	11,646.25
F	6,595.75	13/9	9,527.19
G	4,879.00	15/9	8,131.67
H	<u>688.75</u>	<u>18/9</u>	<u>1,377.50</u>
	<u>53,521.25</u>		<u>59,755.81</u>
Plus adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief and exempt properties.			(1,965.19)
2010/11 Estimated Council Tax Base			<u>57,790.62</u>
Tax Collection			£000
10/11 Tax Base of 57,790.62 x £1,486.59 (Average Band D Charge)			85,911 Estimated Tax Due
10/11 Council Tax Income (including Council Tax Benefits)			86,691 Actual Tax Income
			<u>(780)</u> Surplus
This surplus is explained by movements in the tax base.			
The actual Tax Base for 2010/11 equates to			58,315.66
This compares to an estimated Tax Base for 2011/12 of			58,123.00

STATEMENT OF ACCOUNTS 2010/11

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT (continued)

3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate which for 2010/11 was 41.4p. The total amount, less certain reliefs and other deductions, is paid to a central pool (the National Non Domestic Rate (NNDR) pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. This contribution is paid into the General Fund.

At the year end the total non-domestic rateable value was £118.012 million.

The amounts included in the accounts for 2010/11 can be analysed as follows:

	£000
Gross rates payable in respect of 2010/11	41,102
Less allowances and other adjustments	(589)
Income collectable from business ratepayers	40,513
Less Costs of Collection	(203)
Payable to national NNDR pool	<u><u>40,310</u></u>

4. Precepts and Demands

	£000
East Hertfordshire District Council	12,710
Hertfordshire County Council	64,658
Police Authority	8,543
	<u><u>85,911</u></u>

5. Balance on Fund

The balance on the Collection Fund as at 31 March 2011 is represented by:-

	£000
(Surplus) on Council Tax element of the Fund	(417)
	<u><u>(417)</u></u>

Of the surplus balance on the Fund the following amounts are attributable to :-

	£000
East Hertfordshire District Council	(62)
Hertfordshire County Council	(314)
Police Authority	(41)
	<u><u>(417)</u></u>

STATEMENT OF ACCOUNTS 2010/11

ANNUAL GOVERNANCE STATEMENT

STATEMENT OF ACCOUNTS 2010/11

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required:

to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer

to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

to approve the Statement of Accounts.

In preparing this statement of accounts, the Chief Finance Officer has:

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the local authority Code.

The Chief Finance Officer has also:

kept proper accounting records which were up to date;

taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Finance Officers' responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("The Code of Practice").

EAST HERTFORDSHIRE DISTRICT COUNCIL

Certificate of Responsible Financial Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Signed



Dated

29 June 2011

A Madin
Director of Internal Services
East Hertfordshire District Council

INDEPENDENT AUDITORS' REPORT TO EAST HERTFORDSHIRE DISTRICT COUNCIL

Signed

Dated

EAST HERTS COUNCIL

AUDIT COMMITTEE – 12 JULY 2011

REPORT BY INTERNAL AUDIT AND BUSINESS IMPROVEMENT MANAGER

INTERNAL AUDIT SERVICE – APRIL 2010 TO MARCH 2011

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report outlines Internal Audit activity relating to the financial year 2010/2011.

RECOMMENDATION:

(A)	That the report be received.
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1.0 Background

- 1.1 A report on the work of the Internal Audit Service is produced each year by the Internal Audit and Business Improvement Manager. This annual report contains a summary of activities performed by the team during 2010/11.

2.0 Report

- 2.1 The Annual Report is attached as **Essential Reference Paper ‘B’**.

3.0 Implications/Consultation

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers

Draft Strategic Internal Audit Plan 2010-2013 – Audit Committee 17 March 2010.

Contact Member: Councillor Michael Tindale
Executive Member for Resources & Internal Support

Contact Officers: Alan Madin
Director of Internal Services-
Ext 1406

Report Author: Chris Gibson
Internal Audit and Business Improvement Manager-
Ext 2073

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	No public or partner consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

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INTERNAL AUDIT SERVICE
APRIL 2010 – MARCH 2011

*Annual Report by Internal Audit &
Business Improvement Manager*

Opening Comments from the Audit Committee Chairman



Councillor Jim Ranger

“It is pleasing to report that the Internal Audit team had another very successful year, looking at a large number of important areas of the Council’s activities despite their limited staff resources. The majority of the twenty four clearly written reports received a Substantial or Good Assurance opinion, with three receiving an Adequate Assurance opinion and only one received a Limited Assurance opinion and this was in the notoriously difficult area of IT procurement. None of these reports needed consideration by the Audit Committee although progress in implementing the IT Procurement recommendations will be monitored by the Committee.

From June 2011 the Internal Audit service will be provided by a shared service with Herts County Council and four other District Councils and will be based in HCC’s offices in Stevenage. This will provide extra resources as far as the District Councils are concerned and the intention is to provide an equally excellent service to that which we have become accustomed. The next Audit Committee will monitor this closely.

Our sincere thanks go to our Audit team who will be transferring to HCC and to Chris Gibson who is staying at East Herts Council.”

Internal Audit & Business Improvement Manager's Annual Report



Chris Gibson

Executive summary

This report outlines Internal Audit activity relating to the financial year 2010/2011.

Throughout 2010/11 the Internal Audit Section has striven to adopt best practice and is currently broadly compliant with the 2006 CIPFA Audit Code.

The impact of audit resources has been maximised by targeting areas of greatest risk.

Contained within the report are independent assurance opinions on areas of internal control that have been reviewed by Internal Audit during the year. The overall level of assurance awarded for systems reviewed is “good” meaning all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected. This represents no change in the direction of travel since last year.

The report concludes that good risk management practices have been delivered throughout 2010/11 and that the approach adopted for monitoring the Annual Governance Statement Action Plan to enhance East Herts Council's internal control framework is robust.

The Internal Audit Service

1. The Internal Audit Section appraises financial and non-financial systems and performs consultancy/value for money work. The remit of Internal Audit is found in three areas, namely providing independent assurance on internal controls, risk based auditing and efficiency reviews.
2. Internal Audit has been under the direct managerial responsibility of the Director of Internal Services throughout the 2010/11 financial year. In discharging this management responsibility, the Director of Internal Services was charged with the statutory requirement to provide an "adequate and effective system of internal audit".
3. The Internal Audit section has been staffed during the year by the Internal Audit and Business Improvement Manager, two Principal Internal Auditors (one has been engaged on audit activities for only 50% of her time since June 2010) and a part-time Audit Assistant (on maternity leave for much of the financial year). Cover for the staffing shortfall has been provided, within budget, through working in partnership with North Herts District Council's Audit team and through engaging Tribal Business Consulting. The Internal Audit and Business Improvement Manager also has responsibility for the management of Risk Assurance, Insurance, Health and Safety and Procurement functions.

Review of the year to 31 March 2011

Resources & Planning

4. On 17 March 2010 the Audit Committee supported the draft Strategic Internal Audit Plan covering the period from April 2010 to March 2013.
5. Appendix A summarises the activities planned during 2010/11 and details a status against each item. Status is defined as follows:
 - Report issued- indicates that a final report has been issued.
 - Audit input- indicates where Internal Audit work has been undertaken in the area, often evidenced through emails or file notes. All non-chargeable time has also been categorised in this way.
6. Throughout 2010/11 robust management of the audit plan has been exercised taking account of risk based priorities. The Internal Audit and Business Improvement Manager worked alongside the Director

of Internal Services to prioritise delivery of the service. Three reviews were identified to be deferred into 2011/12, namely:

- Asset Management
- Refuse Collection
- Other Cleansing

7. Focus has largely been maintained on business critical projects and high risk areas. Regular follow up arrangements have also continued to concentrate on control weaknesses previously identified by Internal and External Audit and sharpen management attention.
8. The Internal Audit team has continued to supply an income generating internal audit service to the Town Councils of Hertford, Bishop's Stortford, Buntingford and Ware.
9. Internal Audit operated within their set budget during 2010/11.

Audit Committee

10. Five Committee meetings were held during the financial year- in June, September and November 2010 and in January and March 2011. All Internal Audit reports were produced according to schedule.
11. The following areas of training have been delivered to the Audit Committee during the financial year:
 - Programme and Project Management
 - Information Governance
 - Pension Assets and Liabilities
 - Anti-Fraud arrangements and fraud awareness
 - Risk Management
 - Commuted Sums.

Independent Assurance Opinions

12. Audit opinions are incorporated into internal audit reports to provide an indication of the status of internal control within individual systems. Classifications have been adopted using a traffic light methodology:
 - Substantial- all required controls are in place, performance indicators are good and no errors are detected

- Good- all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected
- Adequate- major controls are in place but some minor controls encountered deficiencies and no significant errors were detected
- Limited- major controls have failed and/or major errors have been detected.

13. Direction of travel statements have been provided to enhance the quality of assurance statements in line with Audit Commission practices. An additional paragraph has also been incorporated into all reports that identifies whether any efficiency gains or one-off savings have been specifically identified during the course of the review.

14. During 2010/11 the following audit opinions have been assigned to reviews undertaken.

Substantial assurance

Main Accounting & Budgetary Control- unchanged direction of travel.
 Treasury Management- unchanged direction of travel.
 Council Tax/ NNDR- improved direction of travel.
 Benefits- unchanged direction of travel.
 Sundry Debtors- improved direction of travel.
 Advanced Payments- unchanged direction of travel.
 Performance Management- no previous appropriate opinion.
 Development Control- improved direction of travel.

Good assurance

Payroll- improved direction of travel.
 Creditors- unchanged direction of travel.
 Cheque Accounting- unchanged direction of travel.
 Car Parking- unchanged direction of travel.
 Recycling- unchanged direction of travel.
 Travel & Subsistence- improved direction of travel.
 Grounds Maintenance- unchanged direction of travel.
 Homelessness, Allocations & Nominations- no previous appropriate opinion.
 Commuted Sums- improved direction of travel.
 Building Control- unchanged direction of travel.
 Private Sector Improvement Grants, Empty Houses Grants & Disabled Facilities Grants- no previous appropriate opinion.
 Emergency Planning- no previous appropriate opinion.

Adequate assurance

Cashiers- unchanged direction of travel.

Licences- no previous appropriate opinion.

Hertford Theatre Income- improved direction of travel.

Limited assurance

IT Procurement- no previous appropriate opinion.

15. Customer Satisfaction Surveys are issued following all audit reviews. There have been no adverse comments and auditees appreciate the value of internal audit.
16. On balance the overall level of assurance awarded for systems reviewed by Internal Audit is “good with an unchanged direction of travel”. I am pleased to report that only one report has fallen into the limited assurance category and that arrangements have been very quickly put in place to rectify the situation.

Arrangements to Monitor the Implementation of Internal and External Audit Recommendations

17. Throughout 2010/11 regular monitoring by the Audit Committee of progress made towards implementing Internal and External Audit recommendations has taken place. These arrangements have resulted in more timely and effective management action to strengthen the internal control regime. The follow up arrangements continue to sharpen management focus.

Risk Management

18. Good risk management practices have been delivered throughout 2010/11. Strategic risks and actions taken to mitigate these risks have been monitored and reported to Corporate Management Team, the Audit Committee and the Executive.
19. Throughout 2010/11 risk management practices have continued to be embedded into the activities of the Council. Risk discussions take place at Departmental Management Teams meetings and departmental risk registers are completed. Similar processes take place at C3W Programme Group with reports to Programme Board.
20. The Operational Risk Management Group has met regularly to co-ordinate and enhance operational risk management practices throughout the organisation.

21. A workshop for senior management has taken place to identify strategic risks for 2011/12 and the Risk Management Strategy is currently being updated.

Opinion on Internal Control & Corporate Governance Arrangements

22. The 2010/11 Annual Governance Statement Action Plan identified nineteen measures to enhance the Council's internal control framework. Corporate Management Team and the Audit Committee continue to review the progress made against the Action Plan.

Anti-Fraud and Anti-Corruption Arrangements

23. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility has been set up under the control of the Internal Audit team. This facility has been well publicised both inside and outside the Council. All staff also received their Annual Declaration Letters with their February 2011 payslips.
24. The Audit Committee in March 2011 considered the implications of the Bribery Act 2010. The Act creates a number of criminal offences, the most relevant being that of bribing another person, or of being bribed, or of failing to prevent bribery. The Audit Committee approved a Policy on Bribery.
25. Council in May 2010 approved a revised set of Financial Regulations and in December 2010 approved new Procurement Regulations. These have ensured greater levels of internal control and recognise the responsibilities within the Council.
26. The Internal Audit and Business Improvement Manager undertook a self-assessment of the service against the CIPFA Code of Practice for Internal Audit in Local Government. The favourable results of this exercise have been shared with the Council's Chief Finance Officer and External Audit and is included at Appendix B.
27. Throughout 2010/11 Internal Audit has continued to be the key contact for the National Fraud Initiative's data matching exercises. Information has also been submitted to the Audit Commission's Annual Fraud & Corruption Survey.

External Audit

28. Based on the review completed as part of their interim audit process, External Audit have not identified any significant issues in respect of Internal Audit works undertaken during 2010/11.

The Future Internal Audit Service

29. The Hertfordshire Shared Internal Audit Service has taken on responsibility for delivery of the Internal Audit Plan from 1st June 2011. The Shared Internal Audit Service (SIAS) will also deliver a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council and Welwyn Hatfield Borough Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.

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12 March 2011					Form A03 LG Mandatory
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OVERALL REVIEW OF INTERNAL AUDIT

The purpose of this form is to
assess the adequacy of the Internal Audit Service against the CIPFA Code of Practice for Internal Audit in Local Government
obtain adequate assurance that we can rely on their work for opinion purposes

Note: this workpaper has been updated to reflect the 2006 Code of Practice, where it builds upon on the previous Code requirements, issued in 2003.

A full copy of the updated 2006 Code of Practice for Internal Audit can be found on the Government Audit Manual

General/Background Information:

IA provision is provided in-house within the Internal Audit & Business Improvement Team.

Current staffing is as follows: Chris Gibson (Internal Audit & Business Improvement Manager- IABIM)- 0.5 time. Bob Hoskins (Principal Auditor), Victoria Harvey (Principal Auditor), Polly Murphy (Audit Assistant) - 0.41 time. The Audit Assistant has been on maternity leave for a year from February 2010 and one Principal Auditor has spent 50% of her time since June 2010 on BPI works. Additional resources have been procured from Tribal Business Assurance and North Herts Council to cover this shortfall.

In addition the Risk Assurance Officer, Health & Safety Officer and Insurance Assistant are based within Internal Audit & Business Improvement. The Procurement Officer (0.5 time- shared with North Herts Council), Supplies Officer (Job share) & Clerical Officer (Job share 15 hours) also report to Internal Audit & Business Improvement Manager.

CIPFA Guidelines Part 1 Chapter 1 Scope of Internal Audit	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement

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Terms of Reference	<p>The purpose, responsibility and authority of internal audit should be defined in Terms of Reference which:</p> <ul style="list-style-type: none"> are consistent with this Code the responsibilities and objectives of IA establish the reporting lines and relationships between the Head of IA and those charged with governance and other parties review of effectiveness of control environment and deliver an annual audit opinion the organisational independence of IA rights of access to records etc 	<p>There are no separate terms of reference for internal audit. The requirement for an internal audit service is included within the Council's Constitution- Financial Regulations Item 14 Internal Audit. Although there are no specific terms of reference, the purpose of Internal Audit mirrors the audit activity section of the terms of reference for the Audit Committee.</p> <p>Audit Committee terms of reference in place. Recently amended as per Council 23 February 2011.</p> <p>Internal Audit Independence Protocol agreed by Corporate Management Team on 9 June 2009.</p> <p>Job Description for IABIM.</p> <p>Roles & responsibilities also explained within Anti-Fraud & Anti-Corruption Strategy and Disclosure (Whistleblowing) Code- Audit Committee 2 September 2009.</p> <p>Annual Audit opinion of "good" delivered within report to Audit Committee 28 June 2010- Item 10 "Internal Audit Service- April 2009 to March 2010"</p> <p>Internal Audit Strategy agreed at Audit Committee 17 March 2010. Continues to be fit for purpose.</p>		
	<p>The Terms of Reference should be approved, in accordance with the reporting lines defined above</p>	<p>See comments above.</p>		
Scope of Work	<p>The Head of IA should consider the results of the organisation's risk management processes and use them, where appropriate, to inform the scope of the work to be undertaken</p>	<p>2011/2012 Strategic Internal Audit Plan informed by the organisation's strategic & operational risk registers- agreed by Audit Committee 23 March 2011.</p> <p>All reviews undertaken consider risks & identify whether key controls are in place- relate to Risk registers. All recommendations are allocated a risk rating.</p> <p>Risk Management processes are well embedded. IABIM works closely with Risk Assurance Officer.</p>		

	<p>The scope of work extends to services provided through partnership arrangements. Head of IA should make provision to form an appropriate opinion where:</p> <ul style="list-style-type: none"> key systems are being operated on behalf of other organisations by the audited body key systems are being operated by other organisations on behalf of the audited body <p>Internal Audit should decide whether to conduct the work to derive the required opinions themselves or rely on the opinions provided by other auditors</p>	<p>Counter fraud and corruption arrangements extend to, and include, partnerships. The council ensures these arrangements are clear to those involved in partnerships. Expectations within Council's Anti-Fraud & Anti-Corruption Strategy. Financial Regulations make specific reference to Partnerships. Rights of access to Partnerships are incorporated into Contracts where appropriate- e.g. contract with SLM for Leisure Contract. Key Strategic Partnership working identified as Strategic Risk.</p> <p>Partnership Protocol in place.</p> <p>Internal Audit assurance ratings are based on findings from testing of key controls.</p>		
Other work	<p>IA can, where resources and skills exist provide additional services including fraud and consultancy work.</p> <p>the terms of reference should define the role of IA in any fraud-related or consultancy work</p>	<p>Encompassed within Financial Regulations, Internal Audit Independence Protocol, Anti-Fraud & Anti-Corruption Strategy.</p> <p>Town Council internal audits are undertaken by Internal Audit & Business Improvement (except Sawbridgeworth).</p> <p>Internal Audit Service Plan is in place.</p>		
Fraud & Corruption	<p>Internal auditors should be alert to risks and exposures that could allow fraud or corruption.</p> <p>The Head of IA should make arrangements to be informed of all suspected or detected fraud, corruption or impropriety so that the implication of the fraud, etc, on the opinion can be assessed</p>	<p>Audit planning process considers risks & key controls.</p> <p>Fraud & Corruption awareness training has been promoted by IABIM- significant information on Intranet.</p> <p>Heads of Service are now expected to complete an Anti-fraud & Anti-corruption Assurance Statement on a six monthly basis.</p> <p>Auditors also party to Fraud & Corruption overview reports issued by Internal Audit.</p> <p>NAFN membership</p> <p>TISOnline.net (CIPFA information service)</p> <p>Audit Viewpoint.</p> <p>Bribery Policy to Audit Committee March 2011.</p> <p>Appropriate liaison arrangements in place through Anti-Fraud & Anti-Corruption Strategy, Disclosure (Whistleblowing) Code, Annual Declaration letter & Internal Audit Independence Protocol.</p>		

		NFI administration/ monitoring is now co-ordinated through Internal Audit & Business Improvement.		
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CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 2 Independence			

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 146</p>	<p>The internal audit function should be independent of the activities which it audits</p> <p>Internal auditors should not have any operational responsibilities</p>	<p>Internal Audit does not have any operational responsibilities. The Authorised signatory list is maintained by Internal Audit and this is with full agreement of the S151 Officer.</p>		
	<p>Accountability for the response to the advice and recommendations of internal audit lies with management who either accept and implement the advice or formally reject it</p>	<p>All audit reports with recommendations have status as either "Action agreed" or "Action taken". If recommendation is rejected this will also be reflected.</p> <p>All internal audit reports include the following wording "The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity."</p>		
<p>Organisational independence</p>	<p>The status of internal audit should enable it to function effectively. The support of the organisation is also essential, along with recognition of the independence of internal audit.</p> <p>Internal audit should be involved in the determination of its priorities, along with those charged with governance.</p> <p>The organisation should make appropriate arrangements for internal audit to have adequate budgetary resources to maintain organisational independence and resources of internal audit</p>	<p>Recognised within Financial Regulations & Audit Independence Protocol. Access available to senior officers and Councillors. Audit Committee key officer is IABIM- evidenced by revisiting past reports. Reports to Committee go in the name of IABIM. Regular reporting to CMT by IABIM.</p> <p>Audit planning process, through CMT, through Audit Committee, through on-going liaison with S151 Officer and Monitoring Officer. Significant input by IABIM towards production of Annual Governance Statement and monitoring of Action Plan.</p> <p>Separate budget head- 17505 Internal Audit.</p>		
<p>Status of the Head of Internal Audit</p>	<p>The Head of Internal Audit should be of sufficient status to facilitate the effective discussion and negotiation of the results of internal audit work.</p> <p>He or she should not report to, or be managed at, a lower level than the corporate management</p>	<p>IABIM job description- "leads, manages and delivers operational Internal Audit". Reports issued to CMT & Audit Committee in IABIM's name. IABIM presents reports in person to CMT & Audit Committee.</p> <p>IABIM reports direct to Director of Internal Services (Section 151 Officer) and monthly meetings are held.</p>		

	team			
Independence of individual auditors	Individual auditors should have integrity and an objective approach to work. Auditors should not be assigned to work in areas where they have had previous involvement, and where the Head of IA deems that this may impair their objectivity, until a suitable time period has elapsed	All covered in Internal Audit Independence Protocol. Reviewed annually. Auditors may not be assigned to look at an area that they had operational involvement in until at least 24 months have passed. All four officers have signed up to the Protocol.		
Independence of Internal Audit Contractors	Independence can be impaired if an internal audit contractor also provides non-internal audit services to the organisation	External support has previously been provided by Tribal Business Assurance, Deloitte & Touche Public Sector Internal Audit Ltd and North Herts Council. No issues.		
Declaration of interest	Individual auditors should declare conflicts of interest and work should be planned to minimise the risk of potential conflicts	All covered in Internal Audit Independence Protocol that Audit staff sign up to. Also reflected in Annual Declaration letter that all staff sign up to.		

CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 3 Ethics for Internal Auditors			

Purpose	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	Internal Audit Independence Protocol. Annual Declaration Letter. PDR's. Team Meetings. Also bound by Institutes- Two staff AAT & one staff IIA.		
Integrity	Has the internal audit team established an environment of trust and confidence?	No problems identified. Experienced professional staff are well regarded within the organisation.		
Are internal auditors perceived as being objective and free from conflicts of interest?		No problems identified. Staff sign up to the Internal Audit Independence Protocol that goes beyond the expectations on all other staff regarding the Annual Declaration Letter.		
Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?		Internal Audit Independence Protocol states at least 24 months- example is Bob Hoskins was Principal Revenues Officer until 1 August 2008. He was not involved in auditing Revs & Bens until after 1 August 2010.		
Objectivity	Are staff rotated on regular / annually audited areas?	Rotated where possible but very limited resources. Using external support has given additional assurances- not the same internal staff doing reviews.		
Competence	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	All reviews are linked to Council's corporate priorities. Regular staff meetings. Informed through reports to CMT & Audit Committee. Staff make use of Risk registers. Discussions prior to commencement of audit review. Scope outlined in audit brief. Any recent Committee reports will be passed to auditors. Pre-meeting with auditees should identify anything new since previous review. Use may be made of CIPFA matrices, CIPFA TIS Online as well as often share audit programmes with other Hertfordshire audit teams.		

CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 4 Audit Committees			

Purpose of the Audit Committee	The main objective of an audit committee is to contribute to the organisation's overall process for ensuring that an effective internal control environment is maintained independent assurance of the risk management framework and control environment scrutiny of financial and non-financial performance to oversee the financial reporting process	Audit Committee terms of reference- see Audit Committee 24 June 2008 Item 5. Amended by Council February 2011.		
Head of IA and the Audit Committee	<p>To facilitate the work of the AC, the HoIA should:</p> <p>attend meetings and contribute to the agenda</p> <p>participate in committee's review of its own remit and effectiveness</p> <p>ensure it receives and understands documents describing how IA will fulfill its objectives (audit strategy, work programmes, progress reports)</p> <p>report on outcomes of IA work in sufficient detail to allow the committee to understand the assurance it can take from the work and the un resolved issues it needs to address</p> <p>the Head of IA's annual report including an overall opinion on the control environment and the extent to which the IA plan has been achieved</p>	<p>IABIM prepares & presents reports in his own name- evidence in previous Committee agenda papers.</p> <p>Audit Committee considered its own effectiveness on 31 March 2009. External Audit review of Scrutiny & Audit Committee reported to Audit Committee January 2010. Action Plan in place.</p> <p>Regular reports to Audit Committee- all evidence in previous Committee agenda papers.</p> <p>Regular reports to Audit Committee- all evidence in previous Committee agenda papers.</p> <p>All audit reports issued are copied to all Members of the Audit Committee and Executive portfolio holder as well as External Audit.</p> <p>Reported to Audit Committee- Annual Report 28 June 2010.</p>		
IA's relationship with the Audit Committee	<p>The Head of IA, or representative, should attend the Audit Committee meetings and have right of access privately to the Chair of the Audit Committee. There needs to be an effective working relationship between them.</p> <p>The relationship has 3 elements:</p> <p>the approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan</p>	<p>IABIM always attends Audit Committee and plays a full part in Committee. Always pre-meet the Audit Committee Chairman & Vice-Chairman with the S151 Officer before each meeting. Have regular conversations with Chairman and keep him informed in respect of audit plan. Internal Audit Independence Protocol details access rights for IABIM.</p> <p>Progress reports submitted to each Audit Committee meeting. All audit reports linked to corporate priorities.</p>		

	using the results of Internal Audit's work to satisfy some of the audit committee's objectives (and vice versa) aligning the operations of the committee and Internal Audit, as far as possible without compromising their individual responsibilities, to make best use of resources.			
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CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 5 Relationships			

Principles of good management	IA's Plans and activities should be co-ordinated with other parties to achieve the most effective audit coverage and to minimise duplication.	Internal Audit Plan is a corporate plan drawn up in conjunction with CMT. Internal & External Audit Plans are shared to minimize duplication of effort and to encourage effective audit coverage.		
Relationships with management	Management and staff at all levels should have complete confidence in the integrity, independence and capability of internal audit.	Internal Audit is supported by officers of all levels of responsibility. Customer Satisfaction forms do not indicate any problems. Experienced audit staff are often consulted for advice in respect of systems, Financial Regs & Procurement Regs. Regular 1 to 1 meetings held between S151 Officer & IABIM. Internal Audit Service Plan in place.		
	Audit work should be planned in conjunction with management as far as possible, particularly timing of audit work	Advance notification of reviews is given (where appropriate) and appropriate dates agreed. Scoping meetings will address timing issues. Where possible views of Directors and Heads of Service will be taken into account.		
	The organisation should define roles and responsibilities of management and IA in respect of fraud and corruption	All laid out in Anti-Fraud & Anti- Corruption Strategy, Disclosure (Whistleblowing) Code & Annual Declaration Letter.		
Relationships with other internal auditors	Where possible agreement to joint working or to placing professional reliance on work carried out by one party should be sought.	Good joint working relationships demonstrated with Tribal Business Assurance and North Herts Council audit teams. Also liaison with other District Council Audit teams to assist cross-border functions- e.g. Recycling (North Herts DC) and Parking (Welwyn & Hatfield District Council). Reliance placed on East Herts Internal Audit works by those teams. East Herts Council is a member of the Herts Audit Group (HAG) - all Hertfordshire District Councils are members as well as Hertfordshire County Council. Shared Hertfordshire Internal Audit service (initially HCC & five District Councils to commence during 2011/12).		
Relationships with external auditors	Internal audit should meet regularly with the External Auditor to consult on audit plans, seek opportunities for cooperation, etc	On-going good working relationship in place. Much communication through e-mail. Town Councils Audits- External Auditor places reliance on East Herts Internal Audit work.		
Relationships with other regulators and inspectors	The Head of IA should establish a dialogue with inspectors, external review agencies and any internal review sections and share appropriate information	Appropriate contributions made- e.g. previously CAA. Links to Insurance & Risk agencies and Health and Safety agencies.		

The Head of IA must establish and maintain good working relationships and communication with members. These should be outlined in the terms of reference for IA	Regular links with Portfolio holder and all members of Audit Committee. Members also able to contact IABIM direct. Fraud Awareness training provided to Audit Committee in January 2011. Responsibilities detailed within Financial Regs & Audit Committee terms of reference. Various other Training provided at each Audit Committee during 2010/11 civic year.		
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CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 6 Staffing, Training and Development			

Staffing the Internal Audit team	<p>IA should be appropriately resourced to meets its objectives</p> <p>The Head of IA should be professionally qualified and an experienced individual.</p> <p>The Head of IA is responsible for ensuring that there are the appropriate number of staff with different skills, qualities and experience</p>	<p>Current level of resources 2.91 staff. Most of the Audit Plan for 2010/11 is complete. Comparisons made between all Hertfordshire councils during development of shared service.</p> <p>IABIM is a Fellow Member of Association of Accounting Technicians (FMAAT), with over 35 years local government audit experience- 25 years with a London Borough.</p> <p>Principal Auditor has 20+ years local government audit experience and is FMAAT + BA (Hons open) 22 years water industry.</p> <p>Principal Auditor is PIIA qualified & BA (Hons) Business & Management with 5.5 years local government.</p> <p>Audit Assistant has 19 years+ experience of local government audit.</p> <p>Experienced Risk Assurance Officer also sits within the team.</p>		
Training and Continuing Professional Development	<p>The Head of IA should define the skills and competencies for each level of auditor and measure their staff against them.</p> <p>All internal auditors should undertake a programme of continuing professional development. They should maintain training records</p> <p>Heads of Internal Audit should ensure that appropriate provision is made for maintaining and developing the competence of audit staff. They should monitor the ongoing training activity of all staff in the team</p>	<p>Job Descriptions & Person Specs can be provided. Issues are picked up through regular PDR's.</p> <p>Council's PDR Scheme is accepted by Association of Accounting Technicians as meeting CPD requirements. All training records are detailed within PDR scheme.</p> <p>Training opportunities identified through PDR scheme. Ad-hoc audit courses are identified during the year – e.g. Price Waterhouse Masterclasses, London Audit Group & CAAT training. IABIM and Principal Auditor have completed the in-house Management Development Programme. 12 days allocated to staff training within Audit Plan 2010/11.</p>		

CIPFA Guidelines Audit Strategy & Planning	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 7 Audit Strategy & Planning			
Audit Strategy 5.4	<p>The Head of IA must produce an audit strategy; a high-level statement of how IA service will be delivered as per the terms of reference</p> <p>It should be approved by the audit committee</p> <p>The strategy should communicate:</p> <ul style="list-style-type: none"> IA objectives and outcomes how HoIA will form and evidence opinion on control environment / SIC how IA's work will identify & address significant local and national issues how the service will be provided (i.e. internal, external or a mix) the resources and skills required to deliver the strategy 	<p>Strategic Internal Audit Plan 2010 to 2013 and Internal Audit Strategy agreed at Audit Committee 17 March 2010. One year plan submitted to Audit Committee on 23 March 2011 in view of impending shared service.</p>	
<p>Internal audit should prepare an risk-based audit plan, designed to implement the audit strategy, taking account of the organisation's risk management process</p> <p>The HoIA should consult stakeholders on the draft plan</p> <p>The IA plan should be fixed for no longer than one year and:</p> <ul style="list-style-type: none"> outline the assignments to be carried out their respective priorities & estimated resources needed differentiate between assurance and other work needs to be flexible (e.g. contingency time) <p>Once planned work has been determined it should be compared to resource availability</p>	<p>Consultations with all Heads of Service & CMT prior to submission to Audit Committee. All Service Plans risks are reviewed by IABIM, Monitoring Officer and Risk Assurance Officer as part of the process. In addition Heads of Service now submit an Anti-fraud & Anti-corruption self-assurance statement to IABIM twice per year. This informs the audit planning process.</p> <p>All appropriate information included within Audit Committee reports.</p>	<p>Full consideration of risks whilst compiling Strategic Internal Audit Plan 2010 to 2013 (see above) Plan is flexible. Contingency levels have been set at around 50 days in each of the three years. One year plan submitted to Audit Committee on 23 March 2011 in view of impending shared service.</p>	
Audit Planning	<p>HoIA is responsible for the delivery of the audit plan. Significant matters impacting on the delivery of the plan or required changes should be reported to the audit committee.</p>	<p>Regular reporting by IABIM of progress to CMT and Audit Committee. Members fully aware of resources situation.</p>	

CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 8 Undertaking Audit Work			

	<p>A plan should be prepared for each assignment and discussed with the relevant manager.</p> <p>The plan should include:</p> <ul style="list-style-type: none"> the scope and objectives of the work to be done any requirements for participation by line management the timing of the assignment reporting arrangements 	<p>Approved audit methodology requires the preparation of a brief and a scoping meeting with appropriate service managers in advance of the review.</p> <p>Any changes of systems to be identified in advance of works commencing. Time allocated to each review and internal audit review of working papers.</p> <p>Evidenced within electronic working papers.</p> <p>Strategic Audit Plan outlines budget days available for audits.</p>		
	<p>Assignments intended to provide an audit opinion should be approached using a risk based systematic approach</p> <p>All audit work should be subject to an appropriate internal quality review process</p>	<p>Risk evaluation is an embedded feature within audit assignments by linking with the Council's strategic and operational risks. Key controls identified and evaluated. Risk rating given to each recommendation.</p> <p>All audits are subject to quality review- Review notes form part of the electronic working papers.</p>		
	<p>Auditors should obtain and record sufficient relevant evidence to support their conclusions and demonstrate the adequacy of evidence to support judgements</p>	<p>Evidenced within working papers and summary working papers. Held electronically and in hard copy where appropriate.</p>		
Approach	<p>Internal audit should review their findings with senior management, including recommendations</p>	<p>Draft report, once reviewed, is discussed with appropriate auditees. Findings and recommendations are discussed. Service Director is also given a chance to comment on draft report ahead of issue. All recommendations have an action against them.</p>		
Responsibilities of the HoIA	<p>The Head of IA should specify the required standard of IA documentation and working papers and ensure those standards are maintained</p> <p>The Head of IA should have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions and allow an experienced auditor with no previous connection with the audit to re-perform and support the conclusion reached</p> <p>The Head of IA should develop standards and retention requirements for all audit records and documentation</p>	<p>Expectations detailed within Audit Manual- hard copy and electronic information. Available for inspection.</p> <p>Electronic working papers. Standards of documentation require sufficient evidence to demonstrate the work performed and to support the conclusions reached. Audit Manual.</p> <p>Electronic working papers in place. Hard copy records should be kept for a minimum of five years or in accordance with contractual or statutory requirements</p>		

		where greater.		
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CIPFA Guidelines		Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 9 Due Professional Care				
Principles of due professional care	DPC is working with competence and diligence, respecting confidentiality, making judgements based on knowledge and experience and having sufficient training / CPD	Experienced staff are aware of responsibilities. No complaints received.		
Responsibilities of the individual auditor	Individual auditors are responsible for ensuring that they conduct their own work with due professional care. They should: <ul style="list-style-type: none"> be fair declare conflicts of interest not accept gifts, inducements etc use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions be alert to possibility of any wrong doing or poor VFM have sufficient knowledge to identify indicators that fraud may have been committed disclose in reports any non-compliance with these standards not use information that they obtain for personal gain 	Internal Audit Independence Protocol covers expectations of staff and work to be delivered. Annual Declaration Letter. Declaration of Gifts & Hospitality Bribery Policy to Audit Committee March 2011. Staff have significant experience to identify indicators that fraud may have been committed and would make IABIM aware of any concerns at a very early stage. Audit Manual. PDR's identify training needs to meet new responsibilities.		
The Head of IA should develop a programme of review to ensure that due professional care is achieved		Achieved through file reviews, PDR's and general management supervision.		
The Head of IA should ensure that appropriate processes are available for individual auditors to disclose any suspicions of fraud and improper conduct		All suspicions of fraud are highlighted for IABIM's attention as per Audit Manual guideline.		
Organisational arrangements for due professional care	The Head of IA should make provision in their plans for the basic training and continuing professional development of all internal audit staff	Staff training requirements are identified as part of the PDR process. A provision for staff training is included within the Annual Audit Plan.		

CIPFA Guidelines Part 9 Chapter 10 Reporting	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement

Internal audit should agree the format of reports with recipients		Pre-meetings & exit meetings in place and recorded in electronic working papers. Draft reports are agreed with auditees & the Director.		
Reports should be clear, concise and constructive. All audit findings should be promptly reported within laid down timescales.		Reports are in a standard format, include opinion of assurance, risk ratings, direction of travel and opinions against key controls- red, amber & green faces.		
Principles of reporting	The Head of IA should have direct access to all officers and members, particularly those charged with governance	Responsibilities within Financial Regs, Internal Audit Independence Protocol, Anti-Fraud & Anti-Corruption Strategy, Job Description. IABIM has direct access to Chief Executive, S151 Officer, Monitoring Officer and Members.		
Internal audit reports should: give an opinion on controls under review building up to the annual opinion on the control environment		All link to council priorities and include a control assessment together with an Assurance Opinion- all link into end of year opinion.		
prompt management to implement agreed management actions for change leading to improvement in performance and control		All recommendations are linked to findings and key control weaknesses. Report will show agreed actions or reflect where action has already been taken.		
provide a formal record of points arising from the IA assignment and of agreements reached with management		All points arising and agreements reached will be recorded electronically within working papers.		
Reporting on audit work	Each report should include the scope and limitations of the assurance provided by the report. Before issuing the final report, the auditor should discuss the contents with the appropriate levels of management Recommendations should be prioritised to identify their respective risk The Head of IA should determine the circulation of audit reports	Observation of reports issued and electronic working papers will confirm this to be in place. Always evidenced within electronic working papers and discussed at exit meeting. Recommendations rated high, medium or low- evidence within reports. Staff instruction regarding standard circulations in Audit Manual. Any adjustments made with authorisation of IABIM who will see all reports before issue. Circulation to auditees (Director, Heads of Service & key officers), Chief Exec, S151 Officer, Monitoring Officer, Portfolio holder, all Audit Committee Members + External Audit.		
Annual reporting and presentation of audit	The Head of IA's formal annual report to the organisation should: include an opinion on the overall	IABIM Report to Audit Committee 28 June 2010 confirms overall opinion of "good".		

