



MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 18 SEPTEMBER 2013
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor J Ranger (Chairman)
Councillors W Mortimer (Vice-Chairman), M Pope, R Sharma, N Wilson,
J Wing and J Wyllie

Substitutes

Conservative Group: Councillors D Andrews

*(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. Member Training - Shared Internal Audit Service: Fieldwork Processes

2. Apologies

To receive apologies for absence.

3. Minutes (Pages 7 - 18)

To confirm the Minutes of the meeting held on 10 July 2013

4. Chairman's Announcements

5. Declarations of Interest

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

6. External Audit report - Audit Findings (Pages 19 - 50)

7. Treasury Management Strategy Statement - 2012/13 Outturn and 2013/14 mid year review (Pages 51 - 64)

8. Statement of Accounts 2012-2013 (Pages 65 - 144)

9. Annual Governance Statement 2012/13 (Pages 145 - 180)

10. Shared Internal Audit Service Annual Board Report 2012 - 2013 (Pages 181 - 198)

11. Shared Internal Audit Service - Progress Report (Pages 199 - 220)

12. Outstanding SIAS High Priority ICT Recommendations (Pages 221 - 230)

13. Risk Management Strategy (Pages 231 - 254)

14. Risk Management Monitoring Report 1 February to 30 June 2013 (Pages 255 - 264)
15. Work Programme (Pages 265 - 270)
16. Urgent Business

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

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 10 JULY
2013, AT 7.00 PM

PRESENT: Councillor J Ranger (Chairman).
Councillors W Mortimer, M Pope, R Sharma
and N Wilson.

ALSO PRESENT:

Councillor D Andrews.

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Democratic Services Officer
Simon Chancellor	- Head of Finance and Performance
Chris Gibson	- Manager of Corporate Risk

ALSO IN ATTENDANCE:

Terry Barnett	- Shared Internal Audit Service
Paul Grady	- Grant Thornton
Margaret Mulkerrin	- Shared Internal Audit Service
Nick Taylor	- Grant Thornton

100 GOVERNANCE – MEMBER TRAINING

The External Auditor provided a presentation on Good Governance and the Audit Committee Role. The presentation covered the need to look at governance, the scope of the External Auditor's reviews, key messages for Councils and the role of the Audit Committee.

The Chairman referred to reputational matters and whether the External Auditor considered this a key issue

for consideration in terms of the Annual Governance Statement. The External Auditor confirmed that matters for review were not just financial, but did indeed include the Council's reputation but that it was always a "balancing act" of the Council's key priorities.

In response to a query from Councillor R Sharma, the External Auditor confirmed that the explanatory notes in the Council's Statement of Accounts could include more information as a means of making them more user friendly, but to bear in mind that the accounts were a statutory document and needed to follow a specific format.

In response to a query from Councillor N Wilson, the External Auditor confirmed that the Annual Governance Statement report could include highlights on the positives of what the Council had achieved and the negatives.

The Chairman, on behalf of Members, thanked the External Auditor for the presentation.

The Committee received the presentation.

RESOLVED – that the presentation be received.

101 APPOINTMENT OF VICE-CHAIRMAN

It was moved by Councillor J Ranger and seconded by Councillor N Wilson that Councillor W Mortimer be appointed as Vice-Chairman for the 2013/14 Civic Year.

RESOLVED – that Councillor W Mortimer be appointed Vice-Chairman for the 2013/14 Civic Year.

102 APOLOGY

An apology for absence was submitted on behalf of Councillor J Wing.

103 MINUTES – 13 MARCH 2013

RESOLVED – that the Minutes of the meeting held on 13 March 2013, be confirmed as a correct record and signed by the Chairman.

104 CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed new Members of Audit Committee and new Officers representing the External Audit Services and the Shared Internal Audit Service.

The Chairman, on behalf of Members, thanked Margaret Mulkerrin of the Shared Internal Audit Service for her hard work in supporting East Herts internal audit processes. He welcomed Terry Barnett to his new role.

105 EXTERNAL AUDIT – INTERIM AND AUDIT APPROACH REPORT

The External Auditor submitted a report setting out the audit planned approach for 2013/14 which formed a key part of the Council's accounts, the detail of which was set out in the supporting appendix. The plan highlighted key risks and financial challenges for the Council and how these would be dealt with.

The Chairman thanked the External Auditor for their detailed report which had made it clear what the Council was paying for.

The Committee received the report.

RESOLVED – that the report be received.

106 DRAFT STATEMENT OF ACCOUNTS 2012/13

The Executive Member for Finance submitted a report setting out the Council's draft statement of accounts for 2012/13. The Head of Finance and Performance explained that presenting the accounts at this stage provided Members and the public with an early opportunity of viewing and questioning the accounts. It

was noted that the accounts would be submitted to Audit Committee at its meeting on 18 September 2013 for approval.

The Head of Finance and Performance explained that the accounts were prescriptive in style and content, but that there was an opportunity to give context to them within the explanatory forward and headline information.

The Head of Finance and Performance provided Members with an overview of the main sections of the Council's accounts and summarised where main changes had occurred on the balance sheet.

In response to a query from Councillor M Pope regarding the Council's pension liability and volatility issues, the Chairman provided a summary of how the pension calculations were applied to the Council's accounts.

The Chairman referred to two long term loans which had been taken out many years ago at rates of interest around 8%, adding that to repay them early, the Council would have to pay a prohibitive premium.

The Chairman referred to the earlier debate regarding making the accounts as user friendly as possible and suggested that the Statement of Accounts include an introductory paragraph summarising the Council's financial situation over the last two or three years. He added that it might be helpful if the pie chart setting out Government Grants of £49.4Million was broken down to differentiate between housing related grants and other grants. This was supported.

In response to a query from Councillor J Wyllie regarding bank statements being provided to the Portfolio Holder for Finance, the Head of Finance and Performance explained that this would not normally be the case. He explained that the "cash and cash equivalents" in the balance sheet, included short term investments that met this definition of cash. The Chairman added that he was a Member of the Investment Panel which met regularly to be updated on

the Council's investments.

In response to a query from Councillor M Pope, the Head of Finance and Performance agreed to review narrative denoting an item as a (surplus)/ deficit when a single figure was shown.

The Committee received the report and agreed that in an effort to make the Statement of Accounts more user friendly, they should include an introductory paragraph summarising the Council's financial situation over the last 2 or three years and that the pie chart setting out Government Grants of £49.4Million should be broken down to differentiate between Housing related and other grants.

RESOLVED – that (A) the completion and authorisation for issue, of the Council's 2012/13 accounts, in line with statutory processes, be noted; and

(B) the Statement of Accounts include an introductory paragraph summarising the Council's financial situation over the last two or three years and that the pie chart setting out Government Grants of £49.4Million be broken down to differentiate between housing related and other grants.

107 2012/13 ANNUAL ASSURANCE STATEMENT AND
INTERNAL AUDIT ANNUAL REPORT

The Shared Internal Audit Service (SIAS) submitted a report providing their overall opinion on the adequacy and effectiveness of the Council's control environment, summarising the audit work and the performance of the internal audit service, the detail of which was set out in the report now submitted.

The SIAS explained that six of the seven performance indicators had been met. The Chairman, on behalf of Members, congratulated the service on this performance.

The SIAS drew Members' attention to a statutory new requirement (Public Sector Internal Audit Standards) for Members to provide assurances that the scope and resources for internal audit were not subject to inappropriate limitations. In response to a query from Councillor J Wyllie, the SIAS explained that there had not been any limitations placed on them.

The Manager of Corporate Risk explained that the Council's relationship with the SIAS had worked very well and gave an assurance that the scope and resources for internal audit had not been subject to inappropriate limitations.

The Committee approved the report.

RESOLVED – that (A) the Annual Assurance Statement and Internal Audit Annual report be approved; and

(B) the scope and resources for internal audit had not been subject to inappropriate limitations.

108 PUBLIC SECTOR INTERNAL AUDIT STANDARDS
(INCORPORATING THE SHARED INTERNAL AUDIT
SERVICE AUDIT CHARTER)

The Shared Internal Audit Service (SIAS) submitted a report setting out the requirements of the Public Sector Internal Audit Service Standards (PSIAS) and the need to adopt an Audit Charter, which set out the framework within which internal audit discharges its responsibilities to those charged with governance in the Council.

In response to a query from Councillor J Wyllie, the SIAS explained that there had not been any limitations placed on them.

The Committee approved the report.

RESOLVED – that (A) the Public Sector Internal Audit Service Standards (PSIAS) be adopted with

effect from 1 April 2013;

(B) the Shared Internal Audit Service (SIAS) Charter be approved as part of a compliance requirement, as contained in the Public Service Internal Audit Standards 2013; and

(C) it be noted that management assurance had been given that there had been no inappropriate scope or resource limitations on internal audit activity.

109 SHARED INTERNAL AUDIT SERVICE – PROGRESS REPORT

The Shared Internal Audit Service (SIAS) submitted a report setting out the progress made in delivering the Council's Annual Audit Plan for 2013/13, and proposed amendments to the approved 2013/14 Audit Plan. SIAS also provided the status on previously agreed high priority audit recommendations and an update on performance management information, the detail of which was set out in the report now submitted.

In response to a query regarding the follow up on ICT reviews being assessed when the outcomes of the IT Business Continuity Plan audit review were agreed, the Chairman explained that an officer from Stevenage was temporarily acting as the Head of Service and that a decision would shortly be taken by both East Herts and Stevenage Councils regarding shared services which included ICT as a service. Members supported the suggestion that an item on IT Business Continuity Plan be added to the Agenda for the next meeting in September 2013.

The Committee approved the report.

RESOLVED – that (A) the Internal Audit Progress Report be noted;

(B) the amendments to the 2013/14 Audit Plan

as at 14 June 2013, as submitted, be approved;
and

(C) the removal of implemented high priority
recommendations be approved.

110 UPDATE ON PAYMENTS TO MEMBERS FOR ICT
EXPENSES – OBJECTION TO THE 2011/12 ACCOUNTS

The Director of Finance and Support Services submitted a report setting out the Council's response to the External Auditor's recommendations in relation to payments to Members for ICT expenses, the detail of which was set out in the report now submitted.

Councillor D Andrews drew Members' attention to the fact that not all current Members were affected by the £35/month payments made outside the Members Allowance Scheme from May 2011 to 31 March 2012, as not all current Members had claimed the allowance and that this should be noted accordingly. The Manager of Corporate Risk acknowledged that this was correct.

The Committee noted the report.

RESOLVED – that the current position regarding the recovery of monies in relation to payments made outside the Members Allowance Scheme be noted.

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

The Director of Finance and Support Services submitted a report updating Members on the implementation of the 2012/13 Annual Governance Statement Action Plan, the detail of which was set out in the report now submitted and supporting Essential Reference Papers.

The Manager of Corporate Risk advised that two actions had recently turned "green" relating to the web-site efficiencies and Data Protection. On the issue of data

protection, Councillor D Andrews referred to the “umbrella” protection now afforded by the Council to Parish Councillors.

