



MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 23 JANUARY 2013
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

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

Substitutes

Conservative Group: Councillors D Andrews
Liberal Democrat Group: Councillor M Wood

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

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DISCLOSABLE PECUNIARY INTERESTS

1. A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:
 - must not participate in any discussion of the matter at the meeting;
 - must not participate in any vote taken on the matter at the meeting;
 - must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
 - if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
 - must leave the room while any discussion or voting takes place.

2. A DPI is an interest of a Member or their partner (which means spouse or civil partner, a person with whom they are living as husband or wife, or a person with whom they are living as if they were civil partners) within the descriptions as defined in the Localism Act 2011.

3. The Authority may grant a Member dispensation, but only in limited circumstances, to enable him/her to participate and vote on a matter in which they have a DPI.

4. It is a criminal offence to:

- fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register;
- fail to notify the Monitoring Officer, within 28 days, of a DPI that is not on the register that a Member disclosed to a meeting;
- participate in any discussion or vote on a matter in which a Member has a DPI;
- knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a DPI or in disclosing such interest to a meeting.

(Note: The criminal penalties available to a court are to impose a fine not exceeding level 5 on the standard scale and disqualification from being a councillor for up to 5 years.)

AGENDA

1. Apologies

To receive apologies for absence.

2. Minutes (Pages 7 - 16)

To confirm the Minutes of the meeting held on 21 November 2012.

3. Chairman's Announcements

4. Declarations of Interest

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

5. Council's Response to Auditor's recommendations relating to an objection to the 2011-2012 Accounts

To Follow.

6. External Audit - Grants Claim Certification Work 2011/12 (Pages 17 - 28)

7. Treasury Management Strategy Statement 2013/14 (Pages 29 - 50)

8. Shared Internal Audit Service - Progress Report (Pages 51 - 86)

9. Update on Implementation of the Annual Governance Action Plan (Pages 87 - 98)

10. Audit Committee Work Programme (Pages 99 - 104)

11. 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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Management strategy. SECTOR summarised the key variables influencing UK interest rates; SECTOR's interest rate forecast and those of Capital Economics/UBS; the credit environment; a review of the balance sheet; the current investment position and Fund Manager performance.

In response to a query by the Chairman concerning what the Council could invest in, SECTOR explained the key parameters for Councils' investment, as recommended by the Secretary of State. These included security, liquidity and yield. He explained investments for security usually meant lower levels of interest. The Chairman referred to some Councils which had invested in property. SECTOR explained that the Council could invest in property but that a different set of accounting rules and principles would need to be applied in terms of revenue and capital streams.

The Committee Chairman sought SECTOR's view concerning the optimum period of investment. SECTOR advised that the suggested duration with UK banks would be one year. In response to a query concerning investment in Gilts, SECTOR advised that there was no value in investing in Gilts but that Corporate Bonds would give a better return if the Council was moving away from security.

The Chairman referred to the Council's treasury meeting in January 2013. He thanked the Director of SECTOR for attending and giving his presentation to Members

RESOLVED – that the presentation be received.

431 APOLOGIES

An apology for absence was received from Councillor R Radford.

432 MINUTES

RESOLVED – that the Minutes of the meeting held on 19 September 2012 be confirmed as a correct record and signed by the Chairman.

433 CHAIRMAN'S ANNOUNCEMENTS

The Chairman, on behalf of Members welcomed Adele Taylor, Director of Finance and Support Services to the meeting.

The Chairman stated that, with Members consent, he intended to change the order of the agenda and take the urgent item of business first. This related to the Shared Internal Audit Services' report on Section 106 Agreements. This was supported.

434 URGENT BUSINESS

The Chairman explained that he had agreed that this item be included on the agenda for the meeting as an urgent item of business following the publication of the Shared Internal Audit Service report which had made a number of high priority recommendations.

435 SHARED INTERNAL AUDIT SERVICES - SECTION 106 AGREEMENTS

The Chairman referred to the fact that nearly £1Million had not been spent with the possibility that some of this might be clawed back.

The Head of Planning and Building Control explained the general approach to planning legal agreements. He explained that the area where services had been less effective was the process after the agreement had been signed, i.e. the implementation process. This might require the involvement of a number of service areas and which could take a number of years to see through.

The Head of Planning and Building Control explained that as a result of the audit, there had been rigorous monitoring of the long term process and an appropriate management response developed to each of the internal audit recommendations.

The Head of Planning and Building Control explained that there was some flexibility with regard to the use of income secured through the Section 106 process and that a lot

depended on the wording of the Section 106 agreement and how general or specific the wording was. By way of an example he explained that play and open spaces could be fairly focussed, but that housing provision would be more generalised as provision was district wide.

The Chairman suggested that planning agreements should be widely termed in order for the Council to retain flexibility. The Head of Planning and Building Control acknowledged this and explained the Council was obliged to observe and apply certain regulations in framing the Section 106 agreements.

In response to a query from the Chairman concerning the monetary split between the County Council and East Herts, the Head of Planning and Building Control explained that this was generally formulaic, with the County Council receiving a significant element. The Head of Planning and Building Control referred to the new Community Infrastructure Levy (CIL) which would be introduced in 2014 and what this would mean for the District Council.

In response to a query from Councillor J Wing, the Head of Planning and Building Control explained the “triggers” which alerted the Council that monies were owed to the Council, e.g. on signature of agreement, on occupation reaching 50% of housing.

The Head of Planning and Building Control guided Members through each of the Internal Audit recommendations and the appropriate Management Response.

In response to a query from Councillor J Wing, the Head of Planning and Building Control explained that approximately 20 Section 106 agreements were generated annually and their value ranged from £5,000 to more significant amounts running into several hundred thousand pounds.

Councillor J Wing suggested that there might be some merit in having a separate Section 106 Unit to ensure monies were spent. The Head of Planning and Building Control explained that, historically, the income from Section 106 agreements was between £50,000 to £100,000 per annum and that up

until the mid 1990s, the Council rarely had an agreement which had any financial arrangements or implications. Now there was a wider remit, this had changed matters, however, the overall element of workload remained modest given the overall numbers. The Head of Planning and Building Control explained that legal advice would have to be sought on a suggestion of the potential use of Consultants to use and manage the income. The issue of “ring fencing” certain projects was explained.

The Head of Planning and Building Control assured Members that the Shared Internal Audit Services recommendations were now being implemented. Council officers already undertook negotiations with developers on sites where Section 106 agreements were seen to be an excessive cost to the development. It was noted that reports on Section 106 agreements would be reported to Corporate Management Team quarterly. Members asked that the Head of Planning and Building Control report back in a year.

Members noted that the recommendations were being implemented and received the report.

RESOLVED – that the report be received.

436 EXTERNAL AUDIT REPORT ANNUAL AUDIT LETTER
2011/12

The External Auditor, Grant Thornton submitted their Annual Audit Letter for the year ended 31 March 2012. In summary, the main audit conclusions for the year were that the accounts gave a true and fair view of the Council’s financial affairs and of the income and expenditure recorded by the Council. Secondly, that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

The External Auditor advised that the public challenge of the accounts was still in process as legal advice was still awaited. This issue would be reported back to the next meeting.

In response to a query from Councillor M Pope about grants,

the External Auditor advised that there was nothing of significance and that any changes would be included within next year's timeframe.

The issue of internal borrowing was explained in terms of "disinvesting" and the loss of interest.

The Chairman, on behalf of Members, thanked the External Auditor for the Audit Letter. He also thanked Officers for supporting the audit process.

Members received the report.

RESOLVED – that the report be received.

437 COUNCIL'S RESPONSE TO ANNUAL AUDIT LETTER
2011/12

The Director of Finance and Support Services submitted a report responding to the issues raised in the Annual Audit letter 2011/12. The Head of Finance and Performance advised that action plans relating to the ISA 260 and arrangements for securing financial resilience were also addressed and set out in the report now submitted and supporting Essential Reference Paper "B".

The Head of Finance and Performance advised that he was content with the Auditor's recommendations and that Essential Reference Paper "B" of the report now submitted, set out the approach to be taken. It was anticipated that these actions would be in place within the next six months.

A typographical error was noted in the date for recommendation (1) in that it should show as "April 2013".

Members endorsed the response to the Annual Audit Letter and the action plans relating to the ISA 260 report and on the arrangements for securing financial resilience.

RESOLVED – that the response to the Annual Audit Letter and actions plans relation to the ISA 260 report and the report on arrangements for securing financial resilience be

approved.

438 EXTERNAL AUDIT REPORT - PLANNED AUDIT FEE
2012/13

The External Auditor had submitted a letter setting out the Planned Audit Fee for 2012/13. It was noted that for 2012/13 the Audit Commission had independently set the scale of fee. The fee for East Herts was £68,875 which was a 40% reduction on last year's fee.

The Chairman hoped that the Officers' support in the audit process had positively affected the fee process. The External Auditor was unable to say what next year's fee would be, but that it would be determined by the Audit Commission whose contract would end in 2017. The External Auditor explained that Paul Dossett had been "rotated off" the audit following his completion of seven years service.