	<p>adequacy and effectiveness of the organisation's internal control environment</p> <p>disclose any qualifications to that opinion</p> <p>present a summary of the audit work undertaken</p> <p>draw attention to any issues that are relevant to the preparation of the Statement on Internal Control</p> <p>compare actual with planned work and summarise the performance of IA against its performance measures and targets</p> <p>comment on compliance with these standards (2006 CoP)</p> <p>In addition the HoIA should arrange for interim reporting in year, addressing emerging issues</p>	<p>Annual Governance Statement Action Plan is regularly monitored through CMT and Audit Committee.</p> <p>Regular progress reports to Audit Committee address any emerging issues.</p>		
Follow up	<p>IA should obtain assurance that actions have been implemented by management, particularly high risk ones</p> <p>IA should develop escalation procedures for cases where actions have not been effectively implemented by the date agreed</p> <p>follow up reviews should inform the planning for future audit work</p>	<p>Follow-up of Audit recommendations is well-embedded. Regular reports to CMT and to every Audit Committee. Recommendations will only be shown as resolved when satisfactory evidence has been provided.</p> <p>System of "warning bells" in place if matter has not been dealt with and risk remains high. Non-compliance is highlighted at CMT and Audit Committee.</p> <p>Future audit planning considers delays in implementation of previous recommendations and auditor is also made aware of IABIM concerns prior to commencement of review. Points For Next Audit on electronic working papers.</p>		

CIPFA Guidelines	Summary of Arrangements in place	Requirements met? Yes/No	Recommendations for Improvement
Chapter 11 Performance, Quality and Effectiveness			

Principles of Performance, Quality and Effectiveness	The Head of IA should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with the 2006 Code.	Audit Manual is in place and reviewed at least annually. Last reviewed in March 2010. Electronic file in place- G-All- Audit Manual.		
Quality assurance of audit work	<p>The Head of IA should:</p> <ul style="list-style-type: none"> ensure that assignments are allocated to staff with the appropriate skills, experience and competence ensure audit staff are appropriately supervised - the extent of which depends on the experience of the auditor 	<p>Resources are allocated according to experience and skills.</p> <p>Staff appropriately supervised through review process and conversation.</p>		
Performance and effectiveness of the internal audit service	<p>The Head of IA should have in place a performance management and quality assurance framework to demonstrate the IA service is</p> <ul style="list-style-type: none"> meeting its aims and objectives compliant with 2006 Code meeting internal quality standards effective, efficient and continuously improving adding value and assisting the Council in achieving its objectives 	<p>On-going review of performance is a feature of 1 to 1's with S151 Officer.</p> <p>Customer Satisfaction Surveys allow auditees to feedback. Quality monitoring sheets within electronic working papers.</p> <p>Self-assessment on an annual basis by IABIM.</p> <p>File reviews ensure consistency within a small team.</p> <p>PDRs and discussions with other Hertfordshire authorities through HAG.</p> <p>Corporate Priorities link with Service Plan. Effective implementation of audit recommendations adds value.</p>		
	<p>The performance management and quality assurance framework must include:</p> <ul style="list-style-type: none"> comprehensive set of performance measures developed in consultation with appropriate parties. The HoIA should monitor and report against these targets seek feedback from each individual audit periodic review of the service against the strategy internal quality reviews to be undertaken periodically to ensure compliance with the Code and IA Manual 	<p>Need to develop a set of agreed meaningful performance indicators in new shared service.</p> <p>Statistics are reported to CMT & Audit Committee regarding works completed against the plan and recommendations resolved since previous meeting.</p>		

	<p>action plan to implement improvements</p> <p>HoIA should report the results of the performance management in the annual audit report.</p> <p>It is a specific requirement of the A&A Regs 2003 that the results of IA's performance and QA processes contribute to the Council's review of the effectiveness of the systems of IA.</p>	<p>Audits are carried out in line with CIPFA Guidance. Scope of audits now also include consideration of efficiency savings, sustainability, equality & diversity.</p> <p>IABIM contributes to the Annual Governance Statement based on audit opinions from reviews.</p>		
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Issues identified	W/P Ref
Note below a summary of the key issues identified for reporting to the audited body	

		APPENDIX A		
		AUDIT PLAN 2010 TO 2011		
SYSTEM	NATURE OF REVIEW	BUDGET	STATUS	OPINION
CORPORATE ACTIVITIES				
Annual Governance Statement	Monitor and evidence AGS action plan.	10	Audit input	
CAA Use of Resources	Advice/ support to process - Performance Management Review	10	Report issued	Substantial
C3W	Consideration of benefits, savings & improvements as identified in Strategic Risk Register	3	Audit input	
Partnerships	Utilise CIPFA Matrices	15	Audit input	
DIRECTOR OF INTERNAL SERVICES				
Fraud & Corruption Overview and proactive anti-fraud initiatives	Overview of the arrangements for the prevention and detection of fraud and corruption.	20	Audit input	
Follow up of Internal Audit & External Audit Recommendations	Quarterly follow up to provide assurance that Internal Audit & External Audit recommendations are implemented.	20	Audit input	
Financial Regulations and Contract Procedure Rules	Ensure current relevance.	2	Audit input	
Main Accounting & Budgetary Control	Focus on internal controls which ensure correct accounting and budgetary control .	6	Report issued	Substantial
Treasury Management	Focus on internal controls which ensure lending and borrowing arrangements are appropriate including arrangements for the Prudential Code.	6	Report issued	Substantial
Creditors, including Procurement, E-Marketplace & BACS	Focus on internal controls which ensure correct payments to creditors occur.	21	Report issued	Good
Council Tax & NNDR	Focus on internal controls which ensure appropriate Council Tax and NNDR income is received.	15	Report issued	Substantial
Sundry Debtors	Focus on internal controls which ensure debtors accounts are raised appropriately and recovery arrangements are effective.	10	Report issued	Substantial
Payroll	Focus on internal controls which ensure employees payments are appropriate.	17	Report issued	Good
Cheque Accounting	Focus on internal controls which ensure cheques are used for the correct purposes and are accounted for.	3	Report issued	Good
Advance Payments	Transactions based review of year end creditor payments to ensure goods and services have been received.	3	Report issued	Substantial
Benefits	Focus on internal controls which ensure benefit payments are appropriate.	15	Report issued	Substantial
Stevenage - Shared Service Arrangements	Investigate and if appropriate commence, shared service opportunities with Stevenage BC	5	Audit input	
Asset Management	Focus on internal controls which ensure effective management of assets including the management of deeds.	10	Carried forward	
Travel & Subsistence	Transactions based review of expenditure.	7	Report issued	Good
Town Council Audits	Fee Paying Town Council Audits, Bishops Stortford, Ware, Buntingford & Hertford	16	Reports issued	Various
Security Reviews	Review of security arrangements.	10	Reports issued	Various
Markets Fees & Charges	Focus on internal controls which ensure market income is received and that the markets are appropriately managed.	5	Audit input	
Authorised Signatory List	Management of the Authorised Signatory List	5	Audit input	
Petty Cash Imprests	Facilitation of admin of Petty Cash imprest floats.	1	Report issued	N/A
NFI	Co-ordinating data matching National Fraud Initiative requests	10	Audit input	
Liaison with External Audit	Advice	7	Audit input	
DIRECTOR OF NEIGHBOURHOOD SERVICES				
Risk Management Assurance	Overall systems review of risk management & compliance testing of management assurances.	5	Audit input	
Commutted Sums follow-up	Focus on internal controls which ensure appropriate commuted sum is received.	2	Report issued	Good
Business Continuity	Consideration of risk management issues	5	Audit input	
Emergency Planning	Consideration of risk management issues.	5	Report issued	Good

Development Control	Focus on internal controls which ensure development control charges are correct and accounted for.	7	Report issued	Substantial
Private Sector Improvement Grants & Empty Houses Grants	Focus on internal controls which ensure grants awarded and payments made are appropriate.	10	Report issued	Good
Building Control	Focus on internal controls which ensure building control fees are correct and accounted for.	5	Report issued	Good
Licenses	Transactions based review of income.	5	Report issued	Adequate
Homelessness, allocations and nominations	Focus on internal controls which ensure appropriate management of homelessness cases.	8	Report issued	Good
DIRECTOR OF CUSTOMER & COMMUNITY SERVICES				
Cashiers	Focus on internal controls which ensure monies received are accounted for.	15	Report issued	Adequate
Refuse Collection	Focus on internal controls which ensure the refuse contract is appropriately managed.	10	Carried forward	
Other Cleansing	Focus on internal controls which ensure the other cleansing contract is appropriately managed.	10	Carried forward	
Grounds Maintenance	Focus on internal controls which ensure the grounds maintenance contract is appropriately managed.	15	Report issued	Good
Recycling	Focus on internal controls which ensure the recycling initiatives are appropriately managed and that income from recycling is received.	10	Report issued	Good
Leisure Mgt Contract	Focus on internal controls which ensure the leisure contract is appropriately managed.	5	Audit input	
Hertford Theatre	Review of effectiveness of Leisure Client controls & an establishment visit to verify income & expenditure- Brought forward from 2011/12.	0	Brought forward Report issued	Adequate
Car Parks	Focus on internal controls which ensure car park income is received and that the contract is appropriately managed.	10	Report issued	Good
Meals on Wheels	Focus on funding	3	Audit input	
Contribution from outside bodies	Focus on internal controls which ensure appropriate contributions from outside bodies are received.	3	Audit input	
Carbon Reduction Commitment	Focus on action plan.	5	Audit input	
CONTRACT AUDIT				
Contract Reviews	Focus on internal controls surrounding project management and tendering.	20	Audit input	
COMPUTER AUDIT				
IT Controls	Focus on internal controls which ensure the structure and detailed organisation of IT facilities are appropriate.	25	Audit input	
	IT Procurement		Report issued	Limited
Advice- Various	Advice	7	Audit input	
General Contingency	Contingency	56	Audit input	
NON CHARGEABLE TIME				
Bank Holidays	N/A	20	Audit input	
Annual Leave	N/A	80	Audit input	
Training	N/A	8	Audit input	
Management of Section, Planning & Control	N/A	20	Audit input	
Audit Committee Atte	N/A	3	Audit input	
CMT Attendance	N/A	1	Audit input	
Section Meetings	N/A	12	Audit input	
Herts Audit Group	N/A	3	Audit input	
Herts Audit Pathfinder	N/A	8	Audit input	
London Audit Group	N/A	3	Audit input	
Journals & Agendas	N/A	6	Audit input	
Time Sheets & Outturn Forms	N/A	10	Audit input	
CEC	N/A	2	Audit input	
Staff Appraisals	N/A	5	Audit input	
Election Duties	N/A	2	Audit input	
Union Meetings	N/A	1	Audit input	
Total Resources Available		682		

EAST HERTS COUNCIL

AUDIT COMMITTEE - 12 JULY 2011

REPORT BY INTERNAL AUDIT AND BUSINESS IMPROVEMENT MANAGER

INTERNAL AUDIT SERVICE – POSITION STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides a position statement on internal audit activity undertaken within the Internal Audit Service since the previous Audit Committee and provides an update on outstanding audit recommendations. This reflects the positions as at 31 May 2011 prior to responsibility for the Internal Audit Service being transferred to the Shared Internal Audit Service

<u>RECOMMENDATION:</u>	
(A)	That the report be received.

1.0 Background

1.1 The Internal Audit team appraises financial and non-financial systems and performs consultancy and value for money work. The remit of Internal Audit is found in three areas, namely providing independent assurance on internal controls, risk based auditing and efficiency reviews.

2.0 Report

2.1 Since the previous Audit Committee, reports have been issued on Main Accounting, Sundry Debtors, Carbon Reduction, Cashiers, Petty Cash, Advanced Payments, Building Control, Council Tax & NNDR, Creditors, Benefits, Recycling, Hertford Theatre, IT Procurement, Business Continuity, Cheque Accounting and Health and Safety. Internal Audit support has also been provided to various Town Councils.

2.2 The Refuse and Other Cleansing review has been carried forward to 2011/12 as the current contract will shortly be coming to an end and a more meaningful Internal Audit contribution can be made when the contractors change over. The other review to be carried forward is Asset Management; this area has received much audit attention during the past year and with key officers otherwise engaged in the contract works at Wallfields it has been agreed by all parties, including External Audit, to undertake the full review during 2011/12.

2.3 Eighty days work has been delivered off the Audit Plan during April and May 2011. This means that responsibility for delivery of the remaining 400 audit days has been handed over to the Shared Internal Audit Service from 1st June 2011. This position is shown as **Essential Reference Paper ‘B’**.

2.4 **Essential Reference Paper ‘C’** to this report details progress made against implementing outstanding audit recommendations. Items can only be removed from the follow-up templates when evidence exists to confirm that a recommendation has been actioned.

2.5 The current audit opinion on the status of recommendations is categorised as follows:

- **Continue to monitor:** This status is given where reports have only recently been issued and compliance has not been assessed or where partial action has been taken towards full compliance with the recommendation.
- **Risk continues (with warning bell):** This status is given where the recommendation has not been implemented or where insufficient progress has taken place and where the matter is considered to represent a risk for the Council until implementation.
- **Conditionally Resolved:** This status is given where management do not accept a recommendation. In these cases the Audit Committee require written explanation from the relevant manager.
- **Resolved:** This status is given where sufficient evidence has been provided and/or testing has been carried out to conclude that the recommendation has been implemented. Once a resolved item is reported to the Audit Committee it is removed from the template.

2.6 Excellent progress has been made in clearing outstanding audit recommendations since the last Audit Committee. The template shows thirty two recommendations as resolved. In several instances management assurances have been given that recommendations have been actioned but these have yet to be evidenced.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Internal Audit and Business Improvement Service - Position Statement – Audit Committee 23 March 2011.

Contact Member: Councillor Michael Tindale
Executive Member for Resources and Internal Support

Contact Officer: Alan Madin
Director of Internal Services
Ext 1406

Report Author: Chris Gibson
Internal Audit and Business Improvement Manager
Ext 2073

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	No public consultations were required during the preparation of this report. External audit have been consulted in respect of the Asset Management deferral.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

AUDIT PLAN 2011 TO 2012					
SYSTEM	NATURE OF REVIEW	BUDGET	April&May	To SIAS	
FUNDAMENTAL FINANCIAL SYSTEMS					
Main Accounting & Budgetary Control	Focus on internal controls which ensure correct accounting and budgetary control. Includes Bank Reconciliation.	15		15	
Treasury Management	Focus on internal controls which ensure lending and borrowing arrangements are appropriate including arrangements for the Prudential Code.	10		10	
Creditors, including Procurement & E-Marketplace	Focus on internal controls which ensure correct payments to creditors occur.	15	1	14	
Council Tax & NNDR	Focus on internal controls which ensure appropriate Council Tax and NNDR income is received.	20	5	15	
Sundry Debtors	Focus on internal controls which ensure debtors accounts are raised appropriately and recovery arrangements are effective.	12		12	
Payroll	Focus on internal controls which ensure employees payments are appropriate.	12		12	
Benefits	Focus on internal controls which ensure benefit payments are appropriate.	20	1	19	
Asset Management (b/f)	Focus on internal controls which ensure effective management of assets including the management of deeds.	12		12	
Total Fundamental Financial Systems		116			
OTHER FINANCIAL SYSTEMS					
Cashiers	Focus on internal controls which ensure monies received are accounted for.	10		10	
Concessionary Transport	Transactions based review of expenditure.	4		4	
Rural Business Development	Funding of investment into rural communities during recessionary times. Reputation loss.	4		4	
BACS	Focus on internal controls which ensure correct BACS payments and income occur.	4		4	
Cheque Accounting	Focus on internal controls which ensure cheques are used for the correct purposes and are accounted for.	2	2	0	
Advance Payments	Transactions based review of year end creditor payments to ensure goods and services have been received.	3	1	2	
Insurance	Focus on internal controls which ensure insurance payments and cover are appropriate.	6		6	
Property Rents	Transactions based review of income.	5		5	
Markets Fees & Charges	Focus on internal controls which ensure market income is received and that the markets are appropriately managed.	5		5	
Chairman & Members Allow	Transactions based review of expenditure.	8	2	6	
LSVT	To confirm compliance with LSVT contractual requirements.	2		2	
Misc Income -Advertising	Transactions based review of income.	2		2	
Car Parks	Focus on internal controls which ensure car park income is received and that the contract is appropriately managed.	12		12	
Bus Subsidies	Transactions based review of expenditure.	1		1	
Total Other Financial Systems		68			
STRATEGIC & OPERATIONAL RISKS					
Risk Management Assurance	Overall systems review of risk management & compliance testing of management assurances.	5		5	
Business Continuity	Consideration of risk management issues	5	5	0	
Emergency Planning	Consideration of risk management issues.	1	1	0	
Refuse Collection & Other Cleansing (b/f)	Focus on internal controls which ensure the refuse contract is appropriately managed.	15		15	
Grounds Maintenance	Focus on internal controls which ensure the grounds maintenance contract is appropriately managed.	5		5	
Recycling	Focus on internal controls which ensure the recycling initiatives are appropriately managed and that income from recycling is received.	2	2	0	
Leisure Mgt Contract	Focus on internal controls which ensure the leisure contract is appropriately managed.	10		10	
Hertford Theatre	Review of effectiveness of Leisure Client controls & an establishment visit to verify income & expenditure.	7	7	0	
Play Leadership	Consideration of risk management issues.	2		2	
Health & Safety	Consideration of risk management issues.	5	5	0	
Absenteeism Management	Consideration of management issues	5		5	
Reputation Management	Consideration of risk management issues.	4		4	
C3W	Consideration of benefits, savings and improvements as identified in Strategic Risk Register	10		10	
Partnerships	Utilise CIPFA Matrices	15		15	
Stevenage - Shared Service Arrangements	Consideration of shared service arrangements with Stevenage BC.	5		5	
Carbon Reduction Commitment	Focus on action plan.	4	4	0	
Total Strategic & Operational Risks		100			
IT AUDIT					
IT Controls	Focus on internal controls which ensure the structure and detailed organisation of IT facilities are appropriate.	25	5	20	
Total IT Audits		25			
PROCUREMENT/ CONTRACTS					
Contract Reviews	Focus on internal controls surrounding project management and tendering prior to the letting of contracts.	20	3	17	
Total Procurement/ Contracts		20			
ANTI-FRAUD					
Fraud & Corruption Overview and proactive anti-fraud initiatives	Overview of the arrangements for the prevention and detection of fraud and corruption.	10	3	7	
Total Anti-Fraud		10			
CIA/GOVERNANCE					
Audit Committee Attc	N/A	3		3	
Annual Governance Statement	Monitor and evidence AGS action plan.	10	2	8	
Financial Regulations and Procurement Regs	Ensure current relevance.	2		2	
Total CIA/ Governance		15			
CONSULTANCY/ ADVICE					
Advice Chief Executive	Advice	1		1	
Safes & Security	General security advice.	1		1	
Advice Members	Advice	1		1	
Advice General Public	Advice	1		1	
Advice Internal Services	Advice	1		1	
Advice Neighbourhood Services	Advice	1		1	

Advice Customer & CS	Advice	1		
Security Reviews	Review of security arrangements.	2		2
Total Consultancy/ Advice		9		
OTHER				
Follow up of Internal Audit & External Audit Recommendations	Quarterly follow up to provide assurance that Internal Audit & External Audit recommendations are implemented.	20	4	16
Town Council Audits	Fee Paying Town Council Audits, Bishop's Stortford, Ware, Buntingford & Hertford	16	8	8
General Contingency	Contingency	69	17	52
Total Other		105		
REVIEW MEETINGS		12	2	10
Total Resources Available		480	80	400

FOLLOW-UP OF AUDIT RECOMMENDATIONS

ESSENTIAL REFERENCE PAPER C

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
DIRECTOR OF CUST. & COMM. SERVICES						
Sustainability Review (IA Report 20/5/10)	<p>It is recommended that the Sustainable Community Strategy for East Herts 2009 to 2024 is signed and dated as reviewed on a three yearly basis.</p> <p>It is recommended that the Climate Change Strategy and Action Plan are reviewed on a regular basis.</p> <p>It is recommended that the Environmental Policy Statement for East Herts is given a title page providing details of the responsible officer, version number and date of review and reviewing officer.</p> <p>It is recommended that due consideration is given to embedding sustainability in the procedure notes relevant to officers whose work has links with sustainability.</p> <p>It is recommended that corporate posters are devised reminding staff how to reduce energy and office items that can be recycled.</p> <p>It is further recommended that these energy efficiency and recycling posters are placed in areas that are accessible to all staff.</p>	Low Low Low Low Low Med	Mekhola Ray (Dec 2012) David Thorogood (Dec 2010) David Thorogood (April 2012) David Thorogood (Sept 2011) David Thorogood (Oct 2011) David Thorogood (Oct 2011)	<p>To be implemented.</p> <p>Implemented. Reported to Scrutiny Committee in March 2011.</p> <p>The Environmental Policy Statement will be included as part of the next annual review of the Climate Change Action Plan.</p> <p>To be implemented. Work is being carried out with HR so that mainstreaming sustainability is incorporated into Job Descriptions.</p> <p>To be implemented. To carry out once all work at Wallfields has been completed and staff are in their new office space.</p> <p>To be implemented. To carry out once all work at Wallfields has been completed and staff are in their new office space.</p>	Evidence Evidence Evidence Evidence Evidence Evidence	Continue to monitor Resolved Continue to monitor Continue to monitor Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Grounds Maintenance Review (IA Report 09/02/11)	<p>It is recommended that the Grounds Maintenance Procedure notes are signed and dated as reviewed on an annual basis.</p> <p>It is recommended that the Council seek to formalise with John O'Conner (Grounds Maintenance) Ltd the Business Continuity Plan for Grounds Maintenance Service provision after failure or major incident.</p> <p>It is also recommended that John O'Conner provide the Play Inspectors with PDA IT support / training.</p> <p>It is recommended that the Non Conformance spreadsheet and Validated Complaints spreadsheets are electronically initialled and dated by the preparing and reviewing officers.</p> <p>It is recommended that the Work Programme spreadsheet is electronically initialled by the Grounds Maintenance Services Assistant as prepared and electronically initialled as reviewed by a senior officer.</p>	Low Med Low Low Low	Rowan Perrin (December 2011) Ian Sharratt (July 2011) Ian Sharratt (December 2011) Rowan Perrin (Immediate) Rowan Perrin (Immediate)	<p>To be carried out with Performance Indicators. Yet to be tested.</p> <p>John O'Conner are currently reviewing the Business Continuity Plan</p> <p>Training was delayed due to high number of applicants. Date yet to be confirmed.</p> <p>Implemented.</p> <p>Implemented.</p>	Assurance Assurance Assurance Evidence Evidence	<p>Continue to monitor</p> <p>Continue to monitor</p> <p>Continue to monitor</p> <p>Resolved</p> <p>Resolved</p>
Car Parking Review (IA Report 09/03/11)	<p>It is recommended that the Decriminalised Parking Enforcement Guidelines are signed and dated as reviewed.</p> <p>It is recommended that the Parking Services Procedures notes are signed and dated as reviewed.</p>	Low Low	Andrew Pulham 2012/13 Andrew Pulham	<p>This will be actioned at next review.</p> <p>To be actioned at next review.</p>	Audit Review Audit Review	<p>Continue to monitor</p> <p>Continue to monitor</p>