The Committee noted the progress made.

RESOLVED – that the progress made in implementing the action plan contained in the 2011/12 Annual Governance Statement, as submitted, be noted.

112 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13

The Leader of the Council submitted a report setting out proposals for taking forward the 2012/13 Annual Governance Statement, the detail of which was set out in the report now submitted, and supporting Essential Reference Paper.

The Chairman referred to an earlier discussion on risk in relation to damage to the Council’s reputation, specifically regarding the implementation of the District Plan which was progressing slowly, resulting in subsequent planning problems which had occurred in his ward. The Chairman felt that this was creating a negative public perception which could damage the Council’s reputation. The External Auditor agreed that should a risk be identified then that risk should be included within the risk register and that the Annual Governance Statement could also be used to move this forward. Members supported this approach.

The Committee approved the report.

RESOLVED – that (A) the proposed process for taking forward the 2012/13 Annual Governance Statement be approved; and

(B) due consideration be given to reflecting the reputational risks identified through delays in implementing the District Plan both within the Annual Governance Statement and the Risk

Register.

113 RISK MANAGEMENT MONITORING REPORT –
(FEBRUARY TO APRIL 2013)

The Leader of the Council submitted a report setting out the action taken to mitigate and control strategic risks during the period February to April 2013, the detail of which was set out in the report now submitted and supporting Essential Reference Paper “B”.

Members noted the earlier discussions regarding the potential impact and damage to the Council’s reputation following delays in implementing the District Plan and the need to consider the inclusion of this issue within future Risk Management Monitoring reports. This was supported.

The Committee approved the report.

RESOLVED – that (A) the action taken to mitigate and control strategic risks, as submitted, be approved; and

(B) due consideration be given to the risk register being amended to include the District Plan and the potential damage to the Council’s reputation which might ensue, as a result of delays in its implementation.

114 AUDIT COMMITTEE WORK PROGRAMME 2013/14

The Director of Finance and Support Services submitted a report detailing the proposed work programme for Audit Committee. The Chairman drew Members' attention to the earlier request for a report on the ICT Business Continuity Plan review at the next meeting. This was supported.

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

The meeting closed at 9.00 pm

Chairman

Date

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The Audit Findings for East Hertfordshire District Council

Year ended 31 March 2013

18 September 2013

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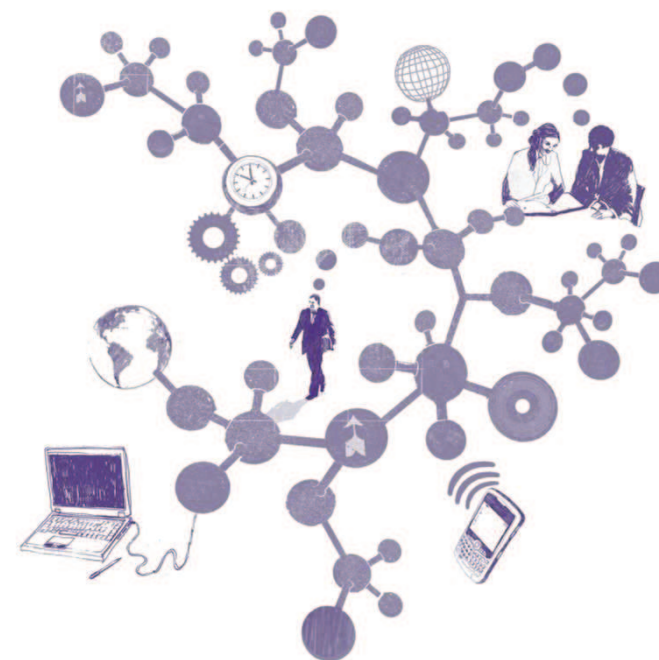
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	8
3. Value for Money	20
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of East Hertfordshire District Council's financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, the expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2013.

Our audit is nearing completion, subject to the satisfactory resolution of the following matters:

- obtaining final contracts for review of recycling and refuse income
- final review of the payroll reconciliation
- retrieval of archived information for testing of 9 benefits cases
- receipt and review of the final version of the financial statements

- receipt and review of the final management letter of representation
- receipt and review of the final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- completion of the Whole of Government Accounts review

We received draft financial statements and accompanying working papers of a high standard at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

Subject to the satisfactory resolution of the outstanding matters, we anticipate providing an unqualified opinion on your financial statements.

The draft financial statements recorded net expenditure of £4,196k. We have identified no misstatements as a result of your audit that would affect your reported financial position. We did not identify any significant issues as a result of our audit work.

We have recommended a small number of minor adjustments to improve the presentation of the financial statements. Management has agreed to adjust the accounts accordingly.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, following our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to issue an unqualified VFM conclusion.

Further detail of our work on your arrangements to secure Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We are in the process of completing our work on the Whole of Government Accounts. From the work completed to date, we have no issues which we wish to highlight for your attention.

Controls

Your management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However where, as part of our testing, we identify any control weaknesses, we report these to you.

We draw your attention to some minor control issues identified in relation to your IT systems. Further details are provided within section 2 of this report.

The way forward

Matters arising from our financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Director of Finance and Support Services.

We have made a small number of recommendations in relation to IT, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Support Services and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during our audit.

Grant Thornton UK LLP
18 September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present the work we have undertaken and our findings in respect of: (a) matters and risks identified at the planning stage of the audit, as summarised in our Audit Plan and presented to the Audit Committee in April 2013; and (b) additional matters that arose during the course of our work. We have not had to change our Audit Plan from that previously communicated to you. The findings presented below are subject to the satisfactory resolution of outstanding matters, as set out on page 5.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	None		No	No significant issues identified (see page 12).
Cost of services – operating expenses	Property, Plant & Equipment	None		No	None
Costs of services – employee remuneration	Employee Remuneration	Other	Employee remuneration accruals understated	No	No significant issues identified, subject to satisfactory completion of payroll reconciliation work (see page 12).
Cost of services – Housing & Council Tax benefit	Welfare Expenditure	Other	Welfare benefits improperly computed	No	Subject to the satisfactory resolution of the benefits testing, our work has not identified any significant issues (see page 13).
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from Council Tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/Losses	Revenue/ Operating expenses	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	None		No	None
Heritage assets & investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None
Cash & cash equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	No significant issues identified (see page 12).
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we set out our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	Throughout the course of the audit we performed the following: <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue and expenditure streams, including cut off testing • review of unusual significant transactions 	Subject to the satisfactory resolution of the remaining testing, our audit work has not identified any issues in respect of revenue recognition. You have adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	Throughout the course of the audit we performed the following: <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • Cut off testing of income and expenditure • review of unusual significant transactions 	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. These findings are subject to the satisfactory resolution of the outstanding matters as set out on Page 5.




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Trade and other payables	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We undertook testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified • We have reviewed large and unusual creditor and accruals balances and tested a sample of items 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We undertook testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment • We agreed payroll data to HMRC returns • We agreed the pensions liability to third party confirmation • We reviewed senior management remuneration and disclosures • We reviewed exit packages and disclosures 	Subject to the satisfactory resolution of our work in relation to the payroll reconciliation, our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We documented our understanding of processes and controls over the transaction cycle • We performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding • We completed initial Department of Work and Pensions certification testing of housing and council tax benefits, including analytical review and verification of benefits awarded on a sample basis. We are currently awaiting the retrieval of archived information to finalise the testing of nine remaining benefit cases 	Subject to the satisfactory resolution of the remaining testing, our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within your financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> We have reviewed the accounting policies in place with regard to revenue recognition The accounting policy stipulates that income for services provided is recognised when, and to the extent that, performance occurs. Grant income is recognised when there is assurance that the Council will comply with any conditions attached to the payments 	<ul style="list-style-type: none"> The revenue recognition policy is in line with the requirements of the CIPFA Code and accounting standards For revenue balances, we tested a representative sample and gained assurance that you have accounted for income in line with the policy. 	
Judgements and estimates	<ul style="list-style-type: none"> Significant judgements and estimates have been considered in the following areas: <ul style="list-style-type: none"> Asset valuations 	<ul style="list-style-type: none"> We reviewed the valuations work performed, including considering the assumptions used by the valuers and assessing whether valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards. No issues were identified from the testing performed 	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the accounting policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	

Assessment

 Inappropriate accounting policy
 Accounting policy appropriate but scope for improved disclosure
 Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit. Management has agreed to amend the accounts in respect of the following.



Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Misclassification	-	PPE	<ul style="list-style-type: none"> Our review of investment properties identified that two properties had been incorrectly classified as investment properties. We have recommended that they are reclassified as operational assets. Both properties are valued at £1 as a result of being let out at a peppercorn rent, meaning that this reclassification has no impact on the financial statements.
2	Disclosure	2	Audit fee disclosure	<ul style="list-style-type: none"> The audit fee disclosure is misstated by £2k. Management has agreed to correct this in the final version of the financial statements.
3	Disclosure	-	Financial Statements	<ul style="list-style-type: none"> There were a number of minor presentational changes (e.g. spelling and rounding) that arose during the course of our audit that have been amended in the financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements. We considered these controls to enable us to design audit procedures that are appropriate in the circumstances, but we did not consider them for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
IT findings:			
1.		<p>Payroll system password configuration:</p> <p>Password controls over the payroll system should be strengthened as:</p> <ul style="list-style-type: none"> • Passwords are not required to have a minimum length • Passwords do not expire • Complex passwords are not required • Users are allowed 100 grace logons before having their account locked • Dictionary is not used to restrict common words such as password <p>The lack of strong password controls increases the risk of unauthorised or inappropriate system access</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Password minimum length is increased to 8 characters • Password expiry is set to 30-60 days • The use of complex passwords is enabled • Accounts are locked after 3 grace logons <p>In addition, the usage of a dictionary should be considered to restrict users from choosing common words as passwords</p>
2.		<p>Leavers access rights to Capita: Academy:</p> <p>No periodic leavers list is provided by Human Resources to the Capita: Academy system team.</p> <p>This increases the risk that a leaver could access systems when they are no longer in the employment of the organisation or give those permissions to another employee at a lower level of access.</p>	<p>Management should implement a formal process to ensure a periodic human resources report of leavers is provided to the Capita: Academy system personnel.</p>



Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<p>IT security policy update:</p> <p>Although there is an approved and communicated IT Security Policy, this document has not been updated since July 2007.</p> <p>Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security of the Council. This may compromise the systems and information used.</p> <p>This issue was previously identified in the 2011/12 review and this new recommendation reflects the latest position.</p>	<p>The IT Security policy should be reviewed at planned intervals or when significant changes occur to ensure its continuing stability, adequacy and effectiveness. We recommend updated IT policies are reviewed and approved by management, published and communicated to all employees and relevant third parties.</p>
4.		<p>Unauthorised access attempt reports:</p> <p>Although unauthorised access attempts to Civica are monitored on a daily basis, there is no documented process to review unauthorised entry attempts to the network, Capita: Academy and Wealden Payroll on a periodic basis.</p> <p>There is a risk that unusual activity or security events taking place within the revenues/benefits and payroll systems might not be detected in a timely manner in the absence of such a control. Given the criticality of the data in these systems, it is advisable that there are processes to identify any unauthorised access, thereby reducing the risk of fraud, manipulation or error.</p> <p>This issue was previously identified in the 2011/12 review and this new recommendation reflects the latest position.</p>	<p>A policy associated to unauthorised login attempts to the revenues/benefits and payroll systems should be created. This policy should consider a review of unauthorised login attempts, as well as set out follow up actions to be adopted in case a security risk is identified.</p>