Members noted the content of the letter.

RESOLVED – that the contents of the letter be noted.

439 UPDATE ON IMPLEMENTATION OF THE ANNUAL
GOVERNANCE ACTION PLAN

The Director of Finance and Support Services submitted a report in relation to 2011/12 Annual Governance Statement and the nine measures recommended to enhance East Herts Council's internal control framework during 2012/13, the detail of which was set out in the report now submitted.

The Manager of Corporate Risk updated Members on the two areas which had significantly changed since the last meeting of Audit Committee.

The Chairman expressed concern about IT and shared services and the need to spend a lot of money on new systems. The Chief Executive and Director of Customer and Community Services explained that North Herts had decided not to recommend the business case for shared services but that Stevenage Council was keen to work with East Herts. He

advised that Officers were in discussions with Stevenage.

Members noted the progress made against implementing the action plan contained in the 2011/12 Annual Governance statement and asked Officers to record Members' concerns around IT arrangements.

RESOLVED – that (A) the progress made against implementing the action plan contained in the 2011/12 Annual Governance statement be noted; and

(B) Members' concerns around IT arrangements be recorded.

440 RISK MANAGEMENT MONITORING REPORT 1 JULY TO 30 SEPTEMBER 2012

The Leader of the Council submitted a report setting out what action had been taken to mitigate and control strategic risks during the July to September 2012 period.

The Manager of Corporate Risk updated Members on changes to SR4 (Risk that investment and effort does not deliver benefits and returns in Shared Services) that will be made following the decision by North Herts not to share services. Secondly, SR7 (availability and performance of IT systems and resources impacting on service delivery) continued to be allocated a high risk rating.

The Manager of Corporate Risk explained that the Risk Management Strategy was currently being reviewed and that it was hoped to bring this to the next meeting.

Members noted the report and the action taken to mitigate and control strategic risks.

RESOLVED – that the action taken to mitigate and control strategic risks be approved.

441 WORK PROGRAMME

The Director of Finance and Support Services submitted a

report detailing the proposed work programme for Audit Committee. Members did not feel it necessary for any training to be delivered at the next meeting of Audit Committee but requested that Asset Management training be included on the agenda for the meeting on 13 March 2013.

RESOLVED – that the work programme, as amended, be approved.

The meeting closed at 8.45 pm

Chairman
Date

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East Hertfordshire District Council

Certification work report 2011/12

January 2013

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1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm your entitlement to funding.
- 1.2 We have certified 2 claims and returns for the financial year 2011/12 relating to expenditure of £78,827,762.
- 1.3 This report summarises our overall assessment of your management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

- 1.6 A summary of all claims and returns subject to certification, along with our certification fee, is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall you are performing well and there are no significant matters arising from our certification of claims and returns. There were minor amendments made to one claim (Housing Benefits) and one claim (NNDR) was qualified in 2011/12.
Supporting working papers	Supporting working papers for all claims and returns were good, which enabled certification within the deadlines.

The way forward

- 1.7 We have made recommendations to address the points raised in this report at Appendix C.
- 1.8 Implementation of the agreed recommendations will assist officers in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

- 1.9 We would like to take this opportunity to thank the grant claim co-ordinator and Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2013

2 Results of our certification work

Key messages

- 2.1 We have certified 2 claims and returns for the financial year 2011/12 relating to expenditure of £78,827,762.
- 2.2 Your performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		2		4		
Number of claims submitted on time	100%	2	100	4	100	→
Number of claims certified on time	100%	2	100	4	100	→
Number of claims certified with amendment	0%	1	50	2	50	→
Number of claims certified with qualification	0%	1	50	0	0	↓

- 2.3 This analysis of performance shows that:
- The number of claims has reduced by 50% compared to prior year.
 - In 2011/12, 100% of claims were submitted and certified on time.
 - In 2011/12 errors were identified which led to one claim being amended (Housing Benefits) and to one return being qualified (NNDR).
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 We charged a total fee of £26,053 for 2011/12, compared to £21,339 for 2010/11. Our fee is in excess of our indicative budget of £20,000 for the certification of claims and returns in 2011-12. This is due to the additional work required as a result of the amendments to the Housing Benefit claim and the qualification of the NNDR return. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

- 2.6 We have the following observations in relation to your management arrangements and certification of individual grant claims and returns:

Grants co-ordination and compilation

- 2.7 Our work highlighted no significant issues relating to the systems and controls in place to administer and record grant receipts and payments. Supporting working papers provided by officers were of a good standard.

Certification of the National Non Domestic Rates return

- 2.8 Testing performed on 'empty premises' and 'losses on collection' identified a number of issues. These issues have not resulted in amendments to the 2011/12 return. Officers have agreed to process the adjustment in the 2012/13 return.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to your underlying records
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to your underlying records. Where reliance is not placed on the control environment, detailed testing is performed.

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 you have 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 you 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 in turn impacts on the certification fee.

Certification 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.

Role	2011/12	2010/11
Engagement lead	£345	£345
Manager	£195	£195
Senior auditor	£125	£125
Other staff	£95	£95

B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme (BEN01)	38,363,824	Yes	£nil	No	15,015	20,990	We were required to look in detail at Council Tax benefit overpayments following errors identified. This led to additional testing being required to enable us to assess the impact of any potential extrapolation or qualification.
National non-domestic rates return (LA01)	40,463,938	N/A	N/A	Yes	3,708	5,063	Errors were found under test 13 (empty premises) where relief was incorrectly awarded and test 15d (losses on collection) where an incorrect charge was made. No amendments to the return have been made as officers have agreed to process these adjustments in 2012/13 return.
Pooling of housing capital receipts (CFB06)	-	-	-	-	1,748	-	No requirement for certification of the Pooling of Housing Capital Receipts claim in 2011/12.
Disabled facilities (HOU21)	-	-	-	-	868	-	No requirement for certification of the Disabled Facilities claim in 2011/12.

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Total	78,827,762	-	-	-	21,339	26,053	Additional work required due to the issues identified above resulted in an increase in the volume of work required compared to the previous year.

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
National Non Domestic Rates return (LA01)	Officers should ensure that amendments identified during our work relating to 'empty premises' and 'losses on collection' are processed within the 2012/13 return.	H	The changes highlighted will be processed within the 12/13 return due as part of the Council's overall closure of accounts.
Housing and council tax benefit scheme (BEN01)	Officers should ensure Council Tax benefit overpayments included in the claim are accurately recorded before submission for audit certification.	M	Officers will ensure that they review the claim before submission for audit certification to avoid errors in the submission.

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 23 JANUARY 2013

EXECUTIVE - 5 FEBRUARY 2013

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT 2013/14
AND MINIMUM REVENUE PROVISION POLICY STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The report sets out the 2013/14 Treasury Strategy Statement and Annual Investment Strategy together with the setting of Prudential Indicators.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>	
That:	
(A)	the Committee considers the 2013/14 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators and makes comments to the Executive.
<u>RECOMMENDATIONS FOR EXECUTIVE:</u>	
That:	
(A)	the 2013/14 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators for East Herts Council be approved; and
(B)	the Policy on Minimum Revenue Provision (MRP) be approved.

1.0 Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. The second main function of the treasury management service is the funding of the Council's capital plans. These capital

plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 2.10); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.0 Report

2.1 The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy; (including fund manager review)
- Minimum Revenue Provision (strategy)
- Responsibility of Treasury activities defined within the organisation

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

1. increases in interest charges caused by increased borrowing (or

reduced interest earnings where capital receipts are used) to finance additional capital expenditure; and

2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.2 Treasury Limits for 2012/13 to 2015/16

- 2.2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the authorised limit represents the legislative limit specified in the Act.
- 2.2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.
- 2.2.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

2.3 Prudential Indicators for 2011/12 - 2015/16

- 2.3.1 The following prudential indicators (in table below) are relevant for the purposes of setting an integrated treasury management strategy.
- 2.3.2 Members are asked to note that the fall in the ratio of financing costs to net revenue spend, reflects the usage of capital receipts and the lower rate of return on investments. This increases in the latter years with rises in interest rates.
- 2.3.3 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted in March 2002 by the full Council.