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>It is recommended that a monthly stock check of Smartcards at held by Charringtons House and Wallfields Customer Service Centres is carried out and signed and dated.</p> <p>It is further recommended that the Service Development Officer carries out quarterly stock checks of Smartcards held by Hertford Town Council Information Centre.</p>	Med	Sue Richardson (immediate)	Actioned	Evidence	Resolved
		Med	Adrian Howe (immediate)	To commence immediately. Yet to be evidenced.	Audit Review	Continue to monitor
Cashiers (IA Report 23/3/11)	<p>It is recommended that a corporate drive is made to encourage online and telephone payments.</p> <p>As an interim measure it is recommended that a corporate receipt book is produced and used by all departments that take payments.</p> <p>It is recommended that an electronic solution to authorising cancellations / reversals is considered as all cancellations and reversals must be authorised with a documented reason.</p> <p>It is further recommended that consideration is given to electronically storing reversal listing reports and transaction listing reports.</p> <p>It is recommended that post room staff are reminded that a double check of the Post Room Cash Book is required and that the Facilities Manager carries out monthly spot checks to ensure two separate officers are signing the book.</p>	Med	CMT	Ongoing drives under the C3W and BPI reviews.	Evidence	Resolved
		Low	Roy Crow	Actioned	Evidence	Resolved
		Low	Sue Richardson (Dec 2011)	Under consideration	Audit Review	Continue to monitor
		Low	Sue Richardson (Dec 2011)	Under consideration	Audit Review	Continue to monitor
		Low	Roy Crow (Immediate)	Actioned	Evidence	Resolved

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>It is further recommended that customer facing services take appropriate action to encourage the reduction of cash received via the post from customers.</p> <p>It is recommended that HR email leavers debrief forms to the IT Help Desk and that the Network and Systems Manager implements a procedure whereby a job is raised to remove leavers from all IT systems.</p> <p>It is recommended with the move to increased electronic working that the IT Operations Daily Tasks sheet is made electronic and signed and dated daily.</p> <p>It is further recommended that a Workflow is developed for the processing and authorising of BACS payments. This should be implemented by the time the Causeway Offices are fully vacated.</p> <p>A disaster recovery plan should be put in place for the Cashiers system, Icon as soon as possible and tested for effectiveness. In the interim, develop clear manual contingency arrangements should the Cashiers system fail for any length of time.</p> <p>It is recommended that consideration is given to storing safe keys away from safe locations.</p>	Low Low Med Med Med	Neil Sloper (On-going) HR/ David Frewin (April 2011) David Frewin (Sept 2011) David Frewin (Sept 2011) Peter Searle (Dec 2011) Graham Mully (March 2011)	Activity is in progress. Considered as part of the BPI review. Actioned To be actioned To be actioned To be actioned This has been considered and is not practical.	Audit Review Evidence Audit Review Audit Review Audit Review	Continue to monitor Resolved Continue to monitor Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	It is recommended that the Cashiering Procedure Notes are completed and full information on delivery and ordering of a cash delivery is included.	Low	Sue Richardson (April 2011)	Actioned	Evidence	Resolved
	It is recommended that the Cashiering Procedures Manual includes guidance on actions to rectify discrepancies entered into automated payment machines.	Low	Sue Richardson (April 2011)	Actioned	Evidence	Resolved
Carbon Reduction (IA Report 23/3/11)	The Climate Change Action Plan should include timescales for key actions and the name of the lead officer for implementing each action, and these should be submitted to the Environment Scrutiny Committee for approval at the next review.	Low	David Thorogood (April 2012)	To be actioned	Audit Review	Continue to monitor
Recycling (IA Report 18/5/11)	Staff be reminded to submit claims for credits in a prompt manner.	Low	Trevor Watkins (Immediate)	Actioned	Evidence	Resolved
	The dispute regarding credits for collection of cans from banks be resolved so that credits can be received.	Med	Trevor Watkins (On-going)	Discussions on-going	Audit Review	Continue to monitor
Hertford Theatre (IA Report 19/5/11)	It is recommended that where credit vouchers/gift vouchers are processed via the box office system, a process needs to be introduced to ensure that a copy of the relevant credit voucher is attached for reconciliation as part of the daily cash up routine.	Med	Eoin Baird (Immediate)	To be actioned. Yet to be tested	Audit Review	Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>It is recommended that the General Manager should perform a regular reconciliation of the Tickets.com Internet sales report to the daily takings sheets to confirm the accuracy of the Tickets.com income reports.</p> <p>It is recommended that action is taken to ensure that all debtor accounts are paid in full in a timely manner and always in advance of the booked event date.</p> <p>It is recommended that the transfer of data between Databox and General Ledger should be automatic with no manual manipulation of data. There should be no manual intervention whatsoever. Procurement of the appropriate IT software should be undertaken urgently.</p> <p>In the meantime it is recommended that the daily takings reports are reconciled to the postings extract report to ensure that any extract errors (i.e. duplicate postings) are identified prior to the data being uploaded to the general ledger.</p> <p>Whilst there is manual intervention the General Manager should not be involved in the processing of banking.</p>	Med Low High	Eoin Baird (Immediate) Eoin Baird (Immediate) Eoin Baird (asap)	Manager will endeavour to monitor. Debtors list will continue to be monitored To be taken forward as a high priority	Audit Review Audit Review Audit Review	Continue to monitor Continue to monitor Continue to monitor
DIRECTOR OF INTERNAL SERVICES						

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
ICT Remote Access Review 8/6/09	<p>Intrusion detection Software (IDS) and an incidence response policy should be implemented to detect unauthorised activity on the remote system.</p> <p>A network security and remote access policy should be established.</p> <p>Netscreen password policy settings should be reviewed. Netscreen to be accessed through the Active Directory if possible.</p>	Med Med Med	David Frewin (Revised to May 2011) David Frewin (revised to May 2011) David Frewin revised to May 2011	<p>New Firewall with increased IDS procured but awaiting final parts. Subject to supplier aiming to be installed in May 2011. Yet to be tested.</p> <p>As above and Lightweight Directory Access Protocol to be used if available. Yet to be tested.</p> <p>As above this work will be completed in May 2011 with administration password changes. Yet to be tested.</p>	Evidence Evidence Assurance by David Frewin	Continue to monitor Continue to monitor Continue to monitor
Follow-up of Various ICT Reviews (IA Report 22/6/09)	<p>Options for ICT business continuity are reviewed before expensive solutions are commissioned. These should take into account the possible mid-term accommodation changes under consideration.</p> <p>As part of the ICT Strategy development, a review of the main application systems is undertaken, as this could only be done at a superficial level in this review.</p> <p>A detailed timetable be prepared and issued to ensure that the Council's Business Continuity and Disaster Recovery Plan is completed and tested.</p>	High Med High	Peter Searle/David Frewin/Peter Bowler (revised to December 2011) BPI Leaders in line with C3W Peter Searle (revised to December 2011)	<p>Business Continuity contract extended to reflect service needs agreed by Business Continuity Group.</p> <p>Some progress has been made in producing a draft ICT Business Continuity Plan. Work on fire suppression on-going. 2011/12 Service Plan reflects need for ICT Business Continuity Plan to be approved by CMT by end September 2011 and then tested by December 2011 and annually thereafter.</p> <p>In Business Support Services Business Plan 2010/11. Main application systems are under review as part of C3W BPI exercises.</p> <p>2011/12 Service Plan reflects need for ICT Business Continuity Plan to be approved by CMT by end September and then tested by December 2011 and annually thereafter.</p>	Evidence Evidence Evidence	Continue to monitor Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>Consideration be given to introducing visual reminders on the importance of prompt reporting of actual or suspected breaches of IT security.</p> <p>Ensure that all recommendations from the most recent penetration testing report are implemented. Should the report be out of date, consideration be given to retesting.</p> <p>The Information Technology Team should approve and oversee the implementation of the Council's Information Systems Strategy.</p> <p>Management should revise the division of duties within IT, with a view to ensuring that all incompatible duties be separated and that adequate independent review of key controls and procedures is performed.</p> <p>IT management should consider the implementation of fire suppression systems in the Council's two computer rooms.</p>	Med High High High	David Frewin (June 2011) Peter Searle (March 2012) Alan Madin David Frewin (June 2011)	<p>Login screens currently under review. Yet to be evidenced</p> <p>External penetration test completed. Internal review undertaken but yet to be evidenced.</p> <p>The ICT Strategy will be reviewed by March 2012 to encompass the post C3W project environment and shared service arrangements for ICT.</p> <p>Staff structure/duties reviewed and reported for consideration by Director of Internal Services.</p> <p>Assessment of need/costs of fire suppression system under consideration.</p>	Assurance by David Frewin Assurance by David Frewin Evidence/ Assurance by Peter Searle Evidence Assurance from David Frewin	Continue to monitor Continue to monitor Continue to monitor Continue to monitor Continue to monitor
Fraud & Corruption Overview (IA Report 9/4/10)	The Council should set a series of counter fraud objectives and monitor performance against these to the Audit Committee to effectively communicate how the Council increases fraud awareness and reduces actual frauds committed against the Council, e.g. reporting progress in the National Fraud Initiative.	Med	Chris Gibson	This area is under review. Responsibility for Internal Audit transferred to Shared Internal Audit Service from 1 June 2011.	Evidence	Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Asset Management (IA Report 21/9/10)	<p>It is recommended that the Accountancy Asset Management Procedure Notes are included within the review of electronic working and that they are updated to reflect all areas of work within the Asset Management system including acquisition, recording and disposal of assets.</p> <p>It is further recommended that Asset Management procedure notes are reviewed and updated for the Estates Surveyors.</p>	Low	Mandy Barton (June 2011)	The Asset Management Procedure Notes are under review.	Evidence	Continue to monitor
		Low	Martin Shrosbree July 2011)	There has been a delay in updating procedure notes due to the Wallfields refurbishments. The procedure notes to be updated once the BPI review has been completed and will incorporate recommendations from this review.	Evidence	Continue to monitor
	<p>It is recommended that a project is undertaken to merge the two versions of the Asset Register held by Accountancy and the Asset and Estate Manager and that the project considers references to the Asset Management layer on GIS. Property Terrier.</p>	Med	Martin Shrosbree/ Paul Mitchell (March 2012)	This project will be addressed after staff move to Wallfields.	Evidence	Continue to monitor
	<p>It is recommended that a Land Inspection Policy and Programme of site inspections is devised and consideration is given to the frequency needed at visiting each site. It is further recommended that each site visit is documented and includes the name of the inspecting officer and the date of inspection.</p>	Med	Graham Mully (Ongoing)	To be presented to the Operational Risk Management Group.	Evidence	Continue to monitor
	It is recommended that the land and buildings asset valuation working papers are signed and dated by the Estate Surveyor carrying out the valuation.	Low	Anna Osbourne (July 2011)	Arrangements are in place. However there will be no sign off until the final certificate is issued with the year end close down.	Evidence	Continue to monitor

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
	<p>It is recommended that an annual reconciliation between the Inventory Lists and Asset Register is carried out at year end.</p> <p>It is further recommended that</p> <ul style="list-style-type: none"> • A new tenancy for Northolt UFC is set up at a nominal rent to avoid the cost of invoicing and that non commercial properties are reviewed by Members to consider the continued use of commercial properties. • A review of the lease for rent review for Vale House Stabilisation Services is undertaken. 	Med Low Low	Graham Mully (May 2011) Anna Osborne (Sep 2011) Martin Shrosbree (March 2011)	<p>Annual declarations received from departments.</p> <p>This has not been prioritised due to workloads. A tenancy for Bishops Stortford Community Football Club (change of name) will be set up for an appropriate period.</p> <p>The ability of Vale House Stabilisation Services to take on a new lease is dependent on funding from HCC. There is no set timescale for this but is on action plan.</p>	Evidence Evidence Evidence	Resolved Continue to monitor Resolved.
Payroll Review (IA Report 18/01/11)	<p>It is recommended that the need for a HelpDesk User on Delphi is reviewed and deleted if deemed to be not required.</p> <p>It is recommended that half way though the Financial Year Payroll Manager signs and dates as reviewed the Tax Deducted P.A.Y.E to the Tax Paid P.A.Y.E.</p> <p>It is recommended that with the move to increased electronic working that an electronic control sheet is signed dated by the transfer authoriser. It is further recommended that a Workflow is developed for the processing and authorising of BACS payments. This should aim to be implemented by the time the Causeway is fully vacated.</p>	Low Low Med	Gill Coleman/ David Frewin (Immediate) Gill Coleman (Sept 2011) David Frewin (Sept 2011)	<p>Currently under review.</p> <p>To commence as agreed.</p> <p>To be considered after the server room moves from Bishop's Stortford to Hertford.</p>	Evidence Audit Review Audit Review	Continue to monitor Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	A disaster recovery plan should be put in place for the Payroll/HR system, Delphi-Millennium as soon as possible and tested for effectiveness. In the interim, develop clear manual contingency arrangements should the Payroll/HR system fail for any length of time.	High	David Frewin (Sept 2011)	To be considered after the server room moves from Bishop's Stortford to Hertford.	Audit Review	Continue to monitor
Treasury Management Review (IA Report 28/2/11)	Treasury Management Practices should be revised in line with the revised CIPFA guidelines	Low	Paul Mitchell (March 2011)	Treasury Management Practices guidelines revision completed 5/04/2011.	Evidence	Resolved
Main Accounting (IA Report 23/3/11)	The contingency plan to be used in the event of IT failure on the Radius Powersolve system should be tested.	Med	David Frewin (August 2011)	Timescale agreed.	Audit Review	Continue to monitor
Sundry Debtors (IA Report 23/3/11)	<p>It is recommended that a review of all users that have update rights on the Radius Debtors module is undertaken.</p> <p>It is recommended that the frequency of reporting Sundry debts to CMT is reviewed and that this should be at least an annual exercise.</p> <p>It is recommended that sundry debtor records are retained for six years plus the current year and that where appropriate electronic records and a workflow are implemented.</p>	<p>Low</p> <p>Low</p> <p>Low</p>	<p>Lorraine Medley (May 2011)</p> <p>Su Tarran (Immediate)</p> <p>Lorraine Medley/IT (Immediate)</p>	<p>Actioned</p> <p>To be actioned. There has been a delay in writing the report due to shared services workload.</p> <p>Retention periods implemented. Electronic working identified as part of the C3W.</p>	<p>Evidence</p> <p>Evidence</p> <p>Evidence</p>	<p>Resolved</p> <p>Continue to monitor</p> <p>Resolved</p>
Advanced Payments (IA Report 13/4/11)	No recommendations	N/A	N/A	N/A	N/A	N/A

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Council Tax & NNDR (IA Report 3/5/11)	No recommendations	N/A	N/A	N/A	N/A	N/A
Creditors (IA Report 13/5/11)	<p>It is recommended that all information held on the Intranet in respect of Procurement should be reviewed to ensure that it is current. Consideration should be given to production of a revised Procurement Toolkit. This will need to pick up the necessity for a consistent corporate approach towards evaluating tenders.</p> <p>It is recommended that the Procurement Officer reminds all Council departments of the need to inform the Procurement Team when going out to tender and entering into a contract and that a Central Contracts Register is maintained.</p>	Med	Tracey Sargent (July 2011)	Procurement information on the Intranet and Procurement Regulations under review.	Audit Review	Continue to monitor
		Med	Tracey Sargent (June 2011)	Reminder to be issued	Audit Review	Continue to monitor
Benefits (IA Report 16/5/11)	It is recommended that HR provide IT with details of all leavers to ensure that access is removed from the Academy system where applicable.	Low	Lucy Birch (May 2011)	Actioned	Audit Review	Resolved
IT Procurement (IA Report 26/5/11)	The IT asset register should be reviewed and updated to ensure that all IT assets can be traced.	High	David Frewin (On-going)	This exercise has commenced.	Audit Review	Continue to monitor
Cheque Accounting (IA Report 26/5/11)	No recommendations	N/A	N/A	N/A	N/A	N/A