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit procedures]
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested. This should be signed alongside the financial statements.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> Testing performed in relation to related parties has not highlighted any issues requiring amendment to the financial statements. We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis. Please see section 3 for details of our financial resilience review.
7.	Internal Audit	<ul style="list-style-type: none"> We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instances of material control weaknesses which have impacted on our risk assessment The Annual Assurance Statement for the year ended 31 March 2013 has concluded that 'substantial assurance' has been obtained over the financial systems
8.	Annual Governance Statement	<ul style="list-style-type: none"> We have reviewed the Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the disclosures made are consistent with our knowledge of you and your key strategic risks. We have no matters to report in this respect.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** You have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** You are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2013. We therefore propose to issue an unqualified value for money conclusion at the same time as our opinion on the financial statements. We have set out our findings below.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

We have summarised our overall assessment of each area in the table below:

Characteristic	2012/13 assessment	2011/12 assessment
Key indicators of financial performance	GREEN	GREEN
Financial planning	GREEN	AMBER
Financial governance	GREEN	GREEN
Financial control	GREEN	GREEN

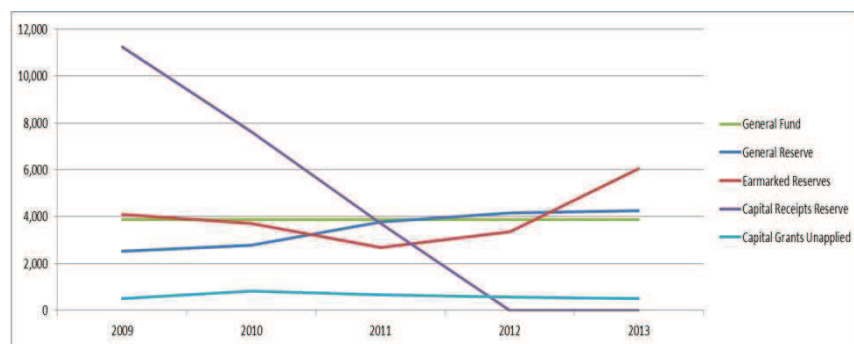
Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised resources to take account of the tighter constraints within which you are required to operate. The key findings from the work performed have been identified on subsequent pages.

Key indicators of performance

You have maintained a strong financial position, reflecting good performance in challenging financial times.

At 31 March 2013 your usable reserves level had increased by £2.7m to a total of over £14.5m. This increase was primarily due to a £2m underspend in year, but the original budget had forecast an £800k contribution to reserves. The trend in useable reserve balances is shown in the graph below:



Each year a risk assessment is undertaken to determine the level of reserve balances required. The current view is that you are well placed with regard to establishing appropriate earmarked reserves and balances. The proposals in the 13/14 revenue budget include no fresh requirements to draw on reserves and the Medium Term Financial Strategy does not plan to call on the general reserve in the period to 16/17.

It has been noted that the proposed reserve levels are in excess of the Reserves Policy agreed by the Executive. This has been discussed between officers and members, who consider it to be appropriate given the level of uncertainty with regard to future funding.

Strategic Financial Planning

The revenue budget for 13/14 recognises the pressures you face as a result of reducing public expenditure and increasing financial constraints across the sector. It takes into account the changed funding regime and the uncertainty presented by both the locally determined and managed Council Tax support scheme and the localisation of business rates. The Financial Strategy has also been updated to so that the key focus remains the maximisation of financial resilience.

East Herts proportion of Council Tax was reduced by 1% in 2013/14, enabling receipt of grant funding equivalent to a 1% increase in both 13/14 and 14/15. Changes to Council Tax support, however, have meant that a proportion of funding has had to be found from other resources to support pensioners on Council Tax benefit to ensure they continue to receive the same level of benefits.

With the changes to the business rates and the anticipated reduction in Revenue Support Grant, the monitoring and forecasting of collection levels are increasingly important. To this end, you are currently working on further developing your monitoring system.

The MTFP does retain planning contingency sums for 13/14 and beyond to take into account the potential impact of these funding changes, but these cannot be maintained indefinitely, highlighting the requirement for accurate budgeting.

You continue to hold a substantial level of cash and investments and the Treasury Management Strategy aims to ensure there will always be ready access to cash.

With the continued uncertainty and pressures facing the sector, it remains a challenging process to set accurate budgets and medium term plans. Whilst the importance of on-going monitoring is as significant as ever, you appear to be in a strong position to manage these challenges.

Financial Governance

Our prior year financial resilience report confirms that no significant issues had previously been identified. We have updated our review for 2012/13 and no issues have come to light that have indicated any changes to this position.

The Executive retains the overall responsibility for the implementation of the budget and they continue to receive detailed monthly Corporate Healthcheck reports to help them oversee performance.

One area that has been discussed in detail with senior officers is the level of budget underspend for the year. You have achieved net underspends in each of the last five years and the underspend in 12/13 was almost £2m. This was made up of £2.6m favourable balances and £0.7m adverse variances.

As a result of this underspend, a process is underway to review the cause of in year variances (and to identify trends over a number of years).

Management are also developing plans to identify improvements in financial management and ensure that resources are prioritised in the right way. The stated intention is that budgets should be as accurate as possible, including assessing in detail any vacant posts that are included within individual budgets. Any budget pressures should then be identified as early as possible to enable them to be met through the central contingency.

Through improving the accuracy of budgeting, you will be better able to focus your resources where they are most needed. This will also support the identification of savings going forward as they become harder to identify year on year.

Financial Control

Our prior year financial resilience report confirms that no significant issues had previously been identified. We have updated our review for 2012/13 and no issues have come to light that have indicated any changes to this position.

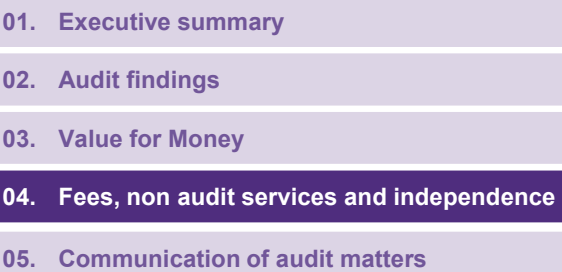
You continue to focus on the scale of the financial challenge ahead. As in previous years, Members have been presented with a range of savings options to incorporate into the Medium Term Financial Plan.

Savings options are becoming increasingly difficult to implement as the more straightforward cost cutting options have been exhausted. This increases the importance of accurate monitoring. You have put a system in place to ensure that savings are reviewed and RAG rated on a line by line basis.

You continue to produce reliable financial information and Internal Audit assigned full assurance to the systems and processes in place that underpin the main accounting system process. The finance system is currently being upgraded with support from Civica and discussions with senior officers have recognised that they will be looking to identify efficiencies from this upgrade wherever possible.

Internal Audit identified in their report for the year that there were some IT control issues. This has long been recognised and there has been subsequent approval for the IT shared services project with Stevenage BC. This is intended to deliver efficiencies in addition to the requirements of strengthened resilience and increased capacity.

Section 4: Fees, non audit services and independence

- 
- 01. Executive summary
 - 02. Audit findings
 - 03. Value for Money
 - 04. Fees, non audit services and independence**
 - 05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services

Fees

	Per Audit plan £	Actual fees £
Council audit	68,875	68,875
Grant certification	12,300	TBC
Total audit fees	81,175	TBC

Scale audit fee

The Audit Commission define the scale audit fee as:

"the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
IT findings:				
1.	Payroll system password configuration: Management should consider the following: <ul style="list-style-type: none"> increasing the minimum password length to 8 characters setting password expiry to 30-60 days enabling the use of complex passwords (including the use of a dictionary to restrict users from choosing common words) locking accounts after 3 grace logons 	Medium	East Herts will review security policies relating to all major line of business applications once the overall review of network security has taken place as the latter may impact on the former. East Herts propose to review password control and other security for the payroll system by September 2013.	Head of Shared IT September 2013
2.	Leavers access rights to Capita: Academy: Management should consider implementing a formal process to ensure a periodic human resources report of leavers is provided to the Capita: Academy system personnel	Medium	Academy system personnel are to be included on the leaver notification email from HR from July 2013.	Systems & Support Manager (Capita) Implemented

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	IT security policy update: Management should ensure that the IT Security Policy is reviewed at planned intervals or when significant changes occur to ensure its continuing suitability, adequacy and effectiveness. We recommend that updated IT policies are reviewed and approved by management, published and communicated to all employees and relevant third parties.	Medium	East Herts agreed to pursue a shared ICT service with Stevenage Borough Council in August 2013. The shared service arrangements focus on the implementation of a shared data service centre for the two partner authorities which will be implemented by the end of 2013/14. In order for these proposals to go forward there is an urgent requirement to review IT security policies for both authorities. A provisional timeframe to review core security policies has been set as December 2013, subject to agreement by the Shared Services Partnership Board in their first meeting on 9 September.	Head of Shared IT December 2013
4.	Unauthorised access attempts reports: Management should create a policy associated to unauthorised attempts to the revenues/benefits and payroll systems. This policy should consider a review of unauthorised login attempts, as well as set out follow up actions to be adopted in case a security risk is identified.	Medium	East Herts will review security policies relating to all major line of business applications once the overall review of network security has taken place as the latter may impact on the former. A provisional timeframe to review core security policies has been set as December 2013	Head of Shared IT December 2013

Appendix B: Audit opinion

We anticipate we will provide an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST HERTFORDSHIRE DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of East Hertfordshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Support Services and auditor

As explained more fully in the Statement of the Director of Finance and Support Services' Responsibilities, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Hertfordshire District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

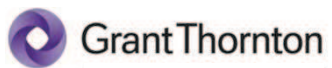
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, East Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of East Hertfordshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Grady
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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NW1 2EP



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EAST HERTS COUNCIL

AUDIT COMMITTEE - 18 SEPTEMBER 2013

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT 2012/13 AND PRUDENTIAL CODE REVIEW

WARDS AFFECTED: ALL

Purpose/Summary of Report

- This report reviews the Council's 2012/13 Treasury Management and Prudential Code arrangements and updates the current year position.

RECOMMENDATION FOR DECISION:	
(A)	that the 2012/13 Treasury Management and Prudential Indicator Out-turn be approved; and
(B)	the current year position to the 31 July 2013 be noted.

1.0 Background

1.1 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2012/13 the minimum reporting requirements were that the relevant committee should receive the following reports:

- an annual treasury strategy in advance of the year (Council 22/2/2012)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury

management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

- 1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the relevant Committee before they were reported to the full Council.