PRUDENTIAL INDICATOR	2011/12	2012/13	2013/14	2014/15	2015/16
(1) EXTRACT FROM BUDGET	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate
Capital Expenditure	5,527	4,178	4,226	1,388	1,137
Financed by :					
Capital receipts	4,521	620	1,040	775	400
Capital Grants	497	288	228	200	175
Third party contributions		56	58	34	0
Revenue	25	25	25	25	25
Net Financing need for the year	-484	-3,189	-2,875	-354	-537
Ratio of financing costs to net revenue stream	(1.22%)	(2.90%)	(2.34%)	(1.64%)	(1.23%)
Net borrowing requirement brought forward 1 April	(61,198)	(58,932)	(55,742)	(52,867)	(52,512)
carried forward 31 March	(58,932)	(55,742)	(52,867)	(52,512)	(51,972)
in year borrowing requirement – reduction in amounts invested	2,226	3,190	2,875	0,355	0,540

Capital Financing Requirement as at 31 March	(44,028)	(40,840)	(37,965)	(37,610)	(37,070)
Incremental impact of capital investment decisions					
Increase in council tax (band D) per annum	£0.86	£1.06	£1.15	£0.38	£0.31
(2) TREASURY MANAGEMENT	£'000	£'000	£'000	£'000	£'000
Authorised limit for external debt -					
borrowing	14,230	14,750	15,600	15,900	16,500
other long term liabilities	2,770	2,350	2,000	1,600	1,000
TOTAL	17,100	17,100	17,600	17,600	17,600
Operational boundary for external debt -					
borrowing	10,000	10,000	9,500	9,900	10,000
other long term liabilities	2,770	2,350	2,000	1,600	1,000
see above					
TOTAL	12,770	12,350	11,500	11,500	11,000
Upper limit for fixed interest rate exposure					
expressed as either :-					
Net principal re fixed rate borrowing	100%	100%	100%	100%	100%
Investments	98%	98%	98%	98%	98%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	50%	50%	50%	50%	50%
Investments	95%	95%	95%	95%	95%
Upper limit for total principal sums invested for over 364 days (per maturity date)	65,000	61,000	60,000	59,000	58,000

Maturity structure of new fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

2.4 Current Portfolio Position

2.4.1 The Council's treasury portfolio position at 30.11.12 comprised:

	Principal		Ave Rate	
		£m	£m	%
Fixed rate funding	PWLB	1.5		8.875
	Market	<u>6.0</u>		8.785
			7.5	8.803
Variable rate funding	PWLB	Nil		
	Market	<u>Nil</u>		
TOTAL DEBT			<u>7.5</u>	<u>8.803</u>
TOTAL INVESTMENTS			73.4	2.0%

2.5 Borrowing Requirement

2.5.1 Nil in 2013/14 as no borrowing is needed to support capital expenditure (use of investments). A borrowing requirement will continue to arise in the forth coming years based on expected capital expenditure net of other sources of funding (capital receipts, grants, revenue contributions). However the continued use of investments will negate the need to borrow.

2.6 Prospects for Interest Rates

2.6.1 The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

2.6.2 Sector View Interest rate forecast – November 2012.

	Q/E4 2012	Q/E1 2013	Q/E2 2013	Q/E3 2013	Q/E4 2013	Q/E1 2014	Q/E2 2014	Q/E3 2014	Q/E4 2014	Q/E1 2015
Bank Rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.75%
5 yr PWLB Yield	1.5%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%	1.8%	2.0%	2.2%
10 yr PWLB Rate	2.5%	2.5%	2.5%	2.6%	2.6%	2.7%	2.7%	2.8%	3.0%	3.2%
25 yr PWLB Rate	3.7%	3.8%	3.8%	3.8%	3.8%	3.9%	3.9%	4.0%	4.1%	4.3%

Sector's current interest rate view is that in respect of the Bank Rate:-

- Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 1 of 2015 despite inflation currently being well above the Monetary Policy Committee inflation target.
- Hopes for an export led recovery appear likely to be disappointed due to the difficulties that continue in the Eurozone (40% of UK exports)
- Growth prospects are weak and consumer spending, the usual driving force of recovery is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

Fixed interest borrowing rates are based on UK gilt yields which continue to be low and may remain low for some time.

2.7 Economic (Forward View)

2.7.1 Economic forecasting remains troublesome with so many external influences weighing on the UK. There does, however appear to be consensus among analysts that the economy remains fragile and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate and were to become too prohibitive, so causing a worsening

- of the Eurozone debt crises and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
 - the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
 - a continuation of high levels of inflation;
 - the risk of the UK's main trading partners' in particular the EU and US, falling into recession;
 - stimulus packages failing to stimulate growth;
 - potential for protectionism i.e. an escalation of the currency war/ trade dispute between the US and China.

The overall balance of risks is weighted towards the downside. With the focus of consumers, corporates and banks on reducing their borrowings, rather than spending, this will continue to forestall a return to robust growth in western economies.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK. The prospects for any interest rate changes before 2015 are very limited.

2.8 Borrowing Strategy

- 2.8.1 It is anticipated that there will be no capital borrowings required during 2013/14. However under the prudential code borrowings are permissible but with a negative Capital Finance Requirement, this would be difficult to justify. The running down of investments also has the benefits of reducing exposure to interest rate and credit risk. This will be continually monitored in conjunction with the treasury advisers.

2.8.2 External v. Internal Borrowing

Comparison of gross and net debt positions at year end	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
	Actual	Probable outturn	Estimate	Estimate	Estimate
Actual external debt (gross)	7,500	7,500	7,500	7,500	7,500
Cash balances	(66,643)	(63,240)	(60,370)	(60,010)	(59,470)
Net debt	(59,143)	(55,740)	(52,870)	(52,510)	(51,970)

The Council currently has a difference between gross debt and net debt (after deducting cash balances). The positive net debt will decrease as the Capital programme is financed from internal borrowing, or if a change of Policy of external borrowing was introduced. By not borrowing, it reduces the credit risk on investments.

2.9 Debt Rescheduling

2.9.1 Due to high rates of interest payable on the outstanding £1.5 million PWLB loans and the expected low level of the corresponding discount rates for maturities, any potential restructuring or premature repayment of the loans would be very expensive as their repayment would attract heavy premiums (in excess of £1M).

2.9.2 If the market conditions do change, any opportunities will be investigated, to pursue any potential advantages to the Council.

2.10 Annual Investment Strategy

2.10.1 **Investment Policy**

2.10.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

- (a) the security of capital and
- (b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.10.1.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

2.10.1.3 Investment instruments identified for use in the financial year are shown below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set through the Council's Treasury Management Practices. These have been amended in accordance with the report to Council on the 4 July 2012.

Specified Investments

An investment is a specified investment if it satisfies the conditions set out below:-

- (a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- (b) The investment is not a long-term investment (maximum of 1 year).
- (c) The investment does not involve the acquisition of share capital or loan capital in any corporate body.
- (d) Either of the following conditions is met:
 - (i) The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or a parish council or community council.
 - (ii) The investment is made with a body or in an investment scheme which has been awarded a high credit rating (as specified in the tables below *) by a credit rating agency.
- (e) These offer high security and high liquidity.

	*Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
Term deposits - UK government	-	In-house
Term deposits - other LA's (including police & fire authority's)	-	In-house
Term deposits - banks and building societies**	*Short-term F1 Long-term A, Individual_, Support 1,2,3	In-house and fund managers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	*Short-term F1 Long-term A, Individual_, Support 1	Fund managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	*Short-term F1, Long-term A, Individual _, Support 1,2,	Fund managers
1. Callable deposits	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3_	Fund managers
UK Government Gilts	AAA-AA	Fund managers
Bonds issued by multilateral development banks	AAA	Fund managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
1. Money Market Funds	*Short-term F1, Long-term AAA, Individual _, Support 1,2,3	Fund managers and In-house
2. Enhanced cash funds	*Short-term F1, Long-term AAA, Individual _,	Fund managers and in-house
3. Short term funds	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
4. Bond Funds	*AAA	Fund managers
5. Gilt Funds	*AAA-AA	Fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	*AAA	In-house on a 'buy-and-hold basis. Also for use by fund managers
Sovereign bond issues (ie other than the UK govt)	*AAA	Fund managers
Treasury Bills	AAA	Fund Managers . In-house on a buy and hold basis.

** If forward deposits are to be made, the forward period plus the detail period should not exceed one year in aggregate.

Non-Specified Investments:

Do not meet the definition for specified investments i.e. maturities more than 1 year and subsequently the risk is considerably greater. The maximum to be held in each category of non-specified investments is as follows:-

	* Minimum Credit Criteria	Use	**Max% of total investments	Max maturity period
Term deposits - other LAs (with maturities in excess of 1 year)		In-house	60%	5 years
Term deposits - banks and building societies (with maturities in excess of 1 year)	*Short-term F1, Long-term A, Individual _, Support 1,2,3	In-house	80%	5 years
Term deposits with unrated counterparties : any maturity	Used to be unrated building societies and wholly owned subsidiaries)	Not permitted		5 years
Commercial paper issuance by UK banks covered by UK Government guarantee	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers		5 years
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	80%	5 years
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	5 years
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	2 years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund Managers	50%	5 years

	* Minimum Credit Criteria	Use	**Max% of total investments	Max maturity period
UK Government Gilts with maturities in excess of 1 year	AAA-AA	Fund Managers	100%	10 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	Fund managers	40%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA-AA	Fund managers	40%	10 years
Sovereign bond issues (ie other than the UK govt) with maturities in excess of 1 year	AAA	Fund managers	50%	10 years
Corporate Bonds : the use of these investments would constitute capital expenditure (bonds other than government bonds)	*AAA	Fund Managers(subject to regulation changes)	10%	5 years
Floating Rate Notes : the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank (ie bonds with interest rate that varies in line with the market rate of interest, reset say every 3 months)	*AAA	Fund Managers but not permitted where the investment would constitute capital investment.	10%	5 years
Property fund: the use of these investments would normally constitute capital expenditure		Usable but the position regarding capital expenditure to be clarified before undertaking.	10%	10 years

****** Note: When setting these limits it includes both in-house and externally managed funds.

The Council's external fund manager will comply with the Annual Investment Strategy.