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Health & Safety (IA Report 8/6/11)	<p>It is recommended that the Risk Assurance Officer reminds all Heads of Service and Directors of the importance of completing Health and Safety Risk Assessments.</p> <p>It is further recommended that each Head of Service is required to complete a Health and Safety Risk assessment by July 2011.</p>	Med High	Graham Mully CMT (July 2011)	<p>Reminder issued.</p> <p>All Heads of Service reminded of requirement.</p>	Evidence Evidence	Resolved Continue to monitor
DIRECTOR OF NEIGHBOUR HOOD SERVICES						
Emergency Planning (IA Report 28/05/10)	<p>It is recommended that a review of information stored on the Emergency Planning Access database is carried out.</p> <p>It is recommended that a formal agreement is signed and dated by EHDC and HCC outlining the support and costing of the support provision for Emergency Planning.</p>	Low Med	Brian Simmonds (December 2011) Brian Simmonds (revised to December 2011)	<p>Yet to be implemented. This is being worked towards and aimed for completion before end of the year.</p> <p>Meetings have taken place with HCC who are responsible for redrafting the document; however there is a delay from another Council.</p>	Evidence Evidence	Continue to monitor Continue to monitor
Improvement Grants (IA Report 1/9/10)	It is recommended that the Private Sector Housing Assistance Policy is signed and dated at the time of each review.	Low	Sheila Winterburn (July 2011)	Delay due to staff sickness. Due to be implemented July 2011.	Evidence	Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Licences (IA Report 8/10/10)	<p>It is recommended that:</p> <ul style="list-style-type: none"> Procedure notes for the processing, invoicing, banking and renewal of Environmental Health Licences are written in consultation with Environmental Health Officers, and signed and dated as reviewed on a regular basis. The instructions and procedures for Premises Licensing, Personal Alcohol Licensing and Legacy Licensing are formalised and signed and dated as reviewed on a regular basis. It is further recommended that the instructions and procedures include examples of the appropriate time to invoice for licence renewals. <p>It is recommended that the Gaming Statement is signed and dated as reviewed on a three yearly basis.</p> <p>It is recommended that as part of the move to providing electronic licence applications that a workflow is implemented to ensure that applications for Environmental Licences cannot be submitted without all required supporting documentation.</p> <p>It is recommended that on a quarterly basis a spot check is carried out of new licence applications fees to ensure that payments have been recorded in Radius.</p>	Med Low Low Med Med	Paul Thomas (December 2011) Paul Newman/ Brian Simmonds (March 2011) Brian Simmonds (March 2011) IT/ Paul Thomas (December 2011) Paul Newman (December 2011)	Ongoing. Procedure notes to be updated in line with BPI review. Actioned Actioned Work is on-going. Awaiting confirmation on whether an update to M3 system. Good progress made. Awaiting training from Accountancy.	Evidence Evidence Evidence Evidence	Continue to monitor Resolved Resolved Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Homelessness, Allocations & Nominations (IA Report 15/10/10)	<p>It is recommended that the Housing Register and Allocations Policy sets out the period of the policy and is signed and dated as reviewed at least annually unless there is a material change to legislation or best practice that makes the document unsound or earlier as maybe determined by the Council in consultation with the partners.</p> <p>It is recommended that as upgrades to the Housing Allocations Software occur, drop down menus are developed for the allocation of manual points.</p> <p>It is further recommended that before any additional support is provided for application 00217550 that all relevant supporting documentation is sought from the applicant.</p> <p>It is recommended that a programme timetable is implemented for the migration of data from Saffron to Locator.</p>	Low Med Low Low	Claire Bennett (June 2011) Janet Boyd (September 2011) Elizabeth Foy (as required) IT & Housing Options (December 2011)	Action agreed Action agreed. Implementation timetable has slipped due to delay in tendering process. Actioned Discussions on-going. There has been a delay due to the in-house extraction of data.	Audit Review Evidence Evidence Evidence	Continue to monitor Continue to monitor Resolved Continue to monitor
Development Control (IA Report 11/03/11)	No recommendations	N/A	N/A	N/A	N/A	N/A
Commuted Sums (IA Report 11/03/11)	The respective roles and responsibilities of the Development Control, Legal and Finance sections be clarified and documented.	Med	Kevin Steptoe (September 2011)	This remains to be documented	Evidence	Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
Building Control (IA Report 15/4/11)	<p>It is recommended that staff be reminded to raise debtor accounts within five working days.</p> <p>It is recommended that quality assurance processes be established to ensure that independently determined charges are set to fully cover costs.</p>	Low Med	Kevin Steptoe (April 2011) Kevin Steptoe (June 2011)	Actioned Remains to be actioned as part of the BSi quality assurance process	Evidence Evidence	Resolved Continue to monitor
Business Continuity (IA Report 7/6/11)	<p>It is recommended that Heads of Service complete a business impact reviews to reflect the changing work environment at Wallfields.</p> <p>It is recommended that the Business Continuity Plan is reviewed annually. It is further recommended that the Business Continuity Plan is communicated to staff and made available on the intranet.</p> <p>It is recommended that the Business Continuity Corporate Group meet on a regular basis until the Business Continuity Plan is approved, and thereafter on a six monthly basis to review the plan.</p> <p>It is recommended that the Business Continuity Plan includes contractor responsibility.</p> <p>As per the 2011-12 Business Support ICT Service Plan it is recommended that the Disaster Recovery Plan is finalised and</p>	Med High High Med High	Heads of Service (Sept 2011) Simon Drinkwater (Sept 2011) Simon Drinkwater (Sept 2011) Simon Drinkwater (Dec 2011) Peter Searle (Dec 2011)	<p>On-going exercise</p> <p>Zurich Insurance are conducting a scoping workshop to take account of C3W implications.</p> <p>The outcomes from the Zurich workshop will act as a trigger for this group.</p> <p>Contractor responsibility will be considered under the revised Plan.</p> <p>ICT Service Plan requires an ICT Business Continuity Plan to be in place by September 2011 and to be tested before January 2012.</p>	Audit Review Audit Review Audit Review Audit Review Audit Review	Continue to monitor Continue to monitor Continue to monitor Continue to monitor Continue to monitor

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>approved and includes a section on the ability to recover data and section on IT back-up. It is further recommended that the Disaster Recovery Plan is tested after it has been finalised.</p> <p>It is recommended that the Emergency Plan is updated to remove the names of Philip Hamberger and Tracy Strange, who are no longer Council employees.</p>	Low	Brian Simmonds (Immediate)	Actioned	Evidence	Resolved
VARIOUS						
C3W Programme (EA Report) March 2010	<p>Signed minutes of all meetings for all property negotiations are produced and retained, in line with the Council's current constitution.</p> <p>The recommended enhancements set out at section 2.4 to the programme risk register / risk management approach are introduced.</p> <p>When undertaking options appraisals, the Council should maintain a formal record of long list options, with supporting evidence confirming why they options have been discounted prior to a more detailed evaluation of short listed options.</p>	Med	Alan Madin	<p>Implemented. Senior Management Group has been reminded to comply with this requirement of the Constitution. There will be no further negotiations.</p> <p>Internal audit will include a review of compliance in their future work programme.</p> <p>Actioned. Risks have been transferred to the Corporate Risk Register.</p> <p>Actioned. CMT have been trained on the Green Book. The control lies with approval from CMT.</p>	Evidence	Resolved
		Med	C3W Group/ Corporate Risk Management Group		Evidence	Resolved
		Med	CMT		Evidence	Resolved

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>A full internal business case should be presented to Members when undertaking future major capital transactions, which should include the estimated financial impact in terms of economic benefit, affordability, accounting treatment, and commercial implications, as well as the proposed scope of the transaction, and the proposed approach for managing the transaction.</p> <p>All reports provided by external advisors associated with a transaction of this nature should be issued in final copy.</p> <p>The Council should agree how to adopt the HM Treasury Green Book approach when undertaking financial modelling of future capital projects on a case by case basis. The consideration should include:</p> <ul style="list-style-type: none"> · when presenting financial analysis to Members, and other key decision makers, in addition to the modelling of a transaction the Council should ensure that all material associated costs are included in the financial analysis, including best estimates where detailed figures are not available. · when undertaking a transaction, consideration should be given to the tax and accounting treatment at the earliest opportunity and the financial modelling should reflect these considerations where they could impact options appraisal. · when updated results are presented to Members, they should be presented clearly 	Med Med High	CMT CMT Alan Madin	<p>Actioned. The Project Initiation Document supports Green Book process. This goes through Management and Member approval.</p> <p>Paragraph 3.3 of the Asset Management Strategy outlines the minimal value of £500,000.</p> <p>Actioned. By matter of course external advisors are provided with final copies.</p> <p>Implemented. All Capital Projects are considered in line with the Green Book. All are supported with a Project Initiation Document and presented to CMT for Approval. This has been demonstrated in the works at Bircherley Green Car Park.</p>	Evidence Evidence Evidence	Resolved Resolved Resolved

<u>AREA</u>	<u>RECOMMENDATIONS</u>	<u>RISK</u>	<u>OFFICER & DATE</u>	<u>CURRENT POSITION</u>	<u>BASED ON</u>	<u>CURRENT OPINION</u>
	<p>and allow Members to understand the underlying assumptions and cost changes since previous reports.</p> <ul style="list-style-type: none"> when undertaking financial analysis, early consideration should be given to the level of sensitivity and scenario analysis to be performed on key factors, including: capital costs, operating costs, financing rates and income projections. The results of the analysis should be clearly presented to members alongside the financial implications. Where HM Treasury Green Book is not applied the Council should document the reasons for this decision. <p>When undertaking an options appraisal the Council should set clear scoring criteria which gives all scenarios considered the chance to be the preferred option. This should be done in advance of developing the options for use in identifying the best solution.</p> <p>The Council should consider identifying, in advance of major property transactions, the requirements for gateway reviews to ensure an independent 'sense check' at key decision points.</p>	Med	CMT Martin Shrosbree (revised to March 2012)	Agreed in proportion and subject to feasibility in particular cases. Will be able to implement as part of the Bircherley Green project. The 2008-12 Asset Management Strategy will be reviewed in 2012. It will include a statement on broad criteria and scoring to be applied. These to be refined for particular projects.	Evidence	Continue to monitor

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INTRODUCTION TO THE SHARED INTERNAL AUDIT SERVICE

1 Introduction

- 1.1 From 1 June 2011 the Council's internal audit function will be provided by the Shared Internal Audit Service (SIAS). SIAS is formed of a partnership between the following Councils:
 - East Hertfordshire District Council (EHDC)
 - Hertfordshire County Council (HCC)
 - Hertsmere Borough Council
 - North Hertfordshire District Council
 - Stevenage Borough Council
 - Welwyn Hatfield Borough Council.
- 1.2 This paper introduces the Audit Committee to SIAS.

2 Drivers for Change

- 2.1 In Hertfordshire the Pathfinder Programme worked to establish shared services in a range of areas. From this, a proposal for a shared internal audit service hosted by HCC was developed. In the proposal, the participating Councils agreed jointly to establish a shared service to deliver a full, professional internal audit service to meet the needs of the Councils and the requirements defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit 2006.
- 2.2 The EHDC internal audit service is well regarded and has had a vital role to play in helping the Council achieve its objectives by ensuring the soundness of governance, risk management and control arrangements.
- 2.3 To remain effective in the increasingly challenging backdrop, internal audit teams need to be fit for purpose and provide assurance of the necessary quality, depth and coverage. Often this will mean giving assurance on complex and risky issues and using specialist resources when necessary. In response, an increasing number of internal audit partnerships and consortia are emerging across the public sector and the development of the SIAS within Hertfordshire is in line with these wider trends.
- 2.4 The partners decided that sharing services will increase resilience in internal audit and give a greater economy of scale to allow for access to specialist audit skills. The partnership approach builds on the strengths of current in-house arrangements, by giving continuity combined with the potential new insight that comes from the opportunity to rotate staff.
- 2.5 It is also envisaged that SIAS will deliver efficiencies by standardising approaches and removing duplication, allowing reductions in the number of audit days required by each Council and consequent cost savings. The total cost saving envisaged

after initial set up costs have been met is of the order of £300,000 per annum across participating Councils.

- 2.6 Within this context however quality will remain a key objective. The service will have a strong commitment to professional development and training, and clear quality assurance arrangements in order to ensure this.
- 2.7 Equally, SIAS will be committed to continuing work on continuous improvement in governance, risk management, control and compliance arrangements, in support of the work of this Committee and the achievement of the Council's objectives.

3 Objectives

- 3.1 Reflecting the drivers for change, the objectives of the Shared Internal Audit Service are to:
 - Deliver a programme of high quality and reliable assurance on all key governance, risk and control systems to each Council, operating in accordance with statutory requirements, professional standards, and recognised best practice methodology
 - Deliver high standards of customer service and be responsive and flexible in its approach, offering the benefits of a 'close' in-house team
 - Offer a wide base of experience, resilience, specialisms and skills, taking advantage of the economy of scale available to larger audit teams
 - Deliver efficiencies through exploiting opportunities for joined up working, adopting a common methodology and service standards, sharing knowledge, skills and expertise
 - Provide a supportive and stimulating working environment for those staff working in SIAS with opportunities for career development
 - Be open to future opportunities to expand SIAS thus enabling greater efficiencies to be achieved
 - Supporting the broader drive for continual improvement in the control arrangements of Councils which it serves.

4 Governance roles in respect of internal audit and SIAS

- 4.1 It has been agreed that the arrangement will be a collaboration falling within the scope of Section 1 of the Local Authorities (Goods and Services) Act 1970 which allows authorities to collaborate in relation to administrative, professional or technical assistance. This permits HCC to offer an internal audit service to the other Councils and allows those other Councils to commission HCC to provide this service for a fee.



4.2 The arrangement is to be governed through a detailed partnership agreement between the six participating Councils which sets out the arrangements in place to govern relations between the partners, and the performance, standards and expectations required of SIAS. The partnership agreement is complemented by individual contracts between HCC and each partner for the delivery of service against an agreed specification.

4.3 Oversight of the SIAS will be through a joint officer board of participating Chief Financial Officers, given their particular interest in ensuring the adequacy and effectiveness of internal audit arrangements. The Board will meet on a quarterly basis and monitor the performance of SIAS to ensure that it delivers the standards and expectations set out in the partnership agreement.

4.4 Whilst the partners will jointly oversee the performance of SIAS as a whole, the responsibility for the adequacy of the whole system of internal audit at each Council remains firmly with the Councils themselves, who will continue to:

- be responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the SIAS Head of Assurance to account for delivery
- be responsible for the effectiveness of their respective governance, risk management and control arrangements, holding managers to account for delivery
- receive regular progress updates on internal audit work, consider key themes and issues, and take them forward as necessary.

4.5 Appendix 1 depicts the allocation of roles and responsibilities between Councils, Section 151 officers and the SIAS Board.

5 Structures

5.1 Internal Audit staff in District Councils TUPE transferred to HCC on 1 June; an interim structure will initially be in place. Appendix 2 of the report sets out the permanent structure in place for SIAS from 1 July. Appointments to the structure at Audit Manager level and below will take place during weeks commencing 13 and 20 June.

5.2 The Head of Assurance is Helen Maneuf. Helen was appointed in March and has held Head of Audit roles in both a District and a County Council before taking up her role in Hertfordshire. As Head of Assurance Helen will be accountable for the overall performance of SIAS, ensure that the service is focussed on the right things, and, as expected of any Head of Audit, work alongside officers to lead continual improvement in wider governance, risk and compliance matters in each council. Helen will also lead on the Scrutiny and Health and Safety functions for HCC.

5.3 There are four Audit Manager posts in the SIAS structure. Each Audit Manager will also act as lead for one or two partner authorities. The Audit Managers will have responsibility and accountability for ensuring the delivery of the audit plan for the partners on which they lead. They will quality assure and sign off reports for these

clients within the overall methodology and quality framework set by the Head of Assurance.

- 5.4 The Senior Auditors, Auditors and Trainee Auditors all form a resource pool that can be drawn from to deliver audit work to partners. The permanent roles in the partnership are to be supplemented by resource from an external provider of internal audit services. The procurement for this resource is currently in progress. This will allow the service a degree of flexibility and access to additional very specialist resource if required.
- 5.5 Each partner has nominated a Local Champion who is a senior officer within the Council. The EHDC Local Champion is Alan Madin Director of Internal Services. The Local Champion is tasked with helping SIAS deliver its work as seamlessly, easily and efficiently as possible and to represent the Council's interest in the efficient provision of the Internal Audit Service.

6 Transition

- 6.1 Detailed planning has taken place so that the transition to SIAS can be achieved successfully. There is currently a focus on introducing SIAS to key stakeholders such as Audit Committees, External Audit, and Senior Managers.
- 6.2 Comprehensive induction arrangements are in place for transferring staff. When appointments to the new structure are complete there will be a phase of organisational development work aimed at building the new team. Work to establish a single audit methodology and reporting arrangements is in progress. The ethos will be to take forward what is best about all the services that are being brought together.
- 6.3 The risk of audit plan slippage during the transitional period is being monitored closely by the Head of Assurance and Chief Financial Officers.

7 Implications for the Audit Committee

- 7.1 The aim is for the Audit Committee to experience a significant level of continuity in respect of internal audit arrangements and for SIAS to continue to support the work of the Committee in respect of its responsibilities for oversight of the Council's governance, risk management and control arrangements.
- 7.2 It will be important for SIAS officers to build good relations with the Committee as a key stakeholder, and to gain a good understanding of the Committee's requirements. The SIAS Audit Manager will attend each meeting of the Committee, and the SIAS Head of Assurance will attend twice yearly. Both of these officers will be available for any member queries relating to internal audit, training events and any additional meetings that may be required.
- 7.3 SIAS will continue to prepare the present range of reports that the Committee receives on internal audit matters. However, as with all the Audit Committees to



which SIAS will now report, the Committee may see some changes to the format and content of reports as SIAS develops standardised approaches. For some Committees the degree of any change will be greater than for others, depending on current working arrangements. However, any changes of this nature will be developed in consultation with Section 151 officers and Committees to ensure they meet needs and requirements.

8 Recommendations

- 8.1 Audit Committee is asked to note this report.

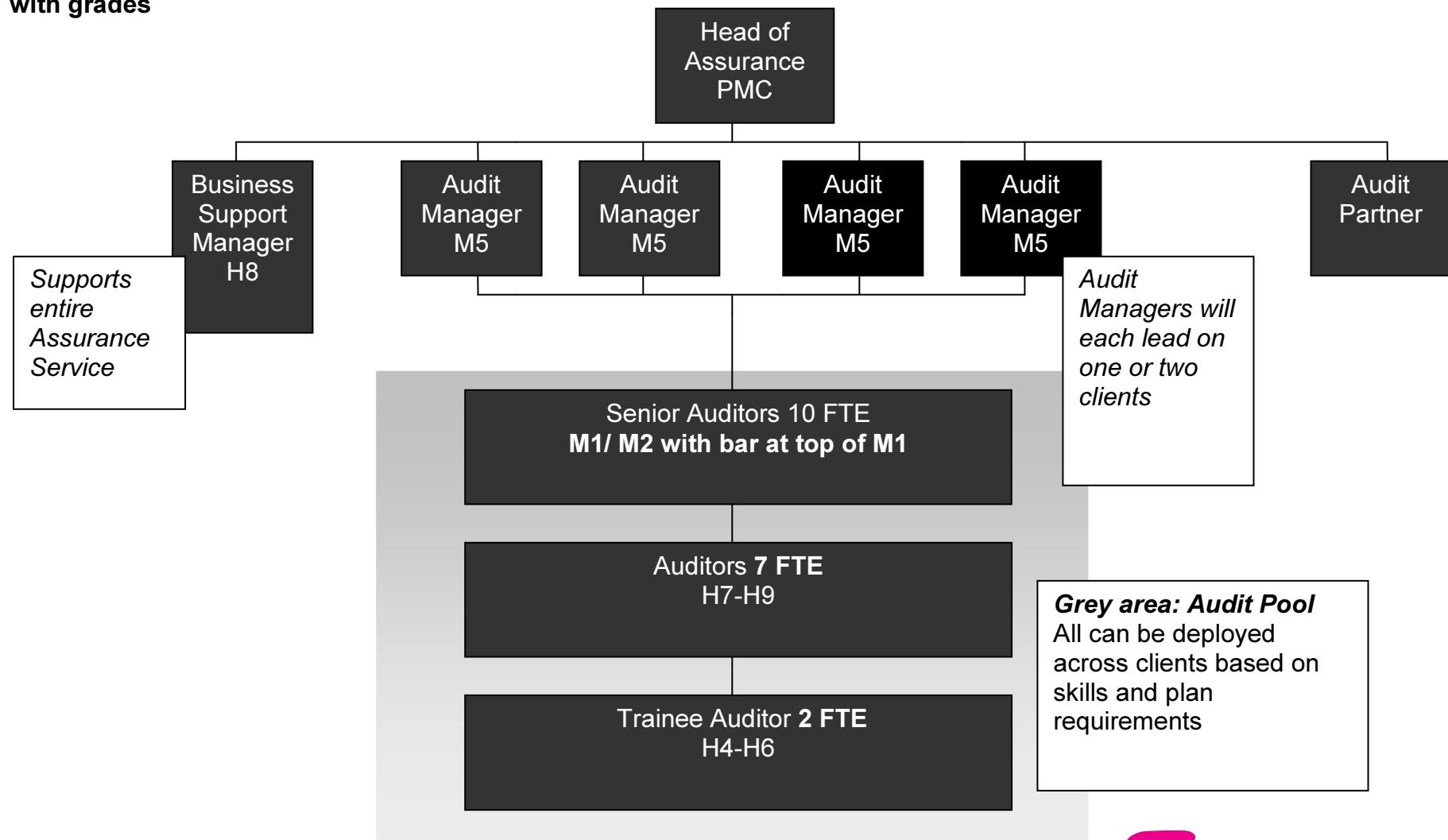
Appendix 1 – Governance roles in respect of Internal Audit and SIAS

Audit Committee
Monitor delivery of EHDC Audit Plan and local Key Performance Indicators for SIAS
Receive EHDC audit plan and progress updates against it
Receive outcomes of audit work including annual Head of Audit opinion

EHDC Section 151 officer
Key liaison point for information and intelligence on EHDC
Monitor delivery of EHDC Audit Plan and local Key Performance Indicators for SIAS
Receive EHDC audit plan and progress updates against it
Advised of outcomes of audit work including annual Head of Audit opinion

SIAS Board
Formed of Chief Financial Officers of all partners
Monitors overall performance of SIAS
Agrees SIAS business plan
Agree opportunities for any joint work, e.g. development of common policies

Appendix 2: SIAS Structure from 1 July with grades



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EAST HERTS COUNCIL

AUDIT COMMITTEE – 12 JULY 2011

REPORT BY LEADER OF THE COUNCIL

RISK MONITORING REPORT (1 FEBRUARY TO 30 APRIL 2011)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report relates to action taken to mitigate and control strategic risks during the period 1 February to 30 April 2011.