2.0 Report

- 2.1 This annual treasury report covers:

- Capital spending and financing during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required prudential and treasury indicators;
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
 - Summary of interest rate movements in the year;
 - Detailed debt activity; and
 - Detailed investment activity
- The Council's current treasury positions as at 31/7/2013.

2.2 The Council's Capital Expenditure and Financing 2012/13

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions, internal borrowing etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2011/12 Actual	2012/13 Estimate	2012/13 Actual
Total capital expenditure	5.527	4.579	3.579
Resourced by:			
• Capital receipts	4.521	1.085	1.230
• Capital grants	0.497	0.289	0.382
• Internal Borrowing	0.484	3.180	1.942
• Revenue	0.025	0.025	0.025

2.3 The Council's overall borrowing need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are charged to revenue at a rate broadly in line with the life of the asset. To achieve this the Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or

- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2012/13 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 22/2/2012.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must be for capital purposes. The Council requires specific approval by the Secretary of State to borrow for revenue purposes. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2012 Actual	31 March 2013 Original	31 March 2013 Actual
Net borrowing position	£(58.932)m	£(55.90)m	£(60.569)m
CFR	£(47.028)m	£(41.73)m	£(43.510)m

The authorised limit - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Authorised limit February 2012	£17.3m
Maximum gross borrowing position outturn	£9.6 m
Operational boundary February 2012	£10.3m
Average gross borrowing position outturn	£7.5m
Financing costs as a proportion of net revenue stream – anticipated February 2012 budget	(2.86%)
Financing costs at outturn	(3.08%)

2.4 Treasury Position as at 31 March 2013

The Council's treasury management service manages debt and investment to ensure adequate liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2012/13 the Council's treasury position was as follows:

TABLE 1	31 March 2013 Principal		Rate/ Return	Aver age Life yrs	31 March 2012 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:							
-PWLB	£1.5m				£1.5m		
-Market	<u>£6.0m</u>	£7.5m	8.8%		<u>£6.0m</u>	8.8%	
Variable rate funding:							
-PWLB	£nil				£nil		
-Market	<u>£nil</u>	<u>£0.0m</u>	<u>0%</u>		<u>£nil</u>	<u>0%</u>	
Total debt		7.5m	8.8%		£7.5m	8.8%	
Investments:							
- in house	£45.87m		2.95%		£17.79m	2.48%	
- with managers	<u>£21.93m</u>		<u>0.67%</u>		£48.78m	<u>0.67%</u>	
Total investments		£67.8m	1.16%		£66.57m	1.16%	

The maturity structure of the debt portfolio was as follows:

	31 March 2012 actual	2012/13 original limits	31 March 2013 actual
5 years and within 10 years	£6.0m	£6.0m	£6.0m
10 years and above	£1.5m	£1.5m	£1.5m

Investments - fixed deposits held as at 31st March 2013 exceeding 1 year is £5m with Barclays maturing Aug 2014 and £10m with Lloyds maturing April 2015.

3.0 The Strategy for 2012/13

The strategy for 2012/13 anticipated low but rising Bank Rate (starting in quarter 3 of 2013) with similar gradual rises in medium and longer term fixed borrowing rates over 2012/13. Variable or short-term rates were expected to be the cheaper form of borrowing

over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The strategy adopted in the original Treasury Management Strategy Report for 2012/13 approved by the Council on 22/02/2012 was revised during the year to permit monies from the Fund manager to be disinvested and invested directly with counterparties by in house staff to take advantage of higher fixed term deposit rates prevailing and the saving of the fund management costs.

4.0 The Economy and Interest Rates

The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 3 2013. However, economic growth (GDP) in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market, the European Union (EU). The UK coalition Government maintained it's tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch after the Budget statement in March. Key to retaining the AAA rating from Fitch and S & P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. The Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crises was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which met with bailouts after difficult and fraught negotiations.

Gilt Yields oscillated during the year as events in the ongoing Eurozone debt crises ebbed and flowed causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

Deposit Rates - The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

5.0 Borrowing Rates in 2012/13

PWLB borrowing rates – the table for PWLB maturity rates below show a selection of maturity periods, and individual rates at the start and the end of the financial year.

5 Yr	01/04/12	2.1%	31/3/13	1.75%
10 Yr	01/04/12	3.28%	31/3/13	2.84%
25 Yr	01/04/12	4.39%	31/3/13	4.07%

The rates fell across all borrowing durations from the beginning of the financial year.

6.0 Borrowing Outturn for 2012/13

- 6.1 Due to the high rates of interest payable on the outstanding £1.5 million PWLB loans and the continuing low level of the corresponding discount rates for 5 year and 30 year + maturities, any potential restructuring or premature repayment of the two loans was considered to be too expensive as their repayment would attract heavy premia.
- 6.2 The £6 million loan stock is part of a 'club' deal. Any move to prematurely redeem the stock would require the consent of all members of the deal and hereto any early redemption would attract a costly premium.
- 6.3 No new borrowings to finance capital expenditure were undertaken. Capital receipts were applied together with internal borrowing (thereby reducing investments).

7.0 Investment Rates in 2012/13

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to

early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

8.0 Investment Outturn for 2012/13

The Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 22/02/2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.) The policy originally approved was amended in July 2012 to enable investments with UK banks with Credit rating of "A" for a maximum period of 2 years. The counterparty investment limits for Lloyds and Nat West were also increased to £20m. The Executive Member for Finance was given delegated authority to vary the Council's investment strategy (as a matter of urgency) in agreement with the Leader, the Chairman of the Audit Committee and the Director of Finance and Support Services and report the changes to the Council.

- 8.1 Funds coming available from day to day cash flow were placed with our bankers when needed immediately or placed on short term deposit with Morgan Stanley (MMF) fund. After October the limit with our bankers was increased to assist in accommodating the changes of policy with the Scottish Widows (MMF) fund.
- 8.2 Analysts' consideration of counterparty risks gave more weight to countries as a whole and their ability to underwrite their banks and less to individual institutions. This tightened the lending lists further because of the banks' exposure to foreign governments. The return was 0.9% on the balance held with our bank. The fixed deposits held (stated in the "current positioned" in last years report) returned 2.95% and balancing cash held with Morgan Stanley for counterparty limit 0.5%
- 8.3 The Council has investments managed externally by Investec and Scottish Widows (SWIP). The fund management agreements between the Council and the Fund Manager defines the limits for maximum weighting in gilts/bonds and maximum duration of the fund. Counterparty criteria and exposure limits are also pre-defined therein. The "investment board" met in June and it was agreed the funds held with SWIP would be withdrawn and placed in fixed deposits and MMF for liquidity to save fees and secure the same return or if not better.

SWIP has under performed the 7 day Libid benchmark by 0.13%. As the funds have gradually been withdrawn and the fund was on notice to close the return would fall. All funds were returned by the end of November 2012.

The Investec fund saw a varied performance over the year. Throughout the financial year 2012/13 the combination of low yields and an unsettled market background did mean there was little incentive for the manager to actively invest in the gilt market. Nevertheless, the manager did see some opportunities to undertake some trades and continued to see index-linked gilts more attractive than their conventional alternatives. At the beginning of the financial year the Manager underperformed against its benchmark and industry average. In the second and third quarters of the year with financial markets remaining relatively calm, Investec produced a credible performance over its respective benchmark. The final quarter of the financial year saw the Manager underperforming against its relative benchmark and industry average. Overall, the performance for the year was somewhat mixed, with two positive and two negative quarters. For the financial year 2012/13 the manager has returned 0.88% against the benchmark of 0.88%, a neutral performance. Throughout the year Investec continued to be predominantly focused on the CD market but took advantage, when they felt comfortable, of opportunities within the gilt market.

The table below sets out a summary of the investment returns achieved compared to benchmarks.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	<u>Benchmark Return %</u>
Internally Managed	9.1m	0.9%	N/A	7 day LIBID 0.4% (not compounded)
	30m Fixed	2.95%		
Externally Managed SWIP Investec	19.5m	0.33%	0.31% 0.88%	7 day LIBID 0.46% 1-3 year Gilt Index 0.88%
	21.8m	1.05%		

9.0 Current Position 2013/14

9.1 Prudential Indicators

As at the end of July 2013 the data suggests that no changes are required to the current indicators that were approved by Council on 22 February 2012.

9.2 In-House Funds

As stated in the report earlier the government funding for lending scheme resulted in interest falling away compared with the previous financial year. As a result after much discussion at the Investment board meeting in June it was agreed to renew the fixed deposits for a year as they mature and keep under review our MMF to take advantage of any opportunities that are available to better these returns.

Current Fixed Deposits:

£10m Lloyds Fixed until July 2014 @ 0.92%

£5m Barclays Fixed until August 2014 @2%

£5m Barclays Fixed until April 2014 @0.90%

£5M Nat West 95 day notice @ 0.8%

Structured Deposit of £10m with Lloyds fixed until 2015. Minimum return of 3.72% and a maximum of 6.5% dependent on 3 month LIBOR rates.(This was stated in last years report).

The remaining funds are now positioned such that liquidity is maintained by using a new MMF fund, Morgan Stanley and our own bank. This saves the fees of approximately £40k by only using one fund manager. Also gives the ability to invest and diverse as new policies initiated are developed.

9.3 Fund Manager

Investec began the year with investments of £21.93m and underperformed the Merrill Lynch 1-3 benchmark by 10bps net of fees as at the end of July 13. The fund has been more active in Government stock purchasing Gilts to the value of £3.24m. The rationale for this strategic position is two-fold. First, the new governor of the Bank of England is more dovish and has communicated to the markets that UK rates are on hold for longer, thus benefitting the yield curve. The longer the period of unchanged bank rate the greater the yield to similar money market rates. If the gilt position unwinds correctly this should go a long way to reducing the under performance to date. The current projections on all funds indicate an overall return of between £875k and £896k indicating a

budget Shortfall of circa - £100k. This is due to the lower rates achieved on the deposits held in house and the current position with the fund manager. Impact on performance against budgeted assumption is being reported through the monthly healthcheck report. With a recommendation that the position be managed through use of the Councils Interest Equalisation Reserve

9.4 MRP Policy

Under new regulations the Council are required to determine appropriate provisions for repayment of debt (MRP) on a prudent basis. The Regulations allow for an approach in line with previous provisions which for this Council resulted in no provision needing to be made given the Council's "negative" capital financing requirements (set aside receipts significantly in excess of outstanding debt). The Annual Treasury Management Strategy proposals will consider the ongoing position and approve any changes to this approach.

10.0 Implications/Consultations

10.1 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'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	<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:	Consultations have taken place with the relevant officers.
Legal:	There are no legal implications in the report
Financial:	As set within the report
Human Resource:	There are no human Resource implications.
Risk Management:	The current revised returns on investments stated within the report have been built into the latest MTFP.

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 18 SEPTEMBER 2013

REPORT BY EXECUTIVE MEMBER FOR FINANCE

STATEMENT OF ACCOUNTS 2012/13

WARD(S) AFFECTED: None Specific

Purpose/Summary of Report

- The report sets out the background to the requirements for Members to consider and approve the Council's 2012/13 Statement of Accounts. The report also provides details of changes in reporting requirements from 2011/12 together with supporting comments on the key financial statements.