The agreements between the Council and the fund manager additionally stipulate guidelines and duration and other limits in order to contain and control risk. In brief terms these are the maximum investment that is permissible with any one counterparty limited by value or percentage, with the exception of the UK Government.

For any in-house monies this Council uses the creditworthiness service

provided by Sector Treasury Services. This service has been enhanced and now uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard & Poors forming the core element. However, it does not rely solely on the current ratings of counterparties but also uses the following as overlap:-

- Credit watches and credit outlooks from credit rating agencies
- CD's spread to give early warning of likely changes to credit ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries.

This modelling approach combines credit ratings, credit watches, credit Outlooks and CD spreads in a weighted scoring for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties.

Counter-party limits with individual banking groups would not exceed £10m with the exception of those already individually approved (Lloyds £20m and Nat West £20m)

Sole reliance will not be placed on the use of this external service. In addition this Council will use market data and information on government support for banks.

2.10.1 Local Authority Mortgage Scheme (LAMS)

The funding that was provided in 2012/13 for the Lams scheme is within the Capital expenditure programme and the financial parameters are not inclusive to treasury management.

2.10.2 In-House Funds

In-house funds are mainly cash flow derived and therefore investments will be made with reference to short term interest rates (ie rates for investments up to 12 months). Current policy has seen the withdrawal of the funds from Swip which have been redirected into fixed term deposits and recently a money market fund. The policy to increase counter party limits with British banks to take advantage of their more attractive rates was approved at Council on 4th July 2012. The Investment board met during the year and will continue to do so to consider the maturing fixed term investments and liquid funds held in the money market fund. This will include assessing the feasibility of using Alternative and Enhanced cash funds. The daily cash flow funds staying with our own bankers.

2.10.3 Interest Rate Outlook: Sector is forecasting that Bank Rate will stay

flat until March 2015 with the first rise to 0.75%. This will continue until the rate rises to 1.75% in March 2016. It would therefore be prudent to look at the period of investments and their interest rates against this background information. For 2013/14 the Council has assumed investment return of 1.98% on the investments made in house. For the medium term planning process rates of 1.89% (2014-15) 1.62% (2015-16) and 1.7% (2016-17) have been assumed.

For its cash flow generated balances, the Council will seek to utilise its business reserve account or short term notice accounts in order to benefit from the compounding of interest and revisiting investing short-term in money market funds. Where the opportunity is available investing with other locals on a short term basis.

2.11 Fund Managers Review and Forecasts

East Herts Council employ only one fund manager Investec. The Funds from Scottish Widows (SWIP) were withdrawn during 2012/13.

2.11.1 Investec Asset Management

As explained at a meeting with Councillors this fund is restricted in its options to increase its returns in the current market. The intention at the beginning of 2011/12 was to withdraw the funds and place in fixed term . Subsequently it was felt that this fund offered more balance to the overall total investments of the Council with fixed term investment being undertaken in house. Therefore the Scottish Widows Fund was liquidated.

2.11.2 With markets remaining volatile and ideal opportunities within various asset classes remaining scarce, Investec achieved a commendable outperformance over its relative benchmark in the second quarter of 2012. The fund was predominately focused on the CD market but took advantage, when they felt comfortable, of opportunities within the gilt market. With this prudent approach the performance should continue to improve.

2.11.3 This performance is set out below:

	Merrill Lynch 03 yr gilt* benchmark	East Hertfordshire Investec fund net of fees	Variance
Quarter ended 30/06/2012	0.38%	0.22%	(0.16%)
Quarter ended	0.28%	0.39%	.11%

30/09/2012			
Half Year 2012-13	0.66%	0.61%	(0.05%)

For the year 2012/13 it is estimated that a return of 0.6%-0.9% will be made. For 2013/14 a range of returns between 0.6% and 1.0% is estimated.

2.11.4 **Scottish Widows Investment Partnership**

The Treasury Management Investment Board met on 11 October 2011 to discuss the deepening crises within Europe. The decision was taken to liquidate the holding in this Money Market Fund because of the counter party holdings with some of the European banks. The funds were to be placed in short dated UK government securities of not more than 3 months. Subsequently as stated earlier the fund has been liquidated during 2012/13 and the funds invested internally. (Reported to Audit Committee 19th September).

2.11.5 At 30 November 2012 Investec's holding on behalf of the Council was £21,893,326. As can be seen with a 0.25% variance on Fund Manager's prediction a variance of around £54,733 either way is effected on the Council's Revenue Budget.

2.11.6 **End of year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

2.11.7 Summary of Strategy

2.11.8 No new borrowings to finance capital expenditure until capital receipts and other funding has been fully applied. This will be continually monitored in conjunction with the Treasury Advisers.

2.11.9 Any debt rescheduling opportunities will be investigated.

2.11.10 Fund Manager to trade gilts and Certificate of Deposit, Treasury Bills, Money Market Funds with objective of maximising yields.

2.11.11 The Investment board will continue to meet and make decisions on maturing deposits and the funds held in money market funds in conjunction with the council's advisers, taking into account the fragility of banks and volatility of the money markets.

2.11.12 A 0.9% return has been assumed (for investments other than the

structured/ fixed deposit at 3.72% & 2%) in 2013/14 for budgetary setting. However this is subject to final review prior to the Council setting its budget.

2.12 Minimum Revenue Provision (MRP)

The Council needs to agree options for the MRP (the provision to repay debt) annually. Capital receipts from stock transfer mean that no new borrowings are anticipated in the medium term. The method which is most appropriate will be considered when any new borrowings are entered into.

- 2.12.1 For capital expenditure incurred on or after 1st April 2009, which is financed by borrowing or credit arrangements, one of the following options will be used:-

Option 1 – Asset Life Method

Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method, the concept of an “MRP Holiday” makes it debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 2 – Depreciation Method

Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with Option 1 the “MRP Holiday” will be available for assets yet to be brought into service.

- 2.12.2 Under new regulations the method by which the Council provides for the repayment of it's borrowings for capital expenditure incurred before 1st April 2008, either of the two methods below can be used:-

Method 1 - Regulatory

Where debt is supported by RSG, authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated in this way.

Method 2 – Capital Financing Requirement

This method will be based upon 4% of an authority's non-housing

CFR at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present.

This in the past has resulted in a nil requirement and the indications are that this will remain the same.

3.0 Policy on the use of external service providers

The Council uses Sector Treasury Services as it's external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

3.1 Role of the Section 151 Officer

The Section 151 officer is responsible for all monies in the hands of the Council. This includes the Treasury Management function.

All borrowings, lending and finance will be in accordance with the CIPFA Code of Practice on Treasury Management.

This is incorporated within the Financial Regulation on Treasury Management.

3.2 Treasury Management scheme of delegation

- (i) The Council's Audit Committee reviews reports, and comments are passed on to the Executive.
- (ii) Executive considers any comments from Audit Committee and recommends approval to full Council.
- (iii) Monthly health check monitoring reports are through CMT, then to Executive and then to full Council.
- (iv) Quarterly reports through Audit Committee to Executive.
- (v) Investment board recommends financial investments.
- (vi) Delegation for officers is detailed within the constitution.
- (vii) The training needs for treasury management is periodically reviewed.

4.0 Implications/Consultations

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

Background Papers

None

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ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/Objectives:	Prosperity Improving the economic and social opportunities available to our communities.
Consultation:	The Strategy Statement has been drawn up with reference to information from our Treasury Advisers.
Legal:	There are no legal implications in the report.
Financial:	As set within the report.
Human Resource:	There are no Human Resources implications in the report.
Risk Management:	A prudent (over the planned period) assumption of 1.56% has been used on the sensitive interest receivable rate based on the information and advice available. A variation of 0.25% (either way) would result in a budget variance of some £152,500. If cash flows vary by £1m then the result is a movement of £15,600 per annum. If the Government continues to supply cheap funding to the British Banks this could curtail the more attractive rates that have been offered to date.

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East Herts District Council Audit Committee Progress Report 23 January 2013

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report
- Approve the amendments to the Audit Plan as at 28 December 2012; and
- Agree removal of implemented high priority recommendations

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.3 High Priority Recommendations
 - 2.5 Proposed Amendments to Audit Plan
 - 2.6 Performance Management

Appendices

- A Progress against the 2012-13 Audit Plan

- B Implementation Status of High Priority Recommendations

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2012-13 as at 28 December 2012.
 - b) Proposed amendments to the approved 2012-13 Audit Plan.
 - c) Implementation status of previously agreed high priority audit recommendations.
 - d) An update on performance management information as at 28 December 2012.