<u>RECOMMENDATION FOR: AUDIT COMMITTEE</u>	
(A)	The action taken to mitigate and control strategic risks during the period 1 February to 30 April 2011 be noted.

1.0 Background

1.1 The 2010/11 Strategic Risk Register was considered by Audit Committee on 23 March 2011. The register has been updated for the period February to April 2011, and is attached at **Essential Reference Paper 'B'**.

1.2 Risk management remains a key business process and a sound system of internal control.

2.0 Report

2.1 Risk is defined as something happening that may have an impact on the achievement of the Council's objectives. Risk management is about managing threats and opportunities to create an environment of "no surprises". By managing risks effectively, the Authority is placed in a stronger position to deliver services in accordance with its corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.

2.2 The following system of rating has been adopted:

Rating the potential impact if the risk was to occur using the following scores

- 5 Catastrophic
- 4 Major long term impact
- 3 Major short term impact
- 2 Moderate long term impact
- 1 Moderate short term impact
- 0 Little impact

Rating the likelihood of occurrence using the following scores

- 5 Highly probable (95% or more chance)
- 4 Very probable (70% to 95% chance)
- 3 Probable (30% to 70% chance)
- 2 Moderate (10% to 30% chance)
- 1 Unlikely (less than 10% chance)
- 0 Remote (below 1% chance in foreseeable future)

These scores are further assessed to classify whether risks are considered to be critical, caution / contingency or control.

2.3 Attached at **Essential Reference Paper 'B'** is a list detailing mitigating actions carried out during the period 1 February to 30 April 2011, together with planned mitigating actions. This information was also presented to the Executive on 5 July 2011 as part of the Corporate Healthcheck report. Any comments received from the Executive will be reported back verbally to this Committee. Full progress comments can be accessed by referring to the Council's performance management system, Covalent (www.covalentcpm.com/eastherts).

2.4 All risk ratings remain the same with the exception of SR1, SR2 and SR3. SR1, Pathfinder, reduced to zero as the project has been terminated. SR2, Performance Improvement, has dropped from a rating of impact 2 likelihood 4 to 2:3. SR3, evidencing and demonstrating performance consistently within current approaches, has dropped from impact 3 likelihood 2 to 2:2. The reductions in ratings are due to the mitigating actions listed.

2.5 No new risks above the reporting threshold have been identified for the reporting period.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'B'**.

Background Papers

Risk Monitoring Report (1 October 2010 to 31 January 2011) – Audit Committee 23 March 2011.

Contact Member: Councillor Anthony Jackson
Leader of the Council

Contact Officer: Simon Drinkwater
Director of Neighbourhood Services
Ext. 1405

Report Author: Graham Mully
Risk Assurance Officer
Ext. 2166

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.

Strategic Risk Register 2010/11 - February to April 2011



Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
10 - SR1	Risk that Pathfinder Group fail to deliver required levels of efficiency across Hertfordshire.	The Council is involved in a Pathfinder Group to deliver and demonstrate efficiency across Hertfordshire, meaning this will need to be evidenced across eleven separate Authorities (two tier) rather than one Unitary by 2011. There is a reliance on all partners being able to demonstrate / evidence, but there is concern currently about whether all partners will deliver.	Potential unitary status imposed. Reduction in settlement. Financial strength threatened. Missed opportunities. People capacity impacted. Damage to relationships with other Authorities and mistrust in future partnership working. Reputation / political credibility damage.		0	0	Anne Freimanis	February to April 2011: Pathfinder terminated by agreement of all 11 authorities. For EHC successful shared service already achieved with deliver comparable benefits

Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
10 - SR2	Unable to consistently apply and embed performance improvement.	Performance improvement is a key part of ensuring the Authority has sufficient capacity and ability to change moving forward. This will require clear and consistent approaches in a number of key areas, including ensuring the organisation has a clear understanding of the skills mix, capability and culture currently and	Impact on performance. Detract from other roles. Drain on resources. Affect potential and hunger to improve. Employment issues. Prevent service improvement.		2	3	Anne Freimanis	February to April 2011: Continuing monitoring of performance and undertaking improvement measures as required. PDRs being undertaken. Planned mitigating actions - continued development of HR policies; review of performance measures in line with new requirements. Continued delivery of

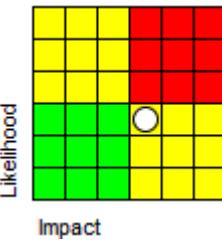
Essential Reference Paper “B”

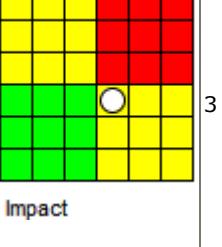
		in future. This must be linked to consistently applied and embedded approaches to workforce planning and performance management.						the Council's Training Plan.
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Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
10 - SR3	Unable to evidence and demonstrate performance consistently within current approaches.	The Council needs to understand and comply with external inspection on an ongoing basis and this needs to be done on a consistent basis across the organisation. There are also difficulties in understanding and complying with certain areas, particularly around engaging public and staff around new agendas. The ability to evidence and demonstrate performance consistently needs to be built into service planning and ongoing management of the organisation so there is a consistent, integrated approach to responding to external challenge.	Possible legal challenge. Self-perpetuating. Repeat inspection. Drain on resources. Staff morale. Damage Member / Officer relationships. Wider impacts. Reputation damaged and criticism attracted.	 Likelihood Impact	2	2	Anne Freimanis	February to April 2011: Reduction in external inspections achieved. Implementation of Audit recommendations; annual revision of PI reporting; updating of Council policies; review by CMT and Executive of service planning objectives and achievement thereof. Planned mitigating actions -subject to approval, implement Review of community engagement. Analysis and implementation of changing national government requirements

Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
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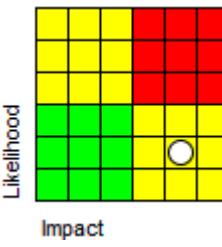
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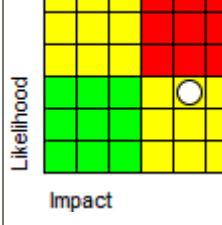
10 - SR4	Unable to performance manage and deliver added value outcomes from key strategic partnerships.	<p>There are a number of key strategic partnerships to deliver against key targets and priorities, as outlined in the LAA and Community Strategy, to meet inspection requirements and enable improvement to be made.</p> <p>There is a risk of perceived lack of clarity about what some Partnerships are trying to achieve with difficulty identifying deliverables over and above what an independent organisation could achieve, despite the time, resources and finances put into partnerships.</p> <p>We need to demonstrate added value in working together rather than alone, through robust performance management processes and clarity on objectives.</p>	<p>Poor service delivery.</p> <p>Partner relationships deteriorate.</p> <p>Blame culture.</p> <p>Reduced access to resources.</p> <p>Policy change.</p> <p>Reputation damage.</p>	 <p>Impact</p> <p>Likelihood</p>	3	2	Anne Freimanis	<p>February to April 2011: Review of resource allocation now underway.</p> <p>Rolling return of terms of reference and memberships of partnerships as required.</p> <p>Active involvement with new County partnerships (LEP and Health and Wellbeing Board).</p>

Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
10 - SR5	Risk of one of the Statutory Officers (Head of Paid Service, Section 151 Officer and Monitoring Officer) being unable to carry out their duties.	Risk of one of the Statutory Officers (Head of Paid Service, Section 151 Officer and Monitoring Officer) being unable to carry out their duties.	Statutory duties may not be carried out, affecting the governance of the Council.	 <p>Impact</p> <p>Likelihood</p>	3	2	Simon Drinkwater; Anne Freimanis; Alan Madin	<p>February to April 2011: Each Statutory Officer appoints a Deputy Statutory Officer. The Deputy Statutory Officer will take responsibility when required.</p> <p>Planned mitigating actions -</p>

Essential Reference Paper "B"

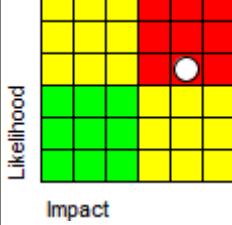
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Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note																																				
10 - SR6	Risk that Local Development Framework is not approved, or is challenged.	The Local Development Framework will shape the future of East Herts to 2021 from a planning perspective and will be the basis for making key decisions about the direction of growth and development in the local area. Key challenges within this are around pressures on land use, the housing target and location of 12,000 new homes by 2021, and the need for infrastructure investment and jobs required to sustain growth. The Council is about to submit a revised plan to Government, including a timetable, which will need to be approved and agreed.	Could be flooded by planning applications. Resources implications if have to revise / re-submit. Could miss out on investment, especially related to infrastructure. Fund challenge. Timetable pressures.	 <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="background-color: yellow;">Low</td><td style="background-color: yellow;">Low</td><td style="background-color: yellow;">Low</td><td style="background-color: red;">Medium</td><td style="background-color: red;">Medium</td><td style="background-color: red;">Medium</td><td style="background-color: red;">High</td><td style="background-color: red;">High</td><td style="background-color: red;">High</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> </table>	Low	Low	Low	Medium	Medium	Medium	High	High	High	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	4	1	Simon Drinkwater	February to April 2011: Planned mitigating actions - The LDF process is proceeding in accordance with the approved programme. The core strategy consultation is complete. There will be a report to the LDF Panel in July 2011.
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Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note																																				
10 - SR7	Changing the way we work (C3W) - Failure to deliver savings and improvements by July 2011.	Changing the way we work (C3W) is a programme intended to positively transform the organisation through delivering a programme of improvements and savings by July 2011. If	Insufficient return on investment; Reputation / morale / relationships with staff, Members and public; Stagnation; Service may deteriorate; Adversely affect	 <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="background-color: yellow;">Low</td><td style="background-color: yellow;">Low</td><td style="background-color: yellow;">Low</td><td style="background-color: red;">Medium</td><td style="background-color: red;">Medium</td><td style="background-color: red;">Medium</td><td style="background-color: red;">High</td><td style="background-color: red;">High</td><td style="background-color: red;">High</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> <tr> <td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: green;">Low</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td><td style="background-color: yellow;">Medium</td></tr> </table>	Low	Low	Low	Medium	Medium	Medium	High	High	High	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium	4	2	Neil Sloper	February to April 2011: C3W Buildings project costs reviewed and within contingency budget. Buildings Project meetings confirm work progressing
Low	Low	Low	Medium	Medium	Medium	High	High	High																																				
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Essential Reference Paper “B”

		<p>successful, it will enable the Council to improve customer service and management, particularly through culture change, resolve accommodation issues, and also achieve savings, which contribute to Gershon / efficiencies and value for money.</p>	<p>Corporate Priorities; Political fallout; Deliver the benefits of programme; Positive regeneration of Bishop's Stortford.</p>					<p>in line with programme. Review of pre and post move surveys highlight high levels of staff support and good satisfaction levels. BPI programme reconfigured to progress priority projects within service areas to deliver individual benefits profiles linked to defined projects.</p>
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Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
10 - SR8	Unable to meet and reprioritise changing demands from Public.	<p>The Council has a financial plan based on predicted levels of demand and need, which is reviewed and revised on an annual basis. The Council is committed to achieving a significant amount of efficiency savings over a 3 year period. There are significant pressures on the financial targets in the plan due to the current economic downturn, and there may also be increased demand on a number of services such as homelessness and benefit claims. Vulnerable members of the community are dependent upon Council services, particularly in difficult economic times. The Council will need to ensure it provides services to vulnerable, but there could be issues due to the</p>	<p>Fail to provide or demonstrate community leadership. Fail to meet statutory obligations. Damaged reputation / adverse publicity.</p>		4	3	Alan Madin	<p>February to April 2011: The Council at its February meeting adopted a 4 year MTFP which is fully funded. The Council retained a good level of reserves to respond to short term volatility.</p>

Essential Reference Paper "B"

		magnitude of what is needed at that time.						
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Code	Title	Description	Risk Factors	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note									
10 - SR9	Significant variance from financial plan.	<p>The Council has a financial plan based on predicted levels of demand and need, which is reviewed and revised on an annual basis. The Council is committed to achieving a significant amount of efficiency savings over a 3 year period. There are significant pressures on the financial targets in the plan due to the current economic downturn, including reduced income from investments and from services such as Land Charges, Parking and Development Control. There may also be increased demand on services such as homelessness and benefit claims. A pension fund review is potentially scheduled for 2010.</p>	<p>Impact on income. Council tax capped. Dip into assets / reserves which will affect future income. Reprioritise services. Potential cuts in services. Workforce issues. Damaged reputation / adverse publicity.</p>	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Impact</td> <td></td> <td></td> </tr> <tr> <td>Likelihood</td> <td>1</td> <td>2</td> </tr> <tr> <td>Impact</td> <td>1</td> <td>2</td> </tr> </table>	Impact			Likelihood	1	2	Impact	1	2	2	3	Alan Madin	<p>February to April 2011: In reporting the provisional outturn to February Council a judgemental adjustment was made to improve the overall forecast. The Council has placed £10m in a structured deposit with a floor rate of 3.7% to underpin investment income forecasts. The pension fund review allowed contribution rates to be stabilised and took into account the change of indexation of benefits to cpi. Purchase of land used for car parks has removed a risk of rental increases. The revenues and benefits joint working was progressed with approval to be sought to a 50:50 sharing of benefits.</p>
Impact																	
Likelihood	1	2															
Impact	1	2															

EAST HERTS COUNCIL

AUDIT COMMITTEE - 12 JULY 2011

REPORT BY INTERNAL AUDIT AND BUSINESS IMPROVEMENT MANAGER

UPDATE ON IMPLEMENTATION OF 2010/2011 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The 2009/10 Annual Governance Statement includes nineteen measures to enhance East Herts Council's internal control framework during 2010/11. The Audit Committee is requested to consider the content of **Essential Reference Paper 'B'** that provides details of proposed actions that need to take place prior to confirmation being given that adequate and effective controls are fully in place.

<u>RECOMMENDATION:</u>	
(A)	That the Committee reviews the progress made against implementing the action plan contained in the 2009/10 Annual Governance Statement and advises of any concerns

1.0 Background

1.1 The Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to this Committee. To date some progress has been made towards achieving planned actions but in order to prevent all actions from continuously being shown as on-going, specific elements have been identified that will enable issues to be fully resolved.

2.0 Report

- 2.1 For the purposes of the Annual Governance Statement, internal control is being interpreted in its broadest sense covering both financial and managerial controls that ensure that the implementation of East Herts Council's vision and priorities is being managed effectively.
- 2.2 Position statements are reflected in **Essential Reference Paper 'B'** following consultation with key responsible officers. The position statement contains a traffic light system whereby:
 - "green" indicates that the planned action has been achieved,
 - "amber" indicates that satisfactory progress is being made towards achieving the planned action, and
 - "red" is where a planned action has not been achieved or that progress is unsatisfactory.
- 2.3 A number of completed actions have been identified within each issue requiring action that will allow each status to move to "green" status during this financial year. "Green" status can only be shown when all elements within the issue requiring action have been completed.
- 2.4 Since the previous Audit Committee eight issues requiring action are considered to be complete:
 - Leisure Contract- risk of Contract failure.
 - Pathfinder initiatives.
 - Variance from financial plan.
 - Procurement capacity.
 - Future options appraisals.
 - Control environment.
 - Governance arrangements for shared Revenues and Benefits service.
 - Governance arrangements for Shared Internal Audit Service.
- 2.5 The remaining seven outstanding actions will be carried forward to the Annual Governance Statement 2010/11. In some instances the issue requiring action will be re-worded to focus on the outstanding key actions needed to address the issues raised.

3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Update on Implementation of 2010/2011 Annual Governance Statement
Action Plan – Audit Committee 23 March 2011.

Contact Member: Councillor Anthony Jackson
Leader of the Council

Contact Officer: Alan Madin
Director of Internal Services
Ext 1406

Report Author: Chris Gibson
Internal Audit and Business Improvement Manager
Ext 2073

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	No public or partner consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

ANNUAL GOVERNANCE STATEMENT- ACTION PLAN**ESSENTIAL REFERENCE PAPER 'B'**

Issue requiring action	Resp. Off.	Target Date	Actions to address the issue raised	Current Status
Risk of failure to deliver an effective, efficient and economic IT service	Alan Madin	March 2011	<ul style="list-style-type: none">• IT Strategy in place. <i>IT Strategy is now in place.</i>• All outstanding high risk IT audit recommendations implemented. <i>Some recommendations remain outstanding.</i>• Resilient IT business continuity arrangements in place. <i>Some progress has been made.</i>	AMBER To be carried forward
Leisure Contract- risk of contract failure	George Robertson	March 2011	<ul style="list-style-type: none">• No significant outstanding issues identified from Internal Audit review. All <i>recommendations now resolved.</i>• All major building works carried out to client's satisfaction. <i>Discussions re final accounts have been finalised.</i>	GREEN (from AMBER)
Working arrangements- risk of failure to introduce flexible working arrangements will limit the opportunity to make cost savings, opportunities to work with other partners and adversely affect staff retention.	CMT	July 2011	<ul style="list-style-type: none">• The Changing The Way We Work Programme (C3W) Board meets regularly and monitors the Project Plan. <i>In place.</i>• Satisfactory Phase 1 rollout with no substantial unresolved issues. <i>Business Process Improvement (BPI) has been completed in some key services and is on-going in others.</i> <i>Improvement options from this work are being turned into implementation plans.</i> <i>Home working take-up is satisfactory.</i> <i>The Wallfields refurbishment is underway and on track to ensure that final staff move out of The Causeway before the end of August 2011.</i>	AMBER BPI aspect to be carried forward

To implement health and safety risk assessments and to continue the programme of health and safety training and to review the effectiveness of the risk assessment toolkit and training initiatives.	Chris Gibson	March 2011	<ul style="list-style-type: none"> • Health & Safety Policy in place. <i>In place</i>. • Provision of training to all Safety Liaison Officers. <i>In place</i>. • All risk assessments completed and published on the Intranet. Assessments are posted on Intranet once signed off by Directors. Risk assessments will be updated on completion of moves to Wallfields. • Action Plan in place to address Zurich review of Health & Safety. <i>Action Plan in place</i>. • Risk assessment toolkit review completed. Yet to be undertaken. 	AMBER To be carried forward
Risk that Pathfinder Group fail to deliver required levels of efficiency across Hertfordshire	CMT	March 2011	<ul style="list-style-type: none"> • Project Initiation Documents (PIDs) in place. On-going activity. Collaborative sharing of services being extended between this Council and other councils. Internal Audit shared service commenced in June 2011. • Procurement savings continue to be delivered across the County. Many procurement initiatives currently on-going. • Pathfinder formally closed. EHC replacing with shared services work with SBC and NHDC. 	GREEN (from AMBER)
Risk of significant variance from financial plan.	Alan Madin	March 2011	<ul style="list-style-type: none"> • Timely production of reports. <i>In place</i>. • No significant variances in outcomes compared to provisional outturn figures. <i>Healthchecks on-going</i>. • No positive/ negative variances in excess of £100k not previously reported. <i>Healthchecks on-going</i>. 2010/11 outturn report shows better controls on monitoring now in place. 	GREEN (from AMBER)