<u>RECOMMENDATIONS FOR AUDIT COMMITTEE:</u> That:	
(A)	the Council's Statement of Accounts for the financial year 2012/13 be approved and signed by the Chairman at the conclusion of the meeting; and
(B)	the letter of representation be approved for signing by the Chairman and the Director of Finance and Support Services.

1.0 Background

1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out the current requirements for the production and publication of the Council's annual Statement of Accounts.

1.2 These Regulations now require the Accounts to be signed by the Council's S151 Officer by 30 June following the relevant accounting year and passed for audit before being approved by the relevant body of the Council (as defined in the Regulations) following audit and then published by 30 September. The S151 Officer in signing the accounts is required to certify that the

accounts present a “true and fair view” of the financial position of the Council at year end.

- 1.3 In line with the Council’s constitution this committee, as the relevant body now has the benefit of receiving the External Auditor’s report on the accounts prior to Member approval.
- 1.4 A separate report elsewhere on the agenda deals with requirements for consideration and approval of the Council’s annual Governance Statement, which is required to be included within the Council’s overall published accounts.

2.0 Report

- 2.1 The Statement of Accounts is attached at **Essential Reference Paper B** to the report.
- 2.2 The audit of the Accounts has now been substantially completed and the External Auditor’s report is included at item xx to the agenda. No significant issues have arisen through the audit process and officers have agreed and undertaken some presentational and disclosure adjustments that had no overall net effect on the Council’s reported assets and liabilities.
- 2.3 The Statement of Accounts is produced in accordance with appropriate Regulations, Codes of Practice and guidance notes and there is a high level of prescription with regard to their form and content.
- 2.4 The draft accounts were submitted to the Committee at its meeting on 10 July. The Committee made a number of suggestions regarding the presentation of the accounts including a recommendation relating to additional commentary within the explanatory foreword. Changes to the accounts have been made in line with the Committee’s recommendations. Members will appreciate that the accounts are technical in nature and it would be of assistance if any questions that Members have of a detailed nature could be referred to the Head of Finance & Performance in advance of the meeting in order that officers have time to research any particular issues.
- 2.5 The Council’s financial performance for 2012/13, which is reflected in the accounts presented, has been reported in depth to the Executive on 23 July 2013. Members should note that the

accounts reflect proposals for reserves agreed by the Council in line with the Medium Term Financial Plan.

- 2.6 The Committee are reminded that 2012/13 represents the third year of production of accounts under International Financial Reporting Standards (IFRS).
- 2.7 The accounts now comprise of an explanatory foreword, four core statements together with supporting notes. The first supporting note sets out the Council's accounting policies and Members are invited to confirm that these are appropriate.
- 2.8 The 2012/13 accounts have been produced in line with the 2012 accounting Code of Practice and accounting regulations as appropriate. There are no significant Legislative or accounting changes affecting the production of this year's accounts.
- 2.9 The following comments summarise the purpose of the main financial Statements as well as highlighting any key issues.
- 2.10 Movement in Reserves Statement (MIRS)
The MIRS shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those that can be applied to fund expenditure or reduce taxation) and other reserves. The deficit on the provision of services line shows the economic cost of providing the Council's services with more details being shown in the Comprehensive I&E Statement. An adjustment is made to reflect the difference between the deficit shown and the amount to be charged under statutory provision for council tax setting purposes.
- 2.11 Comprehensive I&E Statement (CI&ES)
The statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting principles, rather than the amount to be funded from taxation.

The reported deficit of £4.2m compares to a surplus on a funding (taxation) basis of £2.8m. This difference is principally due to accounting charges in respect of capital, pensions and asset revaluations which are required to be shown (under statute) within the Income and expenditure account but which do not impact on the funding position.

2.12 Balance Sheet

The consolidated balance sheet includes the assets and liabilities of all activities of the Authority. It shows the balances and reserves at the Authority's disposal and its long term indebtedness together with the fixed and net current assets which are employed by the Council in delivering its services.

The value of Property Plant & Equipment has reduced by £675k reflecting the write down of assets in respect of capital charges offset by additions during the year and net gains on revaluation.

The increase in Long Term Debtors reflects the Council's £1m support under the Local Authority Mortgage Scheme (LAMS).

The increase in cash and cash equivalents relates to short term investments which in recognition of their liquid status are categorised as cash under reporting requirements.

The underlying trend in debtor and creditor movements is fairly flat.

There has been no change to the Council's long term borrowing position in the year.

The increase in pension Liability and Pension Reserve reflect year end actuarial valuations. The assessed level of liabilities has increased by £13.5m which is offset by an increase in the fair value of pension assets of £8.0m

The Council's Usable revenue reserves have increased by £2.789m reflecting the surplus in year.

2.14 Cash Flow Statement

The Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

In line with the accounting requirements for Council Tax and NNDR, the statement now excludes precept payments to major preceptors together with their share of Council Tax receipts along with the cash collected from NNDR payers and the Council's payment to the NNDR pool.

2.15 The Collection Fund is no longer recognised as one of the main

financial Statements, however, is included as a supplementary note to the accounts.

Under statutory requirements the Council, as billing authority, maintains the Fund which records the transactions in respect of Council tax and Non-Domestic rates.

The balance on the Fund (surplus of £1.02m at 31 March 2013) is attributable to the main precepting authorities in proportion to the precepts levied. Accordingly, this Council's share is £151k.

- 2.16 As part of the governance arrangements for the audit of the Council's accounts a "letter of representation" is provided to the Auditor confirming that appropriate arrangements are in place. The Committee is required to approve the letter which will then be signed by the Chairman and Director of Finance and Support Services. A copy is included at **Essential Reference Paper C**.
- 2.17 The Annual Governance Statement, which is the subject of a separate report on the agenda, is required to be included as part of the Council's published accounts.

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

Report to Audit Committee on 10 July 2013.

Contact Member: Councillor Michael Tindale, Executive Member for Finance
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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	<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:	Consultations have taken place with relevant officers and External audit Staff.
Legal:	The Legal requirements relating to the process for approval of the Council's accounts are set out within the report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	There are no human Resource implications.
Risk Management:	Approval processes could be affected should any objections to the accounts be submitted to the External Auditor.

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EAST HERTS COUNCIL

STATEMENT OF ACCOUNTS

2012/13

STATEMENT OF ACCOUNTS 2012/13

INDEX

	<i>Pages:</i>
EXPLANATORY FOREWORD	<i>1 to 5</i>
THE CORE ACCOUNTING STATEMENTS :-	
MOVEMENT IN RESERVES STATEMENT	<i>6</i>
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	<i>7 to 8</i>
BALANCE SHEET	<i>9</i>
CASH FLOW STATEMENT	<i>10</i>
NOTES TO THE FINANCIAL STATEMENTS	<i>11 to 56</i>
COLLECTION FUND (SUPPLEMENTARY NOTE)	<i>57 to 59</i>
GLOSSARY OF FINANCIAL TERMS	<i>60 to 63</i>
ANNUAL GOVERNANCE STATEMENT	<i>64</i>
CERTIFICATE OF RESPONSIBLE FINANCIAL OFFICER	<i>65</i>
AUDITOR'S OPINION	<i>66</i>

STATEMENT OF ACCOUNTS 2012/13

EXPLANATORY FOREWORD

1. Summary of Contents

The Council's accounts for the year ended 31 March 2013 are set out on pages 6 to 59. They consist of :-

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

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

The Balance Sheet - which sets out the financial position of the Council on 31 March 2013

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

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

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

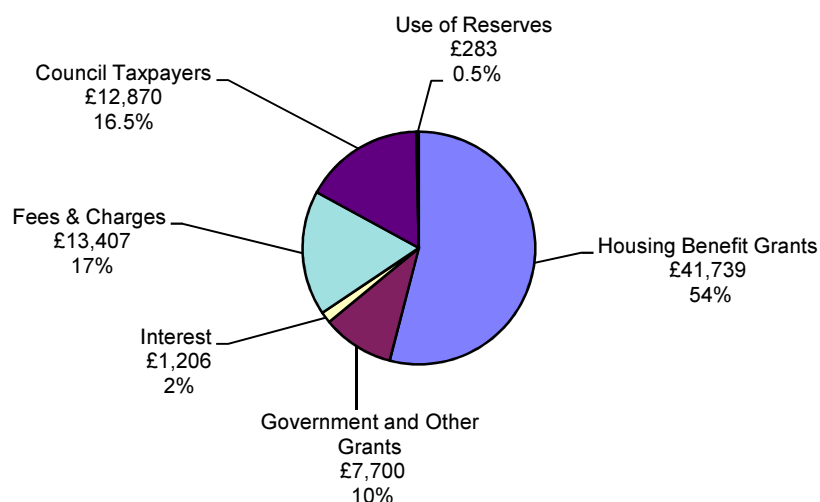
Glossary of Financial Terms - explaining some of the key terms used in the accounts.

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

2. Overview of Council's Activities

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

WHERE THE MONEY COMES FROM Sources of income to the Council £000



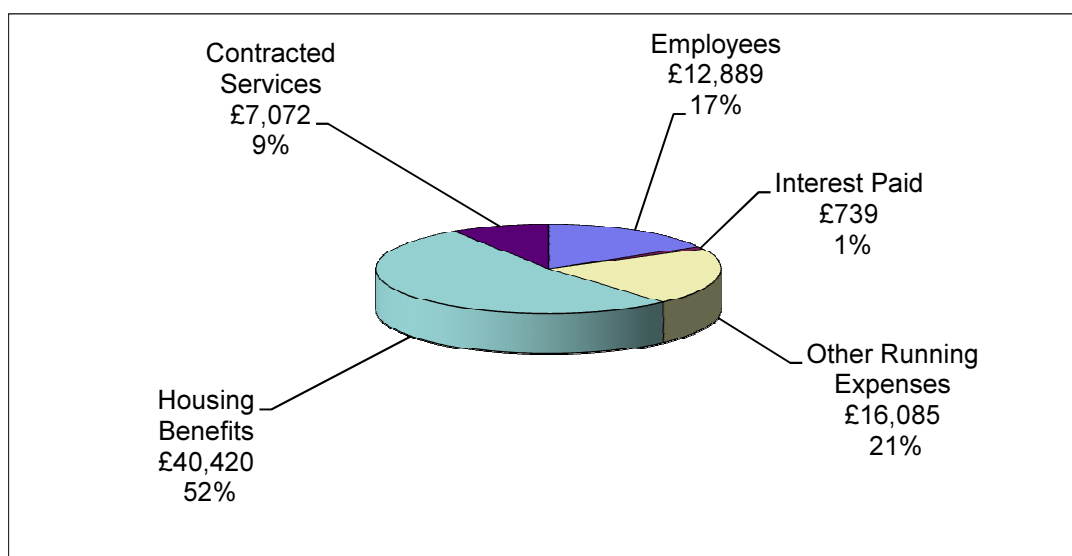
It can be seen that the largest source of the Council's income is from Housing Benefit Grants.