Background

- 1.2 The 2012-13 Annual Audit Plan was approved by the Audit Committee on 14 March 2012.
- 1.3 The Audit Committee receives periodic updates against the Annual Internal Audit Plan, the most recent of which was brought to this Committee on 19 September 2012.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 28 December 2012, 58% of the 2012-13 Audit Plan days had been delivered. Appendix A provides a status update on each individual project within the audit plan.
- 2.2 The following 2012-13 reports have been finalised in the period since 25 August 2012:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Authorisations and Delegations	Sep '12	Substantial	three merits attention
Project Management	Oct '12	Full	none

Utilities	Oct '12	Moderate	four medium one merits attention
Section 106	Oct '12	Moderate	five high two medium two merits attention
Commercial Waste and Cleansing	Nov '12	Full	none
Leisure Management	Nov '12	Substantial	one merits attention
Improvement Grants	Nov '12	Substantial	two merits attention
Financial Regulations Benchmarking	Dec '12	Not assessed	nine recommendations on areas of best practice applicable to all five district / borough SIAS clients
Homelessness	Dec '12	Substantial	two medium three merits attention

High Priority Recommendations

- 2.3 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.
- 2.4 For this committee, updates have been obtained for high priority audit recommendations, including IT-related recommendations dating back to 2009. The outcomes of our follow-up work are detailed in the standard template at Appendix B.

Proposed Audit Plan Amendments

- 2.5 The following deletions from the 2012-13 Audit Plan have been agreed with the Officers of the Council and are detailed below for Audit Committee approval:
- Car Parking – 10 days (This audit is to be deferred to early 13-14 as the revised charging policy is not due for implementation until May 2013);
 - Licensing – 10 days (A Scrutiny review was recently undertaken of taxi licenses. Significant change is expected in quarter 4 regarding the administration of other licence types. Audit work in these areas will be considered as part of the 13-14 planning process);
 - Shared Services – 12 days (This audit was originally scoped to cover the tri-party arrangements being developed between

EHDC, NHDC and SBC. Work in this area has ceased and EHDC is investigating opportunities to work more closely with SBC alone. The operation of the shared Revenues and Benefits Service with Stevenage Borough Council is being covered in the Council Tax, NNDR and Benefits audits. The inclusion of an audit of shared services will be considered as part of the planning process for the 13-14 plan).

Discussions have been on-going to identify alternative areas of audit activity. Audits of Petty Cash and Expenses (10 days) and RIPA (10 days) have been agreed. A verbal update will be provided at the committee meeting if there are any further developments.

Performance Management

- 2.6 Annual performance indicators and associated targets were approved by the SIAS Board in 2011.
- 2.7 As at 28 December 2012 actual performance for East Herts against the targets that can be monitored in year was as shown in the table below.

Performance Indicator	Annual Target	Profiled Target	Actual to 28 December 2012
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	60%	58%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	55%	49%
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%
4. Number of High Priority Audit Recommendations agreed	95%	95%	100%

- 2.8 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2012-13 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A PROGRESS AGAINST THE 2012-13 AUDIT PLAN AS AT 28 DECEMBER 2012

2012-13 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	L				
Key Financial Systems								
Asset Management					15	Yes	7	Fieldwork in progress
Benefits					14	Yes	0	Audit scheduled for Q4
Council Tax					14	Yes	4	Fieldwork in progress
Creditors					15	Yes	1	Planning in progress
Debtors					12	Yes	0	Audit scheduled for Q4
Main Accounting					12	Yes	3	Planning in progress
NNDR					14	Yes	5	Fieldwork in progress
Payroll					12	Yes	11	Draft report issued
Treasury					8	Yes	6	Fieldwork in progress
Operational Audits								
Authorisations and Delegations	Substantial	0	0	3	8	Yes	8	Final report issued
Car Parking					0	No	0	Audit cancelled
Corporate Business Planning	Full	0	0	0	12	Yes	12	Final report issued
Data Protection					5	Yes	0	Audit scheduled for Q4
Debt Recovery					15	Yes	0	Audit scheduled for Q4
Equalities & Diversity	Substantial	0	2	1	5	Yes	5	Final report issued
Financial Regulations Benchmarking	Not Assessed				5	Yes	5	Final report issued
Freedom of Information					10	Yes	9	Draft report issued
Housing - Homelessness	Substantial	0	2	3	9	Yes	9	Final report issued
Housing - Registrations &					10	Yes	2	Planning in progress

APPENDIX A PROGRESS AGAINST THE 2012-13 AUDIT PLAN AS AT 28 DECEMBER 2012

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	L				
Nominations								
Improvement Grants	Substantial	0	0	2	8	Yes	8	Final report issued
Learning and Development	Full	0	0	0	10	Yes	10	Final report issued
Licensing					1	No	1	Audit cancelled
Payments, Direct Debits & Refunds					1	Yes	1	Audit reallocated across Debtors, Creditors, Council Tax and NNDR
Performance Management	Substantial	0	0	1	10	Yes	10	Final report issued
Programme Governance					15	Yes	14	Draft report issued
Project Management	Full	0	0	0	11	Yes	11	Final report issued
RIPA					10	Yes - PWC		Audit scheduled for Q4
Section 106	Moderate	5	2	2	18	Yes	18	Final report issued
Shared Services					0	No	0	Audit cancelled
Utilities	Moderate	0	4	1	8	Yes	8	Final report issued
Procurement								
Car Parking Contract					8	Yes	6	Fieldwork complete
Cleansing Contract	Full	0	0	1	6	Yes	6	Final report issued
Commercial Waste Management Contract	Full	0	0	1	6	Yes	6	Final report issued
Grounds Maintenance Contract					6	Yes	0	Audit scheduled for Q4
Leisure Management Contract	Substantial	0	0	1	6	Yes	6	Final report issued
Counter Fraud								
Fraud Baseline Assessment					10	Yes	8	Fieldwork complete

APPENDIX A PROGRESS AGAINST THE 2012-13 AUDIT PLAN AS AT 28 DECEMBER 2012

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	L				
To be allocated from Fraud Baseline Assessment					10	Yes	0	Time allocated to new audit of petty cash and expenses – scheduled for Q4
IT Audits								
IT Risk Diagnostics					20	Yes - PWC	18	Draft report issued
IT Business Continuity					10	Yes - PWC	0	Audit scheduled for Q4
IT Service Desk					10	Yes	0	Planning in progress
IT Audit					5	N/A	3	On-going
Follow-up of High Priority IT Audit Recommendations					5	N/A	3	On-going
Contingency								
To be allocated					10	N/A	0	On-going
Follow Up Audits								
Follow up of high priority recommendations					15	N/A	7	On-going
Strategic Support								
Strategic Support					50	N/A	31	On-going
Completion of 2011-12 audits								
PWC completion work					2	N/A	2	Final reports issued
Asset Management					1	Yes	1	Audit not completed – see Annual Report
Grounds Maintenance	Substantial	0	0	1	2	Yes	2	Final report issued