			<ul style="list-style-type: none"> Capital Programme delivered to within 85% of revised budget. <i>Healthcheck monitoring continues.</i> No significant problems identified by the Internal Audit review of Treasury Management undertaken during 2010/11. <i>Internal Audit has allocated an audit opinion of substantial.</i> 	
Risk of action by key strategic partnerships occurring in an uncoordinated way.	Chief Executive & Directors	March 2011	<ul style="list-style-type: none"> Partnership protocol in place and tested by responsible officers. <i>Outcomes of testing of protocol reported to Corporate Business Scrutiny Committee in November 2010.</i> Register of partnerships and risk management issues reviewed by CMT. <i>Actioned in December 2010. All relevant partnerships are on the register.</i> 	GREEN
Need to ensure the Council has the capacity and capability to commission and procure quality services and supplies, tailored to local needs, to sustainable outcomes and value for money.	Alan Madin Chris Gibson	March 2011	<ul style="list-style-type: none"> Corporate Procurement Strategy. <i>In place.</i> Procurement Plan approved by CMT. <i>Draft plan to be agreed with Procurement Officer.</i> Procurement training delivered to Senior Managers. <i>Training course developed for delivery by Shared Procurement Officer.</i> Revised Procurement Regulations in place. <i>Approved by December 2010 Council.</i> 	GREEN (from AMBER)
NEW FOR 2010/2011				
The actions arising from the review by the External Auditor of audit and scrutiny arrangements need to be completed and embedded during 2010/11 with C3W	Ceri Pettit	July 2011 (Revised to Nov. 2011)	<ul style="list-style-type: none"> Monitoring arrangements in place for the Scrutiny and Action Plan. <i>Six monthly progress reports to Audit Committee were presented during the period November 2009 to November 2010. Scrutiny evaluation of C3W is scheduled for Corporate Business Scrutiny Committee in</i> 	AMBER To be carried forward

actions continuing in to 2011/12.			<p>November 2011.</p> <ul style="list-style-type: none"> Completion of C3W Project. <i>C3W Project Plan runs to July 2011.</i> 	
External Audit review of C3W Programme identified that when undertaking future options appraisals HM Treasury Green Book guidance and other best practice should be followed in preparing the analysis.	Alan Madin	Ongoing	<ul style="list-style-type: none"> Issue guidance on the Green Book. Case Study presented to Senior Management Group in June 2011. Ensure that best practice is followed when undertaking future options appraisals. <i>These issues will be picked up by CMT officers at the next future options appraisals exercise.</i> Materiality of issues to be set out in Business Case PID. <i>PID template in place.</i> Value for Money expectations outlined in the Corporate Procurement Strategy. <i>In place.</i> Procurement Regulations in place. <i>Approved by December 2010 Council.</i> 	GREEN (from AMBER)
The need to ensure that an adequate control environment remains in place during a period of constrained resources.	Chris Gibson	March 2011	<ul style="list-style-type: none"> Internal Control expectations are outlined in the Internal Audit Strategy. <i>In place.</i> Internal Audit Plan is agreed by the Audit Committee and amended and agreed to reflect resource requirements. <i>In place. Shared Internal Audit Service will take over delivery of plan from 1st June 2011.</i> Regular reporting by Internal Audit to Audit Committee- <i>arrangements in place and ongoing.</i> Restructuring reports to CMT to include specific consideration of internal control issues. <i>Appropriate consideration given within current Management restructure proposals.</i> 	GREEN (from AMBER)

The need to ensure that appropriate governance arrangements are in place for a Revenue and Benefits Partnership with Stevenage Borough Council.	Alan Madin	April 2011	<ul style="list-style-type: none"> Hold Harmless Agreement in place for a Revenue and Benefits Partnership with Stevenage Borough Council. <i>Signed by EHC and SBC Directors in September 2010.</i> Business Case for a permanent partnership arrangement to be considered. Approved by the <i>Executive 15 June 2011.</i> 	GREEN (from AMBER)
The need to ensure that appropriate governance arrangements are in place for the proposed county-wide shared Internal Audit Service.	Alan Madin Chris Gibson	March 2011	<ul style="list-style-type: none"> Draft Specification for Internal Audit Partnership in place. <i>Shared service to be run by Hertfordshire County Council to commence in June 2011.</i> Consideration of viability of entering a shared service solution. <i>Approvals in place. Internal Audit Champion will be liaison person with Shared Internal Audit Service.</i> 	GREEN (from AMBER)
The need to review the Council's Performance Management framework following the Government's decision to abolish CAA.	Ceri Pettit	March 2011	<ul style="list-style-type: none"> 2011/12 Service Planning streamlined to reflect abolished CAA. <i>In place.</i> East Herts indicator set to be reviewed, so that the measures reflect the Council's requirements. <i>Arrangements in place.</i> 	GREEN
Consultation process as to future Member Leader/ Mayor model.	Simon Drinkwater	May 2011	<ul style="list-style-type: none"> New Executive arrangements approved. <i>Approved at Council on 8 December 2010.</i> Amendments to the Constitution approved by Council. <i>Report presented to Council in February 2011. All amendments approved bar one deferred.</i> 	GREEN

Hertford Theatre future governance arrangements.	George Robertson	June 2011 (Revised to June 2013)	<ul style="list-style-type: none"> Options to be developed to consider financial and other risks during and following any period of transition. <i>It is proposed that the question of future governance arrangements should be subject to a 2 year period of operation under the revised management structure to minimise risk</i> 	AMBER To be carried forward
CCTV governance issues.	Simon Drinkwater	June 2011 (Revised to Sept 2011)	<ul style="list-style-type: none"> New governance arrangements agreed. <i>The Executive on 11 January 2011 agreed to investigate new arrangements.</i> New governance arrangements in operation. <i>The Partnership is now seeking legal advice on the future governance arrangements.</i> 	AMBER To be carried forward
Refuse Contract- to ensure that smooth transition arrangements are in place regarding selection and appointment of contractor.	George Robertson	Dec. 2011	<ul style="list-style-type: none"> Arrangements for appointment of Refuse Contractor in line with plan. <i>Contract awarded to Veolia from 9 May 2011.</i> Consideration of need for contingency provision. <i>Issues well understood and appropriate arrangements are in place to manage any risks during transition.</i> New contract arrangements seen to be working well for the first six months. <i>Position to be reviewed in December 2011.</i> 	AMBER To be carried forward

Ability to respond to new Government requirements to publish information on the Web.	CMT	Ongoing	<ul style="list-style-type: none"> Open channels of communication via emails / bulletins from government bodies and relevant departments. <i>Good progress made in extending the range of information about the Council easily available on the web.</i> Prompt communication from Director / Senior Managers on required information. <i>All required information published ahead of Government guidelines.</i> Put in place monitoring arrangements to review vfm of publishing information and to ensure it meets customer needs. <i>TBA.</i> 	AMBER To be carried forward
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EAST HERTS COUNCIL

AUDIT COMMITTEE – 12 JULY 2011

REPORT BY THE LEADER OF THE COUNCIL

REPORT TITLE: DRAFT 2010/11 ANNUAL GOVERNANCE STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report presents the draft 2010/11 Annual Governance Statement at Essential Reference Paper 'B'.

<u>RECOMMENDATION:</u>	
(A)	That the Audit Committee considers the draft 2010/11 Annual Governance Statement as part of the wider consultation process.

1.0 Background

- 1.1 The Annual Governance Statement is necessary to meet the requirements set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.
- 1.2 The 2010/11 Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to this Committee.

2.0 Report

- 2.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, used economically, efficiently and effectively.
- 2.2 The Council should undertake regular, at least annual, reviews of its governance arrangements by means of an Annual Governance Statement, to ensure continuing compliance with best practice. It is

important that such reviews are reported both within the Council, to the Audit Committee and externally with the published accounts, to provide assurance that:

- governance arrangements are adequate and operating effectively in practice, or
- where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in the future.

2.3 The process of preparing the governance statement should itself add value to the corporate governance and internal controls framework of the Council.

2.4 A governance statement should include the following information:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
- an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide
- a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- a brief description of the process that had been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - the Council
 - the Executive
 - the Audit Committee/ overview and scrutiny function/ Standards Committee
 - Internal Audit
 - other explicit review/ assurance mechanisms.
- an outline of the actions taken, or proposed, to deal with significant governance issues.

2.5 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:

- the authority's policies are implemented in practice.
- high quality services are delivered efficiently and effectively.
- the authority's values and ethical standards are met.
- laws and regulations are complied with.

- required processes are adhered to.
- financial statements and other published performance information are accurate and reliable.
- human, financial, environmental and other resources are managed efficiently and effectively.

3.0 Implications/Consultations

3.1 Appropriate Consultations have taken place with senior Council Officers. Members of the Executive and Committee Chairmen have also been given the opportunity to contribute to the process. The intention is to consult with Members of the Audit Committee, the Human Resources Committee, the Corporate Business Scrutiny Committee, the Corporate Management Team and the Executive before bringing back a final Annual Governance Statement to Audit Committee on 21 September 2011. The External Auditor has also been consulted. Information on corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A'.

Background Papers:

Update on Implementation of Annual Governance Statement Action Plan – Audit Committee 23 March 2011 and 12 July 2011.

Contact Member: Councillor Anthony Jackson
Leader of the Council

Contact Officer: Anne Freimanis
Chief Executive -
Ext 1403

Report Authors: Alan Madin
Director of Internal Services -
Ext 1406

Simon Drinkwater
Director of Neighbourhood Services -
Ext 1405

Chris Gibson
Internal Audit and Business Improvement Manager -
Ext 2073

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	No public or partner consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.



DRAFT ANNUAL GOVERNANCE STATEMENT 2010/11 AND ACTION PLAN 2011/12

Scope of responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007).

This statement explains how the Council has complied with the code and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

Further copies of this statement are available on the Council's website www.eastherts.gov.uk/, alternatively paper copies can be obtained from:

East Hertfordshire District Council
Director of Internal Services
Wallfields
Pegs Lane,
Hertford
SG13 8EQ

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and by which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Controls cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify risks to the achievement of the council's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, and it prioritises and manages them efficiently, effectively and economically.

Essential Reference Paper “B”

The governance framework described below has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The Governance Framework

The Council's governance framework derives from the six core principles identified by the Independent Commission on Good Governance in Public Services – a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office for Public Management. The Commission used work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007.

The six core principles are:

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

The key elements of East Herts Council's application of each of these core principles are as follows:

a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

The Sustainable Community Strategy outlines the vision, aims and priority themes for the district. It was produced in conjunction with the East Hertfordshire Local Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.

The Council's aims and objectives are set out in the annually updated Corporate Strategic Plan. This contains five priorities (which are currently under review), plus related aims and objectives. The Corporate Strategic Plan sets out what the Council expects to deliver over the next four years and, in many cases, beyond this timeframe. The details of how the Council will get there are incorporated in the individual service plans. The Plan will be updated each year to include new service developments and to remove actions once they are completed. The Plan sets the direction for the financial planning of the Council based on the Council's priorities.

The Executive receives the Medium Term Financial Strategy covering a four-year period, which is used to set initial parameters for the coming budget process to ensure that spending proposals are affordable and sustainable over the medium term.

Essential Reference Paper “B”

The diagram below sets out the various links in the process of establishing and subsequently monitoring the achievement of the Council’s ambitions. It shows the links between the Sustainable Community Strategy and Corporate Strategic Plan which then feed into, and are informed by, service plans, service targets and individual employees via specific areas of responsibility allocated to them.



The Council has an effective performance management framework using a dedicated IT system to record and report performance. The system is driven by the Service Plans which focus on activities that will deliver the Council’s ambitions and priorities. This is cascaded through individual employee appraisals.

This process monitors how the Council is meeting its targets and triggers corrective actions where targets are proving challenging.

The Council’s Executive and its Scrutiny Committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary. For ease of interpretation performance graphs are reported. There are reports which include the results of monthly and quarterly budget monitoring reports covering the revenue expenditure, capital projects, key performance indicators and absence monitoring.

The monitoring process has enabled the Council to concentrate on areas which require particular attention.

The Council is therefore able to monitor all key measures on a monthly basis and respond quickly and effectively to changes at an early stage.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the use of resources. The Council has regularly reviewed Financial Regulations and has adopted new Procurement Regulations from November

Essential Reference Paper “B”

2010 to ensure proper arrangements are in place for procurement of goods and services.

All budget cost centres are allocated to a named post holder, who is responsible for controlling spend against those budgets, and who is also responsible for maximising the benefits from assets used in the provision of their service.

b) Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council has adopted a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people.

As required by the Local Government and Public Involvement in Health Act 2007, East Hertfordshire District Council drew up proposals for new arrangements for the discharge of its executive functions, to take effect immediately after the Council elections in May 2011.

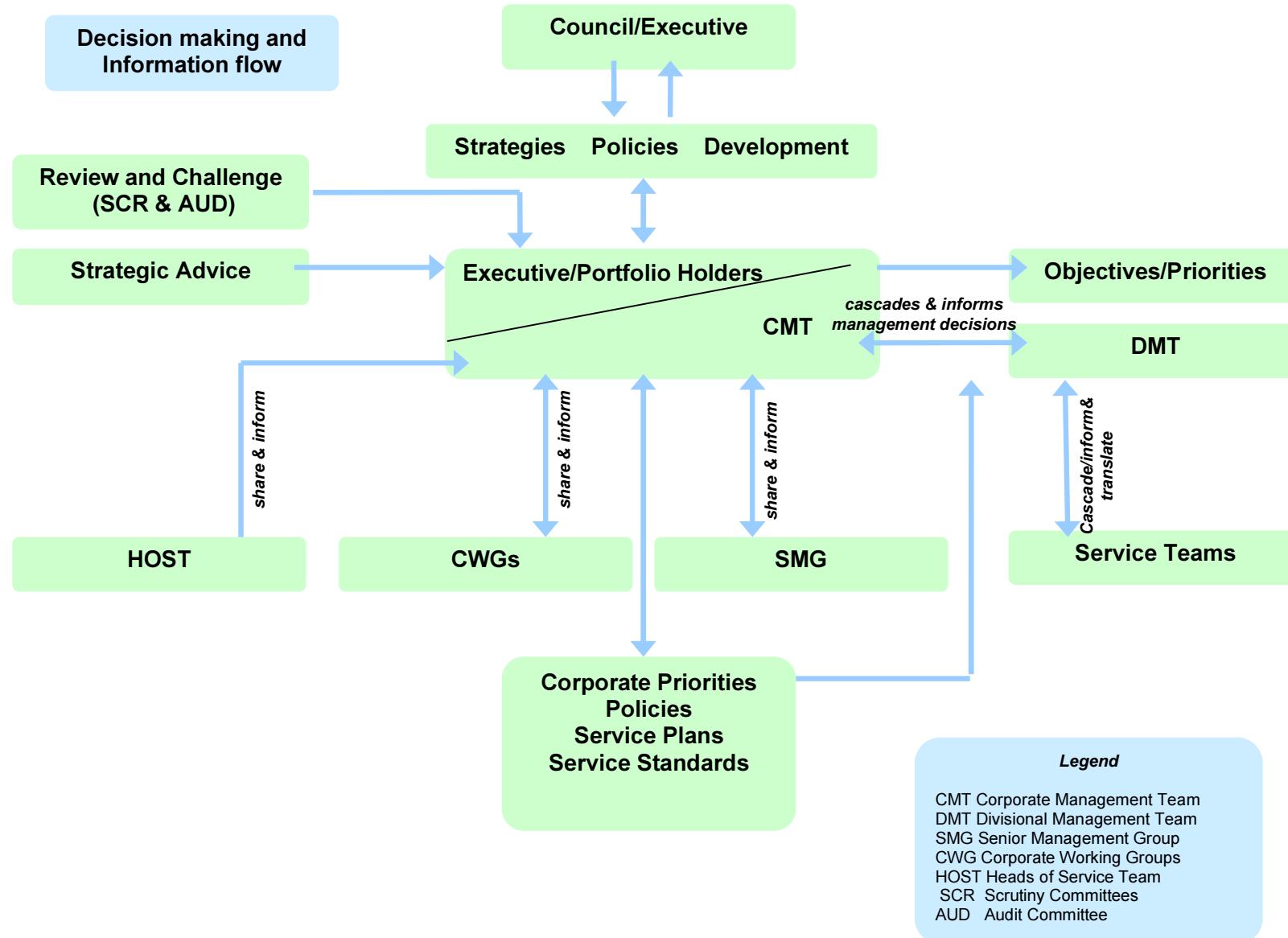
These proposals followed public consultation by the Council on the two broad options for new executive arrangements allowed by the 2007 Act (Leader and Cabinet Executive; and Mayor and Cabinet Executive).

The Council adopted the Leader and Cabinet Executive model. The main features are:

- The Council's Executive consists of a Leader and between two and nine other Councillors.
- The Leader is elected by full Council (initially at its annual meeting in May 2011) and will hold office until his term as Councillor has expired.
- The other Executive Members will be appointed by the Leader who will decide their portfolios and also which executive functions will be discharged by full Executive, any of its Committees or any individual Executive Member or officers.
- There are currently five Councillors on the Executive.

The Council's Corporate Management Team (CMT) consisting of the Chief Executive, Directors and the Head of People and Organisational Services meets on a fortnightly basis to develop policy issues commensurate with the Council's aims, objectives and priorities. CMT also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of CMT meet with Portfolio Holders on a monthly basis to review progress in achieving the Council's ambitions, priorities for action, budget monitoring, performance management and forward planning for major issues. CMT has a corporate responsibility for the messages that the Council produces, both internally and externally.

Below CMT the management structure is well defined. The chart below indicates how decisions are implemented and cascaded:



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The Senior Management structure review is currently underway in order to implement the cost savings agreed within the Medium Term Financial Plan. The reduction in management capacity will require senior management to undertake more operational responsibilities. There will be a reduction in capacity of more senior officers to respond to enquiries. Focus will be on key activities.

The Council has adopted a number of codes and protocols that will govern both Member and officer activities. These are:

- Members’ Code of Conduct
- Officers’ Code of Conduct
- Members’ Planning Code of Good Practice
- Member/Officer Relations Protocol

c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive and Section 151 Officer he will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Under Section 5 of the Local Government and Housing Act 1989 it is the duty of the Council’s Monitoring Officer to report to Council if it appears that the Authority, a Committee or Officer of the Authority has made a decision which is contrary to law. There were no reports made during 2010/11.

The Council has responsibility for responding to Freedom of Information Requests (FOI) promptly and within 20 working days. It has not always been possible to respond to all requests within this timescale.

The Council has taken action to improve its speed of response to FOIs. An important element of that plan is to shift the Council from waiting for FOI requests to proactively reducing the need for individuals to request information by making a wider range of information more easily available through the Council’s website. This will include designing improvements to the website front page and more clearly signposting enquirers to the most used information. An action plan to better facilitate easy access to information and the management of freedom of information has been agreed.

The Council recognises that expenses of politicians have come under serious scrutiny. The current Members Allowances scheme is published in the Constitution. A new Independent Remuneration Panel was established and its recommendations for Members Allowances in 2011/12 were considered by Council in February 2011. The review of 2012/13 allowances by the Panel will commence in Autumn 2011.

All Council services are delivered by trained and experienced people. All posts have a detailed post profile and person specification. Training needs are identified through the Personal Development Review Scheme and addressed via the Human Resources service and/or individual services as appropriate.

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The Council achieved re-accreditation for a further three years from April 2009 under the Investors in People Standard, which is a quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

The financial management of the Council is conducted in accordance with the Constitution and with Financial Regulations. The Director of Internal Services is the statutory Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council has a Treasury Management Strategy Statement and Annual Investment Strategy in place. Investments are made in accordance with the Council's approved policy. All investment transactions and transfers undertaken in house are supported by appropriate documentation and are properly authorised. External fund managers are subject to strict regulation by the FSA. The Portfolio holder and the Leader of the Council receive regular updates from the Director of Internal Services. The Chairman of the Audit Committee and Chairman of Corporate Business Scrutiny Committee are invited to participate in review meetings with Fund Managers.

The Council maintains an Internal Audit section, which operates to the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility operates and has been well publicised. All staff received Annual Declaration Letters with their February 2011 payslips. The Council has adopted a policy on Bribery during the last year. The Council does not tolerate bribery committed by Council employees or its contractors or partners and will take consistent and swift action against those persons committing bribery.

Individual services have produced Service Plans that are updated each year so that services know what they are required to do to achieve the Council's priorities and ambitions.