STATEMENT OF ACCOUNTS 2012/13

EXPLANATORY FOREWORD (continued)

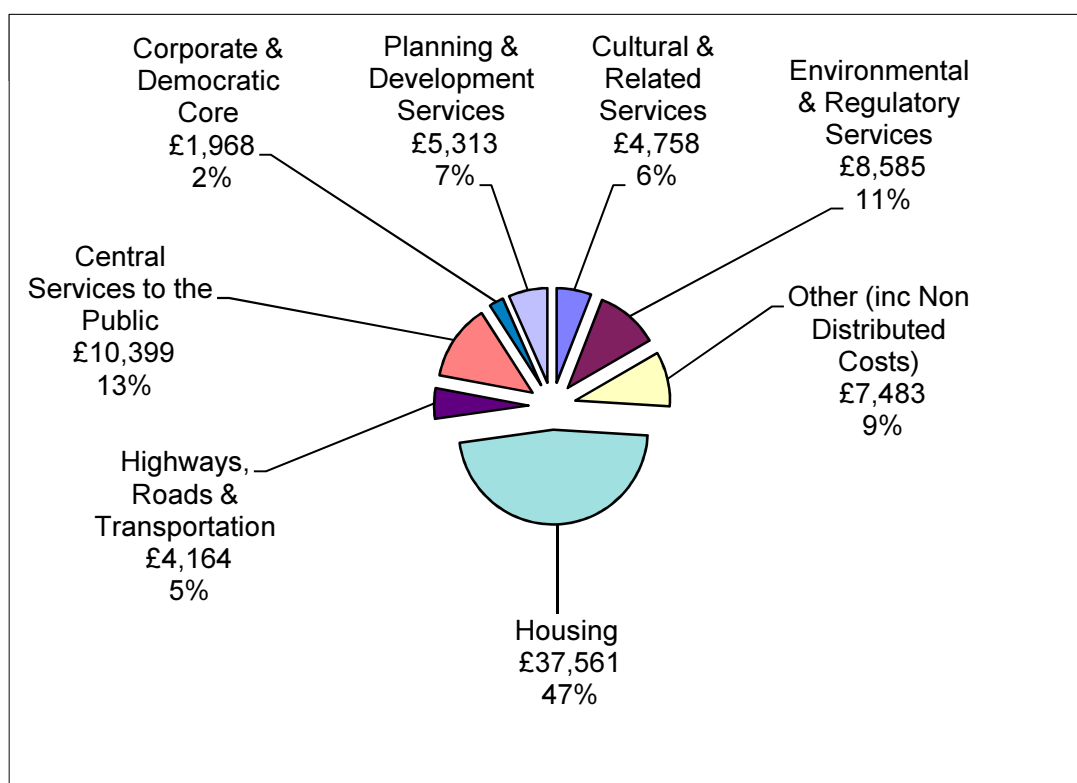
HOW THE MONEY IS SPENT

£000



THE SERVICES PROVIDED

£000



The cost of "The Services Provided" includes capital charges, impairments, revenue funded from capital under statute and capital government grants totalling £3,027k which have been excluded from the chart "How the money is spent". It also includes expenditure on investment properties not included in the "Net Cost Of Services" shown in the Comprehensive Income and Expenditure statement

STATEMENT OF ACCOUNTS 2012/13

EXPLANATORY FOREWORD (continued)

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

The Council has set its budget and Medium Term Financial Plan (MTFP) in recent years against a backdrop of severe constraint in public spending. The Council has seen a reduction in government grant of over £2million since 2010/11 (around 20%) with further cuts announced for future years. This has required the Council to plan for significant efficiency savings in order to be able to set affordable and sustainable budgets in the medium term.

Through sound financial management the Council has been able to freeze its Council Tax since 2010/11 and reduced it by 1% in 2013/14 with a further planned freeze in 2014/15. During 2012/13 the Council continued to work hard to drive down costs and was able to deliver nearly £1.2million of efficiency savings whilst still maintaining quality services in line with its priorities.

A comparison of the budget with actual income and expenditure for 2012/13 is shown below:

	Budget	Actual	Variance
	£000	£000	£000
Net Cost of Services (including Investment Properties)	18,355	15,686	(2,669)
Non Distributed Costs	0	51	51
Finance Transactions	(2,648)	(2,284)	364
Interest Transactions	(25)	(467)	(442)
Pensions Interest Cost & Expected Return on Pensions Assets	401	1,029	628
Appropriations - Financing Items	25	25	0
Appropriations - REFCUS (see Policy xix, page 22)	(1,840)	(743)	1,097
Movement on the Pensions Reserve	95	(911)	(1,006)
Net Expenditure	14,363	12,386	(1,977)
Collection Fund Contribution	(62)	(62)	0
Contribution from NNDR Pool	(5,432)	(5,432)	0
Revenue Support Grant	(105)	(105)	0
Council Tax Freeze Grant	(231)	(233)	(2)
Council Tax Raised	(9,330)	(9,330)	0
General Revenue Grants	0	(13)	(13)
Balance to be appropriated to Reserves	797	2,789	(1,992)

The above variance is represented by: **£000**

An underlying underspend against the 2012/13 estimate 1,941

plus:-

Underspend relating to budgets b/fwd from 2011/12 51

1,992

Overall, this has resulted in £2.789m being added to the Council's Reserve balances (see below).

A significant proportion of the variance relating to the Net Cost of Services (shown above) relates to the underspend in the year. The balance of the variance within the net cost of service relates to changes in capital charges (including finance lease transactions and REFCUS) and a variance in pension costs required under accounting rules to be charged within services.

Compensating variances relating to changes in capital charges (including REFCUS) included within the net cost of services are reflected in the variances shown against Finance Transactions and Appropriations - REFCUS.

STATEMENT OF ACCOUNTS 2012/13

EXPLANATORY FOREWORD (continued)

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

Costs identified under Non Distributed Costs, Pensions Interest Cost & Expected Return on Pension Assets and the Movement in Pensions Reserve represent accounting transactions required to be shown in line with accounting reporting standards (IAS 19). Together with pension costs included within the net cost of services they total £1.96m (this being the actual cost to the Council). As some of these accounting entries are not available until year end and do not impact on the level of Council Tax to be levied, they are not reflected within the budget figures.

The favourable overall variance of £1.992m against original budget demonstrates the Council's commitment to sound financial management and its prudent approach to funding. In summary the variances are attributed to;

"One off" additional Income of over £900k which included an additional £507k of investment interest arising from a revision to the Council's investment strategy. A sum of £183k was received following legal action to recover assets from an individual, in partnership with other public sector organisations. Other significant income increases related to Hertford Theatre (£60k), Section 106 receipts and Housing Benefit subsidy (£120k).

Staffing and contractual savings contributed over £800k. These included around £460k of savings in respect of the Council's Refuse, Recycling and Cleansing services and £157k of staff related costs through managing staff turnover. Reduced Audit and Treasury Management fees amounted to £120k.

There was over £350k of Slippage and Expenditure not required including New Homes Bonus project work (£133k) and office refurbishment work (£40k) which are now planned to be undertaken in 2013/14. Savings relating to supplies & services, transport and training costs across all Council Directorates together with a lower call on the cost of change contingency budget amounted to nearly £170k.

Major service pressures in the year included reductions in building control income (£188k) and parking Penalty Charge Notice income (£118k). A reduction in New Homes Bonus grant included within the 2012/13 accounts of £68k arose due to a change in payment arrangements.

This impact of the above budget pressures has been offset by further savings achieved across all Council services.

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

In light of the underspend position, and having regard to Council decisions taken as part of the 2013/14 budget strategy and latest Medium Term Financial Plan the following appropriations have been made;

Net addition to General Reserve	£97k
Addition to Waste & Recycling Reserve	£461k
Addition to Interest Equalisation Reserve	£1249k
Addition to Cost of Change Reserve	£727k
Net addition to other Earmarked Reserves	£255k
Total Increase in Reserves	£2.789m

The increase in overall reserve balances will give the Council greater resilience and ensure that it is well placed to respond to future financial pressures and maintain priority services in the medium term, and in particular on specific priority areas where work is planned to be delivered in 2013/14.

The Comprehensive Income and Expenditure Statement (see page 7), shows a deficit of £4.2m. This compares to a nil net movement on the Council's General Fund working balance. The difference relates primarily to pension transactions (in particular actuarial losses) under IAS 19 and revaluation gains on property assets.

STATEMENT OF ACCOUNTS 2012/13

EXPLANATORY FOREWORD (continued)

4. Capital Expenditure & Financing

During 2012/13 the Council incurred expenditure of £3.579m (see page 45, note 29) on capital projects compared with an original budget of £4.578m. (Excluding budgeted slippage of £523k from 2011/12)

The policy of giving capital grants towards community projects continued with almost £133k awarded in the year. Over £438k was given in grants to private sector owners for renovation and provision of disabled facilities.

Over £652k was spent on car parks including a major refurbishment of Bircherley Green car park and the replacement of a footbridge at the Library Car Park Ware. A further £147k was spent on Refuse and Recycling schemes.

The Council also advanced £1m in 2012/13 to Lloyds TSB under the Local Authority Mortgage Scheme.

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

No external borrowing was undertaken in 2012/13 and the Council's overall long term borrowing is £7.5m as at 31st March 2013. The balance sheet shows a liability of £7.71m , however, this includes accrued interest of £210k (see note 34 on page 54).

5. Pensions Liabilities

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Under current accounting standards the impact of any pension liability must be shown in the balance sheet. The Council's liability at 31st March 2013 is £36.133m which is an increase of £5.562m compared to the position at 31st March 2012. This change is largely due to an increase in the present value of fund liabilities offset by an increase in the fair value of scheme assets. Further information is given on pages 48 - 51.

6. Financial Reporting and the Euro

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

7. Further Information

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

Further information about the accounts can be obtained by contacting the Head of Finance and Performance, Wallfields, Pegs Lane, Hertford. SG13 8EQ.