APPENDIX A PROGRESS AGAINST THE 2012-13 AUDIT PLAN AS AT 28 DECEMBER 2012

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	L				
Contract Review	Substantial	1	8	0	10	Yes	10	Final report issued
Income	Full	0	0	1	1	Yes	1	Final report issued
EHDC TOTAL					480		278	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
1.	Hertford Theatre (IA Report 19/5/11)	<p>It is recommended that the transfer of data between Databox and General Ledger should be automatic with no manual manipulation of data. 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</p>	Recommendation agreed and will be taken forward as a high priority.	Eoin Baird	ASAP	<p><u>Jun 12:</u> Job now resourced to investigate creating new process to automatically amend data. Awaiting completion of faults on "select a seat" that Databox are investigating before progressing further.</p> <p><u>Dec 12:</u> Automatic upload went live in Nov 12.</p>	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>the data being uploaded to the general ledger. Whilst there is manual intervention the General Manager should not be involved in the processing of banking.</p>					
2.	<p>Follow-up of Various ICT Reviews (IA Report 22/6/09)</p>	<p>It is recommended that 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>Progress has been made in producing a draft ICT Business Continuity Plan. It was confirmed by the Strategic ICT Manager that the ICT Business Continuity Plan has been considered by the Business Continuity Group. Draft plan</p>	<p>Peter Searle/ David Frewin/ Peter Bowler</p>	<p>Revised to December 2011 (no date set at final report stage)</p>	<p><u>Sep 12:</u> The Business Continuity Group has prioritised each application's recovery.</p> <p><u>Dec 12:</u> A separate audit of IT BCP is due to be completed by PWC in Dec 12 / Jan 13. This work will also consider the status and relevance of this recommendation.</p>	<p>To be assessed during IT Business Continuity audit in Q4 (update to be brought to Mar 13 Audit Committee) – continue to monitor</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<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>	<p>presented 09/02/09. Progress report is to be presented to Business Continuity Group in June.</p> <p>There was no evidence to confirm that a timetable has been prepared. It was, however, confirmed that a draft Business Continuity Plan had been produced but as this was still a work in progress, it had not yet been tested.</p>	<p>Peter Searle (now David Frewin)</p>	<p>Mar 2012 (originally 31/03/10)</p>	<p><u>Jun 12:</u> Meeting with DR supplier Phoenix planned for 26/06/12 for site demo and account meeting to update contract and arrange new testing dates.</p> <p><u>Dec 12:</u> Above meeting was cancelled. A recovery facility now exists at the old Stortford site and this has reduced the need for an external arrangement with Phoenix. There is a need to review the contract with</p>	<p>In progress – continue to monitor</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>Ensure that all recommendations from the most recent penetration testing report are implemented. Should the report be out of date, consideration should be given to retesting.</p>	<p>Through discussion with the Network and Systems Support Manager, it was confirmed that the most recent penetration testing report is now out of date and therefore another penetration test is planned to be undertaken by Sure Cloud. There was no evidence available to</p>	<p>David Frewin</p>	<p>Oct 2011 (originally 30/09/09)</p>	<p>Phoenix also taking into account the impact of shared services with Stevenage.</p> <p><u>Jun 12:</u> Penetration test carried out in March 2012 by Random Storm. Report reviewed and recommended changes being reviewed and raised as helpdesk calls for 2nd and 3rd line Technical Support.</p> <p><u>Dec 12:</u> Annual test programme in place (next due Feb 13).</p>	<p>Complete – remove from list</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		The Information Technology Team should approve and oversee the implementation of the Council's Information Systems Strategy.	confirm the planned date for the next penetration test. Draft IT Strategy in programme to go to ITSG, CMT/ICT –C3W Board, Executive and full Council for approval on 3/9/09.	Peter Searle	Mar 2012 (originally 30/09/09)	<p><u>Sep 12:</u> Deferred pending decision on shared services.</p> <p><u>Dec 12:</u> Draft high level strategy document exists but does not meet the needs of the Council. PWC are to provide examples of good practice to assist the Council in developing their IT Strategy (after final decision on shared services).</p>	In progress - continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<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>	<p>This has been partly implemented due to the re-structure which has taken place. Structure to be reviewed by Head of Business Support and Director of Internal Services.</p> <p>There was no evidence available to confirm that this recommendation had been implemented. This has been recognised as a risk and is to be considered by the</p>	<p>Alan Madin</p> <p>David Frewin</p>	<p>Not specified</p> <p>Jun 2011 (originally 30/09/09)</p>	<p><u>Sep 12:</u> Appointment to new post of helpdesk support with additional skills in Sep 12 will complete the reorganisation.</p> <p><u>Dec 12:</u> Two new Helpdesk posts in place (line 1, 2, 3 support). Division of duties is a key consideration during all restructures.</p> <p><u>Jun 12:</u> Further discussions with Business Continuity Group have led to a decision to recommend a Fire Suppression system. Awaiting final costings.</p> <p><u>Dec 12:</u> Fire detection in place and approval given for</p>	<p>Complete – remove from list</p> <p>In progress - continue to monitor</p>

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
			Business Continuity Group.			suppression systems. Quotations being sought.	
3.	Payroll Review (IA Report 18/01/11)	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.	Agreed. This will be considered with the full move to Hertford.	David Frewin	Mar 2012	<p><u>Jun 12:</u> Payroll server now virtualized, we will fully test via the disaster recovery contract with Phoenix. However test system was created from live server clone and tested successfully.</p> <p><u>Dec 12:</u> Agreement now in place for Payroll service to be operated by Stevenage Borough Council (SBC). The scope of the 2012-13 Payroll audit at SBC includes a review of payroll disaster recovery plans. The outcomes of this review will be reported in the March 2013 update report.</p>	In progress – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
4.	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.	It is recognised that there is an urgent need to undertake this review. An ad-hoc exercise is on-going to ensure that the register is accurate and up to date. Total IT asset check will in future be performed on an annual basis.	David Frewin	On-going and total IT asset check to be scheduled annually in December.	<u>Jun 12:</u> Charringtons House completed. Hertford and other sites to be completed by the 6th July. <u>Dec 12:</u> All existing assets are now recorded and the register is updated for acquisitions and disposals of equipment.	Complete – remove from list
5.	Health & Safety (IA Report 8/6/11)	It is recommended that each Head of Service is required to complete a Health and Safety Risk assessment by July 2011.	Agreed. Reminder sent during audit in April 2011.	CMT	Revised to Apr 2012	<u>Jun 12:</u> Heads of service have been reminded; however these have not yet been submitted. New simplified risk assessment procedures approved by Safety	In progress - continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
						<p>Committee in February 2012. Heads of Service briefed May 2012. Risk assessments prepared and consultation with all staff commencing 30 June.</p> <p><u>Dec 12:</u> All staff notified about new corporate risk assessments on 5th July 2012, with deadline for feedback (to line managers) by the end of that month. All Heads of Service adopted the new assessments by September 2012, and position reported to DMT meetings.</p> <p>Service specific risk assessments still need to be undertaken where necessary.</p> <p>All risk assessments, unless person specific, are placed</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
						on the intranet for all staff to view.	
6.	Business Continuity (IA Report 7/6/11)	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>The current East Herts Council Business Continuity Plan was sufficient, but it did not take into account C3W. Recognising this, we have engaged Zurich Ins Co. to conduct a scoping workshop 14th July.</p> <p>Zurich have already reviewed the Council's strategic risks. This work is being finalised before being put to CMT.</p>	Director of Neighbourhood Services	Sep 2011	<p><u>Jun 12:</u> Zurich Insurance is conducting a scoping workshop to take account of C3W implications.</p> <p>Workshops completed and revised plan to be published July 2012.</p> <p><u>Dec 12:</u> A separate audit of IT BCP is due to be completed by PWC in Dec 12 / Jan 13. This work will also consider the status and relevance of this recommendation.</p>	To be assessed during IT Business Continuity audit in Q4 (update to be brought to Mar 13 Audit Committee) – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
	Business Continuity (IA Report 7/6/11)	It is recommended that the Business Continuity Corporate Group (BCG) meet on a regular basis until the Business Continuity Plan is approved, and thereafter on a six monthly basis to review the plan.	The outcome from the Zurich workshop will trigger this group.	Director of Neighbourhood Services	Sep 2011	<p><u>Jun 12:</u> Outcomes from the Zurich workshops fed into the BCG as workshops held.</p> <p><u>Dec 12:</u> A separate audit of IT BCP is due to be completed by PWC in Dec 12 / Jan 13. This work will also consider the status and relevance of this recommendation.</p>	To be assessed during IT Business Continuity audit in Q4 (update to be brought to Mar 13 Audit Committee) – continue to monitor
	Business Continuity (IA Report 7/6/11)	As per the 2011-12 Business Support ICT Service Plan it is recommended that the Disaster Recovery Plan is finalised and approved and includes a section on the ability to recovery data and a section on IT back-up. It is further	The 2011/12 ICT Service Plan contains the required actions of developing an ICT Business Continuity Plan by the end of September 2011 and testing of the plan by the end of December 2011. The	Head of Business Support Services	Not specified	<p><u>Dec 12:</u> A separate audit of IT BCP is due to be completed by PWC in Dec 12 / Jan 13. This work will also consider the status and relevance of this recommendation.</p>	To be assessed during IT Business Continuity audit in Q4 (update to be brought to Mar 13 Audit Committee) – continue to monitor

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		recommended that the Disaster Recovery Plan is tested after it has been finalised.	arrangements for data back up and recovery will be contained within the ICT Business Continuity Plan. The preparation of the ICT Business Continuity plan was deferred to September 2011 because of the demands of the C3W project plus the changes and improved resilience that have been incorporated into the ICT infrastructure as part of the C3W programme. Testing of the ICM business				

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
			continuity contract is planned to take place in line with new business solutions by the end of March 2012.				
7.	C3W Programme (EA Report) March 2010)	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.	The Asset Management Strategy to include a statement on expected gateway review points.	Martin Shrosbree	Revised to Mar 2012	<p><u>Jun 12:</u> The Asset Management Strategy includes a statement on expected gateway review points.</p> <p><u>Sep 12:</u> No current plans for any major strategy.</p>	To be assessed during 2012-13 Asset Management audit (update to be brought to Mar 13 Audit Committee) – continue to monitor
8.	Hertford Theatre (12/02/12)	The Theatre needs a financial report in a 'trading account' format that shows the income generated by each	The Theatre management accept that this recommendation represents better practice and has	Rhys Thomas - Artistic Director, Hertford Theatre	April 2012	<p><u>Jun 12:</u> Reporting now disaggregated by</p> <ul style="list-style-type: none"> • Casual staff • Room hire • Café Bar 	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>activity in each trading / reporting period and the direct costs incurred in generating that income.</p> <p>These direct costs may be limited to casual / marginal employee costs, stock and promotion costs, and it may not be worthwhile to attempt to apportion the bulk of fixed costs (such as premises costs and regular staff salaries) but rather to identify the contribution (i.e. net income after deducting direct</p>	<p>already taken steps to report on this basis, e.g. disaggregation of café and cinema expenditure and income.</p> <p>Additional work to fully realise the recommendation is under way.</p>			<ul style="list-style-type: none"> • Theatre • Cinema • Gallery <p>Separate costing by event.</p> <p>Reporting structure to be further reviewed mid year to confirm they meet business requirements.</p> <p>There are no plans to make further adjustments.</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>costs) that each activity makes to the pool of fixed costs.</p> <p>Such a trading report will require that the costing and financial results of individual activities (i.e. shows and events) can be aggregated to report the overall cumulative position for such activities while preserving the detailed record, so that the financial position of each event can be determined.</p>					
	Hertford Theatre (12/02/12)	In addition to a trading report on actual income and	Accepted. A report will be designed and	Rhys Thomas - Artistic Director,	April 2012	See recommendation 8	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>expenditure for the period to date management should determine what information is needed / available to assess activity / sales levels and their relationship to the financial performance.</p> <p>As well as reports on current and past 'sales' performance, management should receive projections of income and expenditure based on known commitments (i.e. scheduled shows and events) and for other activities</p>	<p>reported to the director quarterly that shows costs, commitments and income for each of the following: bar/café, cinema, shows, hires (auditorium, river room and studio) and gallery. Central salary costs will be apportioned based on an agreed percentage annually.</p>	<p>Hertford Theatre</p>			