At individual employee level the Council has established a Personal Development Review Scheme so as to jointly agree individual employee objectives and identify training and development needs. The Scheme provides for a mid-year review as well as an annual appraisal at which past performance is reviewed.

d)Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

The Council has several committees which carry out regulatory or scrutiny functions. These are:

- Overview and Scrutiny committees (Corporate Business Scrutiny, Community Scrutiny and Environment Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions, developing the capacity and capability of members and officers to be effective.
- Audit Committee provides assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management

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is in place. Its work is intended to enhance public trust in the corporate and financial governance of the council;

- Development Control Committee determines planning applications and related matters;
- Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures;
- The Human Resources Committee's functions relate to all aspects of the Council's role as an employer. This includes the monitoring and strategic overview of Human Resources activities.
- Standards Committee promotes, monitors and enforces probity and high ethical standards amongst the Council's Members, and this extends to having the same responsibility for all town and parish councils within the District;

The Council has data protection polices and a data sharing protocol in place to ensure that personal data is maintained securely and used correctly.

The Risk Management Strategy defines risk management, explains the benefits of a strategic approach, outlines how it will be implemented, identifies roles and responsibilities and formalises the process. The Strategy sets out the links between risk management, emergency planning and business continuity. It recognises that risk management is a key part of the management of projects and partnerships.

The Strategy highlights how risk management supports strategic planning, financial planning, policy making and review and performance management.

The Corporate Management Team is responsible for ensuring that the key risks on the strategic risk register are managed. Strategic and service risk registers are reviewed on a quarterly basis. Risks will be amended so that they reflect the current situation, obsolete risks deleted and new risks added. This will ensure that the risk register and the resulting risk mitigation measures are appropriate for corporate objectives and services.

Risk management reporting arrangements are included which describe the roles and responsibilities of Members and officers. Members have received risk management training.

A new Strategic Risk Register was developed with assistance from Zurich Management Services Ltd. New operational risks have also been developed. The Council also has a Partnership Protocol in place.

The Council is one of four partners in the Stevenage CCTV Partnership. The structure of the partnership is being reviewed. This review will include the governance arrangements.

e) Developing the capacity and capability of Members and officers to be effective

The Council plans and provides training for members in carrying out their roles effectively including their responsibilities for governance, challenge, scrutiny and review.

During 2010/11 Councillors attended the following scrutiny related events:

- Implications of New Government

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- Data Quality
- Covalent training (Performance Management software)
- Questioning for Scrutiny
- CfPS Parliamentary Seminars
- Assessing the Quality of Evidence
- Big Society Learning Network meetings delivered by Local Government Information Unit.
- Programme and Project Management
- Information Governance
- Pension Assets and Liabilities
- Anti-Fraud arrangements and fraud awareness
- Risk Management
- Commuted Sums.

The Members’ Corporate Training Plan for 2011/12 provides training in the following areas relating to scrutiny:

- Development Control Committee training.
- IT Training
- Covalent Training
- Web pages and Web casting
- Effective Scrutiny
- Chairing Meetings
- Licensing Training
- Council Budgets
- Procurement/ Health and Safety/ Shared Services

Various other training initiatives are also in the process of development to be delivered to future Scrutiny and Audit Committees.

The Council has an infrastructure in place to support members’ needs in respect of ICT requirements and the Council’s Democratic Services team provide advice and assistance.

Protocols have been adopted to ensure clarity of the respective roles of officers and members.

The Council’s recruitment process is designed to ensure only well qualified applicants are employed and the subsequent induction process is robust so that employees are effective. The Performance Development Review process ensures individual contributions are effective in meeting corporate priorities and capability issues addressed by training. Internal communications methods and processes are reviewed to ensure staff remain well informed and their feed back is responded to. A biennial staff survey leads to action plans to improve effectiveness.

The Council reviews its organisation and capacity as part of its annual service planning to ensure its staffing is commensurate in both quantitative and qualitative terms with its business plans. The Council is committed to taking forward the shared services agenda which will ensure more effective use of scarce skills by sharing across boundaries. A Shared Internal Audit Service across Hertfordshire came into operation from June 2011

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and approval has been given to have a shared service for Revenues and Benefits with Stevenage Borough Council. Sharing ICT, HR, Exchequer and Facilities Management services with North Hertfordshire and Stevenage Councils is under active consideration.

The Council's HR People Strategy seeks to ensure its pay and terms and conditions are adequate to attract and retain sufficient staff and to encourage staff to invest in their own development.

The Council seeks to maintain effective industrial relations to enable a high standard of service to the public to be maintained. Staff are fully consulted on proposed changes to terms and conditions. The Council engages with the trade union and staff to manage issues arising from pay settlements and changes to the organisation including the Local Joint Panel and the Human Resources Committee.

Extensive use is made of the Intra net to provide staff with ready access to learning material and best practice via a series of tool kits.

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council encourages all members of the local communities to contribute to, and participate in, the work of the Council. The Council achieves this through various resident polls, Community Voice and budget consultation exercises, to ensure that what it is doing meets the needs of its residents. The National Place Survey which was previously introduced to replace the Best Value Performance Indicator (BVPI) survey is no longer taking place. Community Voice will not continue in its current format. Engagement events around specific issues will be considered where they provide a proportionate and cost effective model for engagement.

The Council carried out a Residents' Survey in 2009 and Corporate Business Scrutiny Committee were presented the results on 17 November 2009, along with an action plan which incorporated the actions coming out of the 2008 Place Survey findings. Overall, both survey results recorded improvements for example:

- Satisfaction with the local area has risen from 82% in the 2006/07 BVPI Survey to 89.5 % in the Place Survey, demonstrating that the Council in partnership with other agencies is focusing and delivering on the concerns of local residents.
- Three out of five residents (61%) are generally satisfied with how the Council is running East Herts according to 2009 Residents Survey. This level of satisfaction is broadly reflected in the results from previous resident surveys.
- The percentage of residents that feel that the Council provides good value for money was relatively balanced between positive and negative in 2009 (53% and 48% respectively) and was a significantly more positive result than in 2006/07 when only 45% responded in the positive to this statement and 56% responded negatively.
- Similarly an increasing proportion of residents, responded positively to the statement that the Council is efficient and well run: 63% in 2009 Residents Survey and 61% in 2006/07.

The action plan is a monitoring tool to help the Council and its partners continue to improve. Corporate Business Scrutiny Committee monitors the action plan on an annual

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basis. The final monitoring against this action plan was presented to Corporate Business Scrutiny on 31 May 2011.

The next Residents Survey is due to be undertaken in autumn 2011. The results of this survey will be used to form the basis of the next action plan.

Alongside the surveys, the Council consults residents and local businesses through specific focus group consultation seeking to ensure representation from the wider community on the forthcoming budget proposals. For 2011/12 this took place between October and November 2010 and focused on issues such as community grants, public toilets, homelessness help, Police Community Support Officers (PCSOs), engagement and consultation and supporting businesses. Alongside focus group consultation an online budget simulator was made available for the first time in order to engage more of the East Herts population.

As a result of this consultation, it was agreed that the Council would:

- continue to support PCSOs for another year whilst we hold a community safety review
- reduce the consultation budget by £14,000
- reduce but not remove the rent deposit support for people moving into the rental market
- continue to support businesses, subsidising where necessary whilst ensuring where possible that businesses are self funding.

The Council also consults with its staff, the most recent Staff Survey being undertaken in December 2008. The Staff Survey has now become triennial and therefore the next survey is due in 2011.

The Council's Community Voice meetings engaged with the public. Information from these meetings has been used to shape the future development of our vision including future investment and service provision. As part of this process, any impact on governance arrangements has been identified and responded to appropriately. Community Voice will not continue in its current format but Engagement events around specific issues will be considered.

Individual members are active in their localities and with local groups and serve on a number of external bodies.

The Hertfordshire County LSP and the East Herts District LSP are forums for active engagement with wider stakeholders and a mutual holding to account in delivering the Community Plans. The Chairman of the Health Engagement Panel (a standing panel under Community Scrutiny Committee) has a seat on the Hertfordshire Health Scrutiny Committee.

The Council publishes an Annual Report setting out progress on its priorities in the prior year. An Annual Report on Overview and Scrutiny is also published every year.

There is a strategic approach to consultation to ensure the information returned is reliable – the Council has adopted a Consultation Toolkit setting out best practice.

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The Council’s web site is under constant review to ensure it is of a good standard and that information is easily accessed. A consultation section has been introduced so members of the public can easily access open consultations and information on closed consultations.

The Council manages freedom of information requests effectively to ensure transparency including the corporate governance arrangements. Information is made available on the website to reduce the need for requests.

Review of Effectiveness

Each year, the Council reviews its governance framework including the system of internal control. The process to be adopted for a review is detailed below:

- All Directors, Heads of Service, Members of the Executive and Chairmen of Committees given the opportunity to make contributions.
- Production of a draft Annual Governance Statement.
- Consideration by the Audit Committee.
- Consideration by the Human Resources Committee.
- Consideration by the Corporate Business Scrutiny Committee.
- Consideration by Corporate Management Team
- Consideration by the Executive
- Approval by the Audit Committee.
- Approval by full Council.

The next paragraphs give more detail regarding the actual review process, and actions undertaken during 2010/11.

The review of effectiveness is informed by the work of the Directors within the Council who have responsibility for the development and maintenance of the governance environment, the reports by the Internal Audit and Business Improvement Manager and also by comments made by the Council’s External Auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.

The Council has three overview and scrutiny committees. The committees can establish ‘task and finish’ groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to their ‘parent’ Scrutiny Committee and on to the Executive. Four Members can “call-in” a decision which has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. In addition the Corporate Business Scrutiny Committee can exercise its scrutiny role in respect of Executive functions, Scrutiny Committees will conduct regular performance monitoring of all services, with particular attention to areas identified as under-performing.

The Standards Committee

- In July 2008 the Standards Committee approved processes for local assessment of complaints to be processed. These processes have been updated.
- Assessment Sub-Committees considered eight complaints in 2010/11. No breaches of the Code were identified.

The Localism Bill

In the Localism Bill, the Government will abolish the Standards Board regime. Instead, it will become a criminal offence for Councillors to deliberately withhold or misrepresent a personal interest. A local regime will be identified by the authority.

Regulation of Investigatory Powers Act (RIPA) 2000:

The Council complies with the RIPA. The number of directed surveillance authorisations granted since April 2010 was ten of which:

- Eight authorisations were for fly-tipping.
- One authorisation was for anti-social criminal behaviour.
- One authorisation was for fly-posting.

The Audit Committee

Seven Councillors sit on the Audit Committee. The Committee's terms of reference are detailed below:

Audit Activity

1. To consider the Internal Audit and Business Improvement Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
2. To consider summaries of specific Internal Audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of Internal Audit services.
4. To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
6. To consider specific reports as agreed with the External Auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.

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8. To liaise with the Audit Commission over the appointment of the Council’s External Auditor.
9. To commission work from internal and external audit.

Regulatory Framework

10. To maintain an overview of the Council’s Constitution in respect of rules of procedure relating to contracts, financial regulations and financial procedures and codes of conduct and behaviour.
11. To review any issue referred to it by the Chief Executive or a Director or any Council body.
12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on “Confidential Reporting” and the anti-fraud and anti-corruption strategy and the Council’s complaints process.
14. To oversee the production of the Authority’s Annual Governance Statement and to recommend its adoption.
15. To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
16. To consider the Council’s compliance with its own and other published standards and controls.
17. To review arrangements for delivering value for money.
18. To review the Council’s finances including borrowing, loans, debts investments and banking arrangements.

Accounts

- To approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the External Auditors’ report to those charged with governance on issues arising from the audit of the accounts.

The Audit Committee’s work programme and the minutes of its meetings are public documents and are published on the Council’s web site.

Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a 3-year plan, from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant chief officer and service manager. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or low risk). This requires agreement or rejection by relevant

Essential Reference Paper “B”

chief officer and/or service manager. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months. All Internal Audit reports include an opinion on the quality and effectiveness of internal control within the Council’s systems, and an assessment in accordance with quantification and classification of internal control level definitions.

Substantial assurance	All required controls are in place and functioning correctly, performance indicators are good and no errors were detected during the period of review.
Good assurance	All major controls are in place, some minor controls may be absent or have faltered, performance indicators are good and no errors were detected during the period of review.
Adequate assurance	Major controls are in place, some minor controls may be absent or have faltered, performance indicators suggest no problems and no significant errors were detected during the period of review.
Limited assurance	Major controls have failed or are absent and/or major errors have been detected during the period of review.

Direction of travel statements in respect of any change of audit opinion since the previous review are also contained within all audit reports.

All Internal Audit reports are circulated to members of the Audit Committee and the progress reports on the work of Internal Audit address issues arising from these ratings. The Internal Audit and Business Improvement Manager has a direct reporting line to the Director of Internal Services.

The Internal Audit and Business Improvement Manager’s 2010/11 Annual Report has confirmed that the overall level of assurance awarded for systems reviewed is “good”. This represents an unchanged direction of travel. During 2010/11 the Internal Audit team assigned substantial assurance to eight areas, good assurance to twelve areas, adequate assurance to three areas and a limited assurance to IT Procurement.

The Internal Audit service is subject to regular inspection by the Council’s External Auditors who place reliance on the work carried out by the section. External Audit have recently concluded that “the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council”. Their review of files confirmed that “no issues were identified with internal audit’s work and these (files) were produced to a high standard”

The Hertfordshire Shared Internal Audit Service has taken on responsibility for delivery of the Internal Audit Plan from 1 June 2011. The Shared Internal Audit Service (SIAS) will also deliver a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council and Welwyn Hatfield Borough Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.

Essential Reference Paper “B”

The SIAS will in future give one of five levels of assurance: Full, Substantial, Moderate, Limited or No Assurance.

For performance management, a traffic light monitoring and reporting system is in place. Performance data is reported to the Scrutiny committees on a frequent basis, with corrective action plans put in place for any under-performing areas.

In January 2010 the Audit Committee received a report from the External Auditor on the Council's arrangements for audit and scrutiny. The report concluded that the Council had developed the scrutiny function since 2007 and that the Audit Committee had improved its effectiveness. The level of scrutiny at East Herts is considered similar to other councils audited by the External Auditor and “the commitment to scrutiny is strong and well supported by officers”. Arising from this report an Action Plan was agreed and six monthly progress reports were presented to Audit Committee during the period November 2009 to November 2010. This action plan is now deemed to have been completed. An evaluation of the scrutiny of C3W is scheduled for Corporate Business Scrutiny Committee to consider in November 2011.

External Audit identified audit risks in their Audit Plan 2010/11 as Accounting under IFRS, Financial performance pressures, revaluation of fixed assets and the C3W project. They have not identified any new risk areas in their Accounts Audit Approach Memorandum in June 2011.

The most significant areas where the self assessment has highlighted further development is needed are set out below. Given the previously highlighted situation of constrained resources, focus has been placed on identifying only significant weaknesses.

The Council's Corporate Management Team has reviewed and approved this Annual Governance Statement.

Significant governance issues

The following required enhancements to internal control arrangements were identified during 2010/11 as a result of the review of arrangements and by the work of external and internal audit:

Required enhancements to internal control arrangements:

Milestone	Resp. Off.	Target Date	Actions needed to achieve milestone	Status
Risk that Shared Services programmes fail to deliver required levels of efficiency	Alan Madin	March 2012	<ul style="list-style-type: none">Strategic Business cases to be delivered in respect of services in scope.	AMBER

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Risk of failure to deliver an effective, efficient and economic IT service	Alan Madin	March 2011 Revised to March 2012	<ul style="list-style-type: none"> • IT Strategy in place. • All outstanding high risk IT audit recommendations implemented. • Resilient IT business continuity arrangements in place. • IT Procurement undertaken in line with Procurement Regulations. 	AMBER
The actions arising from the review by the External Auditor of C3W need to be completed and embedded.	Neil Sloper	Nov. 2011	<ul style="list-style-type: none"> • Completion of C3W Project Plan, • Completion of Scrutiny Committee evaluation of C3W. 	AMBER
Risk of failure to introduce flexible working arrangements will limit the opportunity to make cost savings, opportunities to work with other partners and adversely affect staff retention.	Neil Sloper	March 2011	<ul style="list-style-type: none"> • Completion of Business Process Improvement process. 	AMBER
To implement health and safety risk assessments.	Chris Gibson	March 2011 Revised to Sept 2011	<ul style="list-style-type: none"> • All risk assessments completed and published on the Intranet. • Regular reporting of compliance arrangements in place. 	AMBER
Hertford Theatre future governance arrangements	George Robertson	June 2013	<ul style="list-style-type: none"> • Options to be developed to consider financial and other risks during a period of transition. 	AMBER
CCTV governance issues	Simon Drinkwater	Sept 2011	<ul style="list-style-type: none"> • New governance arrangements in operation. 	AMBER

Essential Reference Paper “B”

Refuse Contract-to ensure that new contract is embedded.	George Robertson	May 2012	<ul style="list-style-type: none">• New contract arrangements seen to be working well in report to Scrutiny Committee after twelve months.	AMBER
Ability to maximise efficiencies making use of the Web	Neil Sloper	March 2012	<ul style="list-style-type: none">• Put in place monitoring arrangements to review value for money of publishing information and to ensure it meets customer needs.	AMBER

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

Certification by the Leader of the Council and the Chief Executive

Name	Position	Date	Signature
Councillor A P Jackson	Leader		_____
Anne Freimanis	Chief Executive		_____

EAST HERTS COUNCIL

AUDIT COMMITTEE - 12 JULY 2011

REPORT BY INTERNAL AUDIT AND BUSINESS IMPROVEMENT MANAGER

2011/12 AUDIT COMMITTEE WORK PROGRAMME

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

This report provides a revised Audit Committee work programme for the 2011/12 civic year for consideration and approval.

<u>RECOMMENDATION:</u>	
(A)	That the revised work programme for the Audit Committee be approved.

1.0 Background

1.1 The Audit Committee is now in its sixth civic year and as part of the governance arrangements its work programme was reviewed and approved by the Audit Committee on 23 March 2011.

2.0 Report

2.1 A revised Audit Committee work programme for the 2011/12 civic year is given at **Essential Reference Paper “B”**.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers

Audit Committee Work Programme 2010/11- Audit Committee 23 March 2011.

Contact Member: Councillor Jim Ranger
Chairman of Audit Committee

Contact Officer: Alan Madin
Director of Internal Services
Ext 1406

Report Author: Chris Gibson
Internal Audit and Business Improvement Manager
Ext 2073

ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives:	Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i>
Consultation:	The requirements of the Audit Commission and our External Auditor Grant Thornton UK LLP have been sought and fully accommodated.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

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ESSENTIAL REFERENCE PAPER “B”
Audit Committee Work Programme 2011/12 Civic Year

Committee Date	Agenda Items
12 July 2011	<ul style="list-style-type: none"> • The Role of the Audit Committee- Training item • External Audit report- Review of Arrangements for Implementation of IFRS. • External Audit report- Accounts Audit Approach Memorandum • External Audit report- Annual Governance Statement • External Audit report- Certification Work- Planning Memo 2010-11. • External Audit report- Indicative Audit Fees 2011/12 • Statement of Accounts 2010-2011. • Internal Audit Service 2010/11. • Internal Audit Service- Position statement. • Shared Internal Audit Service. • Risk Management monitoring report 1 February 2011 to 30 April 2011. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2010/11 Annual Governance Statement. • Audit Committee Work Programme.
21 Sept 2011	<ul style="list-style-type: none"> • External Audit Annual Report to those charged with Governance (ISA 260 Report). • External Audit report on Financial Resilience Work. • 2010/11 Annual Governance Statement. • Internal Audit Service- Position statement. • Risk Management monitoring report 1 May 2011 to 31July 2011. • Audit Committee Work Programme.
23 Nov 2011	<ul style="list-style-type: none"> • Conclusion of 2010/11 Audit of Accounts. • External Audit report- 2010/11 Annual Audit Letter. • Council response to 2010/11 Annual Audit Letter • External Audit report – Final External Audit plan 2011/12. • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Risk Management monitoring report 1 August 2011 to 30 September 2011. • Audit Committee Work Programme.
18 January 2012	<ul style="list-style-type: none"> • External Audit- Progress Report • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Audit Committee Work Programme.
14 March 2012	<ul style="list-style-type: none"> • External Audit report – Audit Plan for 2012/13 and Fees. • External Audit report – Grants 2010/11 • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Internal Audit Plan 2012/13. • Risk Management monitoring report 1 October 2011 to 31January 2012. • Annual Review of Data Quality Strategy. • Audit Committee Draft Work Programme 2012/13 Civic Year.

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