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

STATEMENT OF ACCOUNTS 2012/13

MOVEMENT IN RESERVES STATEMENT

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

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011		3,854	2,676	3,721	654	3,762	14,667	85,293	99,960
Movement in reserves during 2011/12									
Deficit on provision of services		(10,887)	-	-	-	-	(10,887)	-	(10,887)
Other comprehensive Income and Expenditure		-	-	-	-	-	-	(7,799)	(7,799)
Total Comprehensive Income and Expenditure		(10,887)	-	-	-	-	(10,887)	(7,799)	(18,686)
Adjustments between accounting basis and funding basis under regulations	Note 4	11,967	-	(3,721)	(72)	-	8,174	(8,174)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		1,080	-	(3,721)	(72)	-	(2,713)	(15,973)	(18,686)
Transfers to/(from) Earmarked Reserves	Note 5	(1,080)	684	-	-	396	0	-	0
Increase/Decrease in Year		0	684	(3,721)	(72)	396	(2,713)	(15,973)	(18,686)
Balance as at 31 March 2012 carried forward		3,854	3,360	0	582	4,158	11,954	69,320	81,274

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012		3,854	3,360	0	582	4,158	11,954	69,320	81,274
Movement in reserves during 2012/13									
Deficit on provision of services		(328)	-	-	-	-	(328)	-	(328)
Other comprehensive Income and Expenditure		-	-	-	-	-	-	(3,868)	(3,868)
Total Comprehensive Income and Expenditure		(328)	-	-	-	-	(328)	(3,868)	(4,196)
Adjustments between accounting basis and funding basis under regulations	Note 4	3,117	-	-	(69)	-	3,048	(3,048)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		2,789	-	0	(69)	-	2,720	(6,916)	(4,196)
Transfers to/(from) Earmarked Reserves	Note 5	(2,789)	2,692	-	-	97	0	-	0
Increase/Decrease in Year		0	2,692	0	(69)	97	2,720	(6,916)	(4,196)
Balance as at 31 March 2013 carried forward		3,854	6,052	0	513	4,255	14,674	62,404	77,078

STATEMENT OF ACCOUNTS 2012/13

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2012/13

	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Central Services to the Public	10,399	(8,429)	1,970
Cultural & Related Services	4,758	(1,334)	3,424
Environmental & Regulatory Services	8,586	(3,448)	5,138
Planning & Development Services	4,928	(2,264)	2,664
Highways and Transport Services	4,164	(4,366)	(202)
Other Housing Services	37,561	(35,830)	1,731
Corporate & Democratic Core	1,968	(19)	1,949
Non Distributed Costs	51	0	51
NET COST OF SERVICES			16,725
Payments of precepts to parishes			3,541
Payments of housing capital receipts to government			2
Gain on disposal of non current (fixed) assets			(749)
OTHER OPERATING EXPENDITURE			2,794
Interest payable and similar charges			739
Pensions interest costs and expected return on pension assets			1,029
Interest receivable and similar income			(1,206)
Income from investment properties (Note 8)			(550)
Direct expenditure incurred on investment properties (Note 8)			384
Changes in Fair Value of Investment Properties			(30)
Loss on disposal of investment properties			0
FINANCING AND INVESTMENT EXPENDITURE			366
Recognised capital grants and contributions			(25)
Council tax income			(12,926)
Non domestic rates			(5,432)
Non service related government grants			(1,174)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 27)			(19,557)
DEFICIT ON PROVISION OF SERVICES			328
Revaluation Gains			(780)
Impairment losses (chargeable to Revaluation Reserve)			6
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			(774)
Surplus on revaluation of available for sale financial assets (Note 10)			(9)
Actuarial losses on pension liability (Note 31)			4,651
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			3,868
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			4,196

All operations arise from continuing activities.

STATEMENT OF ACCOUNTS 2012/13

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (cont)

2011/12

	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Central Services to the Public	10,422	(8,116)	2,306
Cultural & Related Services	5,324	(1,182)	4,142
Environmental & Regulatory Services	9,379	(3,615)	5,764
Planning & Development Services	6,295	(2,112)	4,183
Highways and Transport Services	9,563	(4,448)	5,115
Other Housing Services	35,655	(32,389)	3,266
Corporate & Democratic Core	2,666	(19)	2,647
Non Distributed Costs	172	0	172
NET COST OF SERVICES			27,595
Payments of precepts to parishes			3,526
Payments of housing capital receipts to government			5
Gain on disposal of non current (fixed) assets			(655)
OTHER OPERATING EXPENDITURE			2,876
Interest payable and similar charges			743
Pensions interest costs and expected return on pension assets			401
Interest receivable and similar income			(847)
Income from investment properties (Note 8)			(559)
Direct expenditure incurred on investment properties (Note 8)			352
Changes in Fair Value of Investment Properties			171
(Gain)/Loss on disposal of investment properties			-
FINANCING AND INVESTMENT EXPENDITURE			261
Recognised capital grants and contributions			(163)
Council tax income			(12,839)
Non domestic rates			(4,644)
Non service related government grants			(2,199)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 27)			(19,845)
DEFICIT ON PROVISION OF SERVICES			10,887
Revaluation Gains			(749)
Impairment losses (chargeable to Revaluation Reserve)			294
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			(455)
Deficit on revaluation of available for sale financial assets (Note 10)			32
Actuarial losses on pension liability (Note 31)			8,222
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			7,799
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			18,686

All operations arise from continuing activities.

STATEMENT OF ACCOUNTS 2012/13

BALANCE SHEET

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

		31 March '13		31 March '12
		£000	£000	£000
Property, Plant & Equipment	Note 6			
- Other land and buildings		33,239		32,823
- Vehicles, plant, furniture and equipment		6,669		7,635
- Infrastructure assets		3,466		3,574
- Community assets		1,204	44,578	1,221
Investment Properties	Note 8	9,435		9,545
Intangible Assets	Note 9	553	9,988	638
			54,566	55,436
Long Term Investments	Note 33	15,145		15,081
Long Term Debtors	Note 13	1,166	16,311	170
TOTAL LONG TERM ASSETS			70,877	70,687
Assets Held for Sale	Note 15	252		220
Short Term Investments	Note 33	40,923		47,223
Short Term Debtors	Note 13	6,150		6,069
Cash and Cash Equivalents	Note 14	12,211		4,339
CURRENT ASSETS			59,536	57,851
Bank Overdraft		0		(11)
Short Term Creditors	Note 16	(5,266)		(5,687)
CURRENT LIABILITIES			(5,266)	(5,698)
Provisions	Note 17	(80)		(63)
Long Term Borrowing	Note 34	(7,710)		(7,711)
Long Term Creditors	Note 16	(2,324)		(2,770)
Deferred credits	Note 35	(10)		(13)
Net Pension Liability	Note 19	(36,133)		(30,571)
Grant Receipts in Advance - Capital	Note 27	(1,326)		(101)
- Revenue		(486)		(337)
LONG TERM LIABILITIES			(48,069)	(41,566)
NET ASSETS			77,078	81,274
USABLE RESERVES				
- General Fund	Note 18	3,854		3,854
- General reserve	Note 18	4,255		4,158
- Earmarked reserves	Note 5	6,052		3,360
- Capital grants Unapplied	Note 18	513		582
			14,674	11,954
UNUSABLE RESERVES				
- Revaluation Reserve	Note 19	3,874		3,213
- Available-for-Sale Reserve	Note 19	0		(9)
- Pensions Reserve	Note 19	(36,133)		(30,571)
- Capital Adjustment Account	Note 19	94,454		96,471
- Deferred Capital Receipts	Note 19	157		158
- Collection Fund Adjustment Account	Note 19	151		157
- Short-term Accumulating				
Compensated Absences Account	Note 19	(99)		(99)
			62,404	69,320
TOTAL RESERVES			77,078	81,274

STATEMENT OF ACCOUNTS 2012/13

THE CASH FLOW STATEMENT

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

	2012/13		2011/12
	£000	£000	£000
OPERATING ACTIVITIES			
Cash Inflows			
Council Tax receipts	(11,916)		(11,826)
NNDR receipts from national pool (Grant)	(5,432)		(4,644)
Revenue Support Grant	(105)		(1,435)
DWP grants for benefits	(41,875)		(38,295)
Other Government grants	(1,834)		(1,750)
Cash received for goods and services	(13,253)		(11,848)
Interest received	(808)		(952)
Cash inflows generated from operating activities	(75,223)		(70,750)
Cash Out Flows			
Cash paid to and on behalf of employees	12,889		13,113
Housing Benefit paid out	32,672		29,858
Other operating cash payments	16,508		16,678
Precepts paid to other authorities	3,541		3,526
Interest paid	660		661
Cash outflows generated from operating activities	66,270		63,836
Net Cash Inflow from operating activities		(8,953)	(6,914)
INVESTING ACTIVITIES			
- Purchase of property plant and equipment, investment property and intangible assets	3,307		3,257
- Other payments for investing activities	3		5
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,233)		(806)
- Capital grants	(1,539)		(447)
- Proceeds from short-term and long-term investments	(6,236)		(3,571)
Net cash inflow from investing activities		(5,698)	(1,562)
FINANCING ACTIVITIES			
- Other (receipts) / payments from financing activities	325		(310)
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	424		379
- Other payments for financing activities	6,019		5,363
Net cash outflow from financing activities		6,768	5,432
Net (increase) or decrease in cash and cash equivalents		(7,883)	(3,044)
Cash and cash equivalents at the beginning of the reporting period		(4,328)	(1,284)
Cash and cash equivalents at the end of the reporting period		(12,211)	(4,328)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

- i. The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice (SeRCOP) 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income & Expenditure

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

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

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

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

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

iii. Cash and cash equivalents

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

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

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

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

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

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

depreciation attributable to the assets used by the relevant service

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

amortisation of intangible fixed assets attributable to the service.

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

vi. Employee Benefits

Benefits Payable During Employment

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

Post Employment Benefits (Pensions)

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 4.5%.

The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

vi. Employee Benefits - continued

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

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

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

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

The Hertfordshire Pension Fund have revised the policy on the funding of early retirements from April 2013. Up to 31 March 2013 employers have been permitted to spread the cost of early retirement strain costs over a period of up to 5 years. The Council has previously chosen to fund these costs over 3 years. From April 2013 employers will be required to pay the full amount of strain costs in one lump sum in the year of retirement. Following a recommendation to move to the new position early in order to save interest and improve the funding position the Council has paid off all outstanding sums in 2012/13 funded from its earmarked reserve (see note 5, page 26).

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

vii. Events after the Balance Sheet Date

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

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

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

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

viii. Financial Instruments

Financial Liabilities

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

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

Financial Guarantees

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

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

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2013 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 5 to the Notes to the Core Statements.

No other financial guarantees were identified in 2012/13.

Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. Potential Council loans falling within this category relate to an assisted car purchase scheme and a cycle scheme. The Council currently has no loans under its assisted car purchase scheme and the amount advanced under the cycle scheme is considered immaterial.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

viii. Financial Instruments - continued

Financial Assets

Financial assets are classified into two types:

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

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

Loans and receivables

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

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

Available-For-Sale Assets

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

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

ix. Government grants and contributions - revenue and capital

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised in the accounts when there is reasonable assurance that:

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

The grant or contribution is recognised immediately within the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition relating to the initial recognition that the Council has not satisfied.

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

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

Revenue grants specific to service provision are shown against the relevant service in the Comprehensive Income and Expenditure Statement. General grants allocated by central government directly to local authorities as additional revenue funding which are non-ringfenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

x. Intangible Assets

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

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

xi. Investments

The majority of the Council's internally managed investments are money market deposits but investments placed with our External Fund Managers in money market instruments include certificates of Deposit and Treasury Stock which are valued at fair value. (See Note 33)

xii. Investment Property

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

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

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

xiii. Leases

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise council tax to cover depreciation, impairment and gains and losses on revaluation arising on leased assets. Any such costs that have been charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

xiii. Leases - continued

Operating Leases

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

The Council as a Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

Operating Leases

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

xiv. Minimum revenue provision

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The basis of allocation used for the main areas is outlined below:

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

xvi. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price

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

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

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

- Operational non specialised property – fair value based on existing use value. The multi-storey car parks, surface car parks (see Note 6) and Hertford Theatre have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.