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>based on past trading performance and any known or anticipated developments - provided that the basis for the assumption made is clearly stated, together with the perceived uncertainty attached to such projections.</p> <p>Such performance monitoring reports should be produced and used on a regular basis.</p>					
	Hertford Theatre (12/02/12)	It is recommended that option 'B' is adopted, particularly given	Core recommendations accepted. A report will be	Rhys Thomas - Artistic Director, Hertford	June 2012	See recommendation 8	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>that the revised staffing structure for the Theatre includes the post of Business Manager.</p> <p>If option 'B' is taken up it may still be necessary to code expenditure within EHDC's accounts in such a way that expenditure attributable to particular operations (i.e. the direct costs of those operations) is recorded separately. Alternatively it would need to be established that significant direct costs (e.g. staffing, marketing /</p>	<p>designed and reported to the director quarterly that shows costs, commitments and income for each of the following: bar/café, cinema, shows, hires (auditorium, river room and studio) and gallery. Central salary costs will be apportioned based on an agreed percentage annually. Income data will be supported with complementary data on tickets sold per event.</p>	Theatre			

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		promotion, possibly consumables) are otherwise capable of being analysed against the corresponding operation, so as to allow the trading report to identify these direct costs against the income for each activity.					
9.	Safes & Security (18/01/12)	Each service carries out a data security risk assessment to identify all sensitive information which needs to be locked away.		Corporate Risk & Procurement Manager	31 st March 2012	<p><u>Jun 12:</u> A comprehensive review of all data protection procedures across the Council is underway. Individual service risk assessments have been completed and these are being subject to external challenge.</p> <p>All staff are undertaking on-line data protection training</p>	In progress - continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
						<p>to meet a required level of appreciation.</p> <p>CMT are receiving regular updates on progress.</p> <p><u>Dec 12:</u> As part of annual business planning, Heads of Service are required to submit a data protection risk assessment with their service plans. This will identify areas of risk and mitigating actions at a service level. These plans will be reviewed and challenged in January.</p>	
10.	Contract & Procurement Review (22/06/12)	An authority-wide, comprehensive corporate contracts register should be developed.	A register has been completed from information taken from the manual register and meetings held with Heads	Procurement Officer	July 2012	<u>Dec 12:</u> Register completed.	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
			of Service.				
11.	Creditors (12/07/12)	Evidence supporting new suppliers and changes to standing data for existing suppliers should be sent through to Finance and retained in folders with the requests for the change / addition to be made. Alternatively, the addition forms should be authorised within departments to evidence to Finance that these checks have taken place. We understand that	Addition forms to be amended to require Authorisation in departments that details have been checked and are correct.	Accountancy Manager	Sept 2012	<u>Dec 12:</u> The 'Add a New Supplier' form has been amended to require authorization from an officer in the originating department. Completed forms are scanned and retained.	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		consideration is being given to the procurement team becoming responsible for the set up of all new suppliers, in which case they should ensure that appropriate checks are performed and evidence retained.					
12.	Section 106 Agreements	The Service Department Responsible Officer should ensure that contributions are used in accordance with the original agreement. Progress on spend should be monitored quarterly to ensure that agreed work has	Head of Communications, Engagement and Cultural Services to continue with monitoring reports to ensure that available contributions are spent in accordance with the requirements of the legal	Head of Comms, Engagement and Cultural Services	Process already introduced	<u>Dec 12:</u> Process already in place at the time of the audit.	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>been undertaken. Monitoring should also ensure that eligible works have not been carried out using other Service Department budgets.</p> <p>The Development Control Manager should identify all contributions which are more than 5 years old and where the money is unlikely to be spent for the original purpose. Meetings should then be held with the developer to discuss possible changes to the original agreement.</p>	<p>agreement and to report to CMT quarterly.</p> <p>Development Control Manager (DCM) to review older agreements where the original contribution is unlikely to be spent and consider whether any appropriate alternatives can be negotiated given the tests in Circular 05/05. Then to report to CMT accordingly.</p>	<p>Development Control Manager</p>	<p>First report to CMT by end December 2012</p> <p>Then report to CMT annually on progress</p>	<p><u>Dec 12:</u> First report now expected to go to CMT in February 2013.</p>	<p>In progress - continue to monitor</p>

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
	Section 106 Agreements	The S.106 Monitoring Officer should record the clawback date on the shared spreadsheet and inform both the Service Department and Finance of the date by which the contributions should be spent.	S.106 Monitoring Officer to include clawback date on spreadsheet.	Section 106 Monitoring Officer	Immediate effect	<u>Dec 12:</u> Clawback date added to spreadsheet.	Complete – remove from list
	Section 106 Agreements	For the older contracts (those over 5 years old), the Heads of Service should either: a) review the legal agreement to try to identify the purpose of the contribution; or b) Arrange a	DCM to undertake as part of reporting in relation to point 1 above.	Development Control Manager	End December 2012	<u>Dec 12:</u> First report now expected to go to CMT in February 2013.	In progress – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		meeting with the Development Control Manager to agree the spending of the contributions to meet the documented spending criteria.					
	Section 106 Agreements	Development Control Section and Service Department Officers should meet and clearly document what is required on each site and the specific purpose of each contribution.	Head of Planning and Building Control to reinstate regular S.106 liaison meetings.	Head of Planning & Building Control	December 2012	<u>Dec 12:</u> First meeting held 12 November 2012	Complete – remove from list
	Section 106 Agreements	Roles and responsibilities of all departments involved in the S.106 process	Head of Planning and Building Control and Head of Communications,	Head of Planning & Building Control	March 2013	<u>Dec 12:</u> In progress.	In progress – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (2012 only)	SIAS Comment (Dec 12)
		<p>should be documented to ensure that all parts of the process are completed for each contribution received.</p> <p>The S.106 Monitoring Officer should continue to send out receipt of contribution emails to the responsible officers.</p>	<p>Engagement and Cultural Services to produce procedure note.</p> <p>S.106 Monitoring Officer to continue sending 'receipt of contribution' e-mails to responsible officers.</p>	<p>S.106 Monitoring Officer</p>	<p>Process already introduced</p>	<p><u>Dec 12:</u> Process already in place.</p>	<p>Complete – remove from list</p>

EAST HERTS COUNCIL

AUDIT COMMITTEE - 23 JANUARY 2013

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

UPDATE ON IMPLEMENTATION OF 2012/2013 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The 2011/12 Annual Governance Statement includes nine measures to enhance East Herts Council's internal control framework during 2012/13. 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 FOR AUDIT COMMITTEE: That:</u>	
(A)	The Committee reviews the progress made against implementing the action plan contained in the 2011/12 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. Actions needed to address issues have been identified and are monitored on a R(ed), A(mber) and G(reen) basis.

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 One area is highlighted:

- Shared Support Services governance arrangements- an amber status has been allocated to reflect the agreement by Management Teams at East Herts Council and Stevenage Borough Council to explore joint working. This has moved from a red status.

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 2012/13 Annual Governance Statement
Action Plan – Audit Committee 21 November 2012.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	<p>People This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</p> <p>Place This priority focuses on the standard of the built environment and our neighbourhoods and ensuring our towns and villages are safe and clean.</p> <p>Prosperity This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic and social opportunities.</p>
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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ESSENTIAL REFERENCE PAPER 'B'

ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2012/13

Issue	Resp. Off.	Target Date	Actions needed to achieve milestone	Current position	RAG status
Risk of failure to deliver an effective, efficient and economic IT service	Director of Finance and Support Services/ Head of People, ICT and Property Services	March 2013	<ul style="list-style-type: none"> • Complete IT Healthcheck and respond to findings. • All outstanding high risk IT audit recommendations implemented. • Resilient IT business continuity arrangements in 	<ul style="list-style-type: none"> • IT healthcheck completed November 2012. This will support development of the IT Strategy and detailed business case for Shared Services. Interim Head of ICT for EHC & SBC appointed from January 2013 to provide maternity cover for management of ICT Services • SIAS continue to monitor and will report to Audit Committee in January 2013. • Business continuity arrangements have 	AMBER

			<p>place.</p> <ul style="list-style-type: none"> • Increase resilience to Bishop's Stortford exchange line. • Fire detection and monitoring arrangements in place in Wallfields old building. 	<p>been designed as part of the corporate plan. Next phase is testing.</p> <ul style="list-style-type: none"> • An additional line has been installed. • Fire alarm system has been installed and fire suppression equipment is currently out to tender. 	
Hertford Theatre future governance arrangements	CMT	June 2013	<ul style="list-style-type: none"> • Options to be developed to consider financial and other risks during a period of transition. 	<ul style="list-style-type: none"> • Officers have been requested to provide a status report to Community Scrutiny Committee. 	AMBER
CCTV governance issues	Director of N'hood Services	March 2013	<ul style="list-style-type: none"> • New governance arrangements in operation. 	<ul style="list-style-type: none"> • Consultation on the final report is about to begin with a report to the Executive in March 2013. 	AMBER
Ability to maximise efficiencies making use of the Web	Head of Information , Customer and Parking	Dec. 2012	<ul style="list-style-type: none"> • Respond to Corporate Business Scrutiny Committee Task and Finish Group findings. 	<ul style="list-style-type: none"> • Web Action Plan endorsed by CMT 23 October 2012. • Heads of Service are now responsible for all 	AMBER

	Services		<i>The Task and Finish Group is on-hold. Alternative actions are taking this issue forward</i>	<p>web content in their service areas.</p> <ul style="list-style-type: none"> • Senior Management Group has been briefed on key issues to improve website. • Leader to be briefed in December 2012. • Report will be submitted to Corporate Business Scrutiny Committee in March 2013 on progress made against the action plan. 	
Data Protection	Head of Information , Customer and Parking Services CMT	March 2013	<ul style="list-style-type: none"> • Complete Audit and respond to issues arising from it. 	<ul style="list-style-type: none"> • Data Protection Action Plan agreed by CMT, including governance framework. Action Plan report to Corporate Business Scrutiny Committee in July 2013. • Information and Data Protection 	AMBER

			<ul style="list-style-type: none"> • Ensure all staff, including new starters, receive appropriate levels of training. • Undertake an annual Data Protection audit. 	<p>Governance Report 2013/14 to Corporate Business Scrutiny Committee in March 2013.</p> <ul style="list-style-type: none"> • Mandatory training to all and new starters delivered. • Data Protection Risk Management included within Service Planning Process. • Governance training to be delivered to Corporate Business Scrutiny Committee in May 2013. • Social Media Use Policy awaiting consideration by LJP in December and HR Committee in January 2013. • This function is devolved to services within the Service Plan 	
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			<ul style="list-style-type: none"> Review data protection arrangements within Shared Support Services. 	<p>process and services manage their risks on an on-going basis.</p> <ul style="list-style-type: none"> To be considered as part of the Business Case. 	
Shared Support Services governance arrangements	CMT	March 2013	<ul style="list-style-type: none"> Complete Partnership Agreement that meets the Council's governance aspirations as a non-hosting authority. 	<p>Management Teams at EHC and SBC have jointly agreed to explore:</p> <ul style="list-style-type: none"> Formal shared services for ICT, Business Improvement, Print and Design. Informal sharing arrangements for Facilities Management and Payroll. Formal shared services for Facilities Management to be explored in 2014. 	AMBER (FROM RED)
Pro-actively seek opportunities to improve	CMT	March 2013	<ul style="list-style-type: none"> Review assets held by the Council. 	<ul style="list-style-type: none"> Review of assets and asset management plan and strategy 2012-2016 is currently 	AMBER

<p>performance</p>			<ul style="list-style-type: none"> • Identify and take up new opportunities coming out of the Localism agenda. • Develop networking for Members and Officers. 	<p>being drafted. This is scheduled for December 2012 completion. Further initiatives will be developed following completion of asset review.</p> <ul style="list-style-type: none"> • The Council has adopted procedures to deal with the Community Assets register and the Community Right to Bid. • The Council has a mechanism in place for identifying Member training and development needs, together with a monitoring process. This provides Members with the support needed to undertake community 	
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				leadership roles.	
Consider the robustness of arrangements to cover for the absence of managers for a significant period.	Head of People, ICT and Property Services/ CMT	Dec. 2012	<ul style="list-style-type: none"> Corporate Management Team to agree a Policy statement on cover arrangements in the event of significant absences. 	<ul style="list-style-type: none"> Recruitment and Absence Management Policies cover absence and temporary cover. CMT monitor absence and all recruitment has to be approved. 	GREEN (as per Audit Cttee in Nov 2012)
Improve arrangements for Members to report on their service on outside bodies.	Chief Executive	March 2013	<ul style="list-style-type: none"> Guidance provided to Members of outside bodies on what is expected of them, with consideration given to formalising the reporting feedback procedures. 	<ul style="list-style-type: none"> Details of Members representations on outside bodies are maintained by the PA Team. A list of outside bodies is available on the Council's web site. This issue to receive further consideration. 	AMBER

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 23 JANUARY 2013

REPORT BY DIRECTOR OF FINANCE & SUPPORT SERVICES

AUDIT COMMITTEE WORK PROGRAMME 2012/13

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides a revised Audit Committee work programme for the 2012/13 civic year for consideration and approval.

<u>RECOMMENDATION FOR AUDIT COMMITTEE: That:</u>	
(A)	The revised work programme for the Audit Committee be approved.

1.0 Background

1.1 The Audit Committee's work programme was approved by the Audit Committee on 14 March 2012.

2.0 Report

2.1 A revised Audit Committee work programme for the 2012/2013 civic year is given at **Essential Reference Paper 'B'**.

2.2 Five alterations have been made to the work programme:

- The Council's response to the External Auditor's recommendations relating to an objection to the 2011- 2012 Accounts has been added to the agenda at this meeting.
- Asset Management training for Members has been added to the agenda for the March 2013 meeting.
- The Annual Review of Data Quality Strategy has been moved to the March 2013 meeting as this is not due to be discussed at CMT until February 2013.

- The External Audit report on the Final External Audit Plan 2012/13 has been taken off the agenda for this meeting and will form part of the Audit Approach Memorandum at a later meeting.
- The External Audit report on the Audit Plan for 2013/14 and Fees on the agenda for the March 2013 meeting has been amended to an Update report.

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 2012/13 Audit Committee
21 November 2012.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	People This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.
Consultation:	The requirements of our External Auditor Grant Thornton UK LLP and the Shared Internal Audit Service 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 2012/13 Civic Year

Committee Date	Agenda Items
11 July 2012	<ul style="list-style-type: none"> • Training item- Accounts • External Audit- Interim and Audit Approach Report • Draft Statement of Accounts 2011-2012. • Shared Internal Audit Service Annual Assurance Statement Report 2011/12. • External Audit- Accounts Audit Approach Memorandum • Shared Internal Audit Service- Progress Report. • Annual Shared Internal Audit Service Board Report 2011-2012. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2011/12 Annual Governance Statement. • Risk Management monitoring report 1 February 2012 to 30 April 2012. • Audit Committee Work Programme.
19 Sept 2012	<ul style="list-style-type: none"> • Training item- Risk Management • Statement of Accounts 2011-2012 • External Audit Annual Report to those charged with Governance (ISA 260 Report). • External Audit report- Review of the Council's Arrangements for Securing Financial Resilience. • Treasury Management Strategy Statement -current year review. • 2011/12 Annual Governance Statement. • Shared Internal Audit Service- Progress Report. • Risk Management monitoring report 1 May 2012 to 30 June 2012. • Audit Committee Work Programme.
21 Nov 2012	<ul style="list-style-type: none"> • Training item- Treasury Management • External Audit report- 2011/12 Annual Audit Letter. • Council response to 2011/12 Annual Audit Letter. • External Audit report- Planned Audit Fee for 2012/13. • Update on Implementation of Annual Governance Statement Action Plan. • Risk Management monitoring report 1 July 2012 to 30 September 2012. • Audit Committee Work Programme.
23 Jan 2013	<ul style="list-style-type: none"> • Council response to External Auditor's recommendations relating to an objection to the 2011- 2012 Accounts. • External Audit- Grants Claim Certification Work 2011- 2012. • Treasury Management Strategy Statement 2013/14. • Shared Internal Audit Service- Progress Report. • Update on Implementation of Annual Governance Statement Action Plan. • Audit Committee Work Programme.
13 March 2013	<ul style="list-style-type: none"> • Training item- Asset Management. • External Audit Update report. • Shared Internal Audit Service- Progress Report. • Internal Audit Plan 2013/14. • Update on Implementation of Annual Governance Statement Action Plan. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 October 2012 to 31 January 2013. • Audit Committee Draft Work Programme 2013/14 Civic Year.

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