- Operational specialised property – depreciated replacement cost (DRC).

- Community assets and Infrastructure – nominal value or historical cost.

- All other assets – depreciated historical cost.

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2010 the Council has revalued its assets on a four year rolling basis (formerly five year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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

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

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

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

The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS as at 31 March 2013. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

Impairment

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

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

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

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

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

Depreciation

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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

Componentisation

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

Disposals

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

The gain or loss on disposal is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are transferred from the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account (the carrying amount of the asset) and the usable Capital Receipts Reserve (the disposal proceeds).

xvii. Provision for bad debt

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

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

xviii. Reserves

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

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

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

xx. Capital receipts

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

xxi. VAT

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

xxii. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations.

The Council's policy in holding these assets is in pursuit of its overall objectives in relation to the maintenance of heritage.

The Council does not consider that a commercial value can be placed upon the assets held given their nature and that it would be inappropriate to use an insurance value for the balance sheet purposes. Consequently these assets have not been recognised separately on the balance sheet but continue to be included within community assets at a nominal value.

Accounting note 7 sets out details of the heritage assets held by the Council.

xxiii. Jointly Controlled Operations

The Council entered into a Shared Revenues and Benefits Service with Stevenage Borough Council on 1st August 2011 for which this Council acts as the host (employing) authority.

In line with the Accounting Code of Practice this arrangement is accounted for as a jointly controlled operation. A jointly controlled operation uses the assets and resources of the two partner councils without the establishment of a separate legal entity. Under these arrangements each council accounts separately for its own transactions including use of assets, liabilities, income, expenditure and cash flows.

The councils have established a Joint Committee which oversees the activities of the Shared Service and which reports to the Executives of both councils.

Note 21 (page 41) to the accounts sets out details of the income & expenditure of the shared service and the apportionments between the two councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to the Shared Service.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) requires the Council to identify any accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts

IAS 1 Presentation of Financial Statements - This standard was amended in 2011 and the changes relate to the presentation of gains and losses on revaluations currently shown within Other Comprehensive Income and Expenditure. As these changes are presentational there is no impact on the reported amounts.

IFRS 7 Financial Instruments - The change in accounting policy is in relation to the offsetting of financial assets and liabilities. This is unlikely to impact on the accounts.

IAS 12 Income Taxes - The change to this accounting policy particularly affects Investment Properties. It is unlikely this change will affect the Statement of Accounts.

IAS 19 Employee Benefits - This standard was amended in 2011 and comes into effect for accounting years starting on or after 1 January 2013. The changes relate to the creation of some new classes of components of defined benefit costs and the re-measurement of the net defined benefit liability and is likely to have a material impact on the accounts. The actuaries have calculated that the effect of the change to IAS 19 on the income statement, had it been in place for 2012/13 would have been an increase of £435,000 as at 31 March 2013.

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

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

Items included within the Council's Balance Sheet at 31 March 2013 for which there is a risk of material adjustment in the forthcoming year are:

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

2012/13	Usable Reserves			
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,664	-	-	(2,664)
Revaluation / Impairment on Property Plant and Equipment	23	-	-	(23)
Movements in the market value of Investment Properties	(30)	-	-	30
Amortisation of intangible assets	307	-	-	(307)
Capital grants and contributions applied	(25)	-	-	25
Revenue expenditure funded from capital under statute	743	-	-	(743)
Revenue grants written down to the Capital Adjustment Account	(288)	-	-	288
Disposal of non current assets	484	-	-	(484)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	(424)	-	-	424
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(69)	69
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,232)	1,232	-	-
Use of Capital Receipts Reserve to finance new capital expenditure		(1,230)	-	1,230
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 31)	2,866	-	-	(2,866)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,955)	-	-	1,955
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	6	-	-	(6)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	-	-	0
Total Adjustments	3,117	0	(69)	(3,048)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

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

	Usable Reserves			Movement in Unusable Reserves
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
2011/12 comparative figures				
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,672	-	-	(2,672)
Revaluation / Impairment on Property Plant and Equipment	8,123	-	-	(8,123)
Movements in the market value of Investment Properties	171	-	-	(171)
Amortisation of intangible assets	301	-	-	(301)
Capital grants and contributions applied	(163)	-	-	163
Revenue expenditure funded from capital under statute	1,998	-	-	(1,998)
Revenue grants written down to the Capital Adjustment Account	(262)	-	-	262
Disposal of non current assets	151	-	-	(151)
Disposal of investment properties				
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Capital expenditure charged against the General Fund	(379)	-	-	379
	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement				
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(72)	72
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(806)	806	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	-	(4,522)	-	4,522
	5	(5)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease				
	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 31)				
Employer's pensions contributions and direct payments to pensioners payable in the year	2,264	-	-	(2,264)
	(2,008)	-	-	2,008
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements				
	(95)	-	-	95
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements				
	19	-	-	(19)
Total Adjustments	11,967	(3,721)	(72)	(8,174)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance 1 April 2011 £'000	Transfers Out 2011/12 £'000	Transfers In 2011/12 £'000	Balance 31 March 2012 £'000	Transfers Out 2012/13 £'000	Transfers In 2012/13 £'000	Balance 31 March 2013 £'000
Interest Equalisation Reserve	0	-	(434)	(434)	-	(1,249)	(1,683)
Insurance Fund	(10)	-	-	(10)	-	-	(10)
Emergency Planning Reserve	(37)	-	-	(37)	-	-	(37)
VAT Partial Exemption Reserve	(145)	-	-	(145)	-	-	(145)
Service Improvement Fund	(668)	58	-	(610)	-	-	(610)
LDF/Green Belt Reserve	(513)	-	(150)	(663)	-	(150)	(813)
Housing Condition Survey Reserve	(37)	-	(14)	(51)	-	(14)	(65)
Council Elections Reserve	(75)	75	-	0	-	(25)	(25)
LABGI Reserve	(134)	24	-	(110)	11	-	(99)
Sinking fund - Leisure Utilities / Pension Reserve	(120)	-	(60)	(180)	-	(60)	(240)
Restructure Fund	(33)	-	-	(33)	-	-	(33)
Legal Fees Reserve	(12)	12	-	0	-	-	0
Performance Reward Grant Reserve	(67)	-	-	(67)	5	-	(62)
Pension Strain Costs Reserve	(100)	87	(140)	(153)	153	-	0
Waste Recycling Income Volatility Reserve	(275)	-	-	(275)	-	-	(275)
Footbridge Reserve	(50)	-	(50)	(100)	-	(50)	(150)
Cost of Change Reserve	(400)	-	-	(400)	-	(727)	(1,127)
DCLG Preventing Repossessions	-	-	(30)	(30)	-	-	(30)
Environmental Pollution	-	-	(62)	(62)	8	-	(54)
Waste & Recycling Reserve	-	-	-	-	-	(461)	(461)
New Homes Bonus Priority Spend	-	-	-	-	-	(133)	(133)
Total	(2,676)	256	(940)	(3,360)	177	(2,869)	(6,052)

Interest Equalisation Reserve This reserve was established at 31 March 2006 to assist the Council in managing the financial implications of adverse interest rate fluctuations. In line with a Council decision any investment income in excess of the budgeted sum has been transferred to the reserve as at 31.3.13

Insurance Fund This fund has been established to support the Council's insurance and risk management process and funding of small claims arising due to uninsured losses.

Emergency Planning Reserve This reserve has been set up in order to facilitate arrangements in the future and support the work of an Emergency Planning Officer Group that has been established within the Council.

VAT Partial Exemption Reserve To enable the Council to meet the additional cost of any unrecoverable VAT which cannot be budgeted for precisely, a VAT (Partial Exemption) Revenue Reserve was established at 31 March 1999 in the sum of just over £145,000.

Service Improvement Fund This reserve has been established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

During 2008/09 the Council established the Local Development Framework, Stansted G2 and Green Belt Review Reserve, the House Condition Survey Reserve and the Council's Elections Reserve in order to smooth the incidence of expenditure over the period of the Council's Medium Term Financial Plan (MTFP);

Local Authority
Business Growth
Incentives (LABGI)
Reserve

In line with the Council's MTFP appropriations have been made in 2012/13 to support the economic development service.

Sinking Fund -
Leisure Utilities and
Pension

Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009 the Council has provided guarantees in respect of utilities and employers pension costs. The reserve will be used to meet any calls on the Council to make payments under the guarantees in the event that either utility prices and/or employers pension contributions (on a cash rather than IAS19 basis) increase by more than general indexation as provided for under contract

Restructure Fund

A small reserve of £33k has been created in order to assist the Council in meeting any future requirements in support of organisational structural change

Legal Fees Reserve

The reserve was established at 1 April 09 in order to assist in meeting legal costs including tribunals as well as enabling the provision of staff cover for maternity leave in the legal section. This was fully applied in 2011/12.

Performance
Reward Grant
Reserve

The council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. Appropriations have been made in line with expenditure.

Pension Strain
Costs Reserve

In line with Council decisions relating to flexible and early retirements an earmarked reserve was set up at 31 March 2010. Following a change in the Hertfordshire Pension Fund's policy on funding early retirements the Council has paid the balance of sums outstanding relating to all decisions taken prior to 31.3.13. The reserve balance has been fully applied in meeting these payments.

Waste Recycling
Income Volatility
Reserve

With the reletting of the refuse contract it was determined that there was no longer a need for a Waste Recycling reserve. However, given the level of uncertainty over the long term sustainability of income from the sale of recycled materials, it was agreed in 2011/12 to re-designate the recycling reserve to manage this income volatility.

Footbridge Reserve

The Council's MTFP includes setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the river Stort.

Cost of Change
Reserve

This reserve will be used to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. In line with the Council's financial planning assumptions approved in February 2013, the increased GF underspend compared to that anticipated in February, including that relating to staff turnover was transferred to this reserve as at 31.3.13

In line with the changes to Accounting rules for Revenue Grants, two new reserves - Preventing Repossessions and Environmental Pollution reserve, were established in 2011/12 from Government Grant monies unspent as at 31 March 2012. £8k has been applied in 2012/13.

Waste & Recycling
Reserve

Due to a change in the Council's Kerbside Recycling Scheme and the likely costs associated with the change, the Council agreed that any underspend on Refuse and Recycling as at 31.3.13 should be transferred to an earmarked reserve to meet these future costs.

New Homes Bonus
Priority Spend

The Council received funding from the DCLG in the form of New Homes Bonus. As part of it's financial planning strategy it agreed that any underspend on the Priority Spend element as at 31.3.13 should be earmarked into a new reserve for future spend on economic development initiatives.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

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

2012/13

Cost or Valuation	As at 01/04/2012 £000	Additions £000	Disposals £000	Reclassifications £000	Revaluations £000	Total as at 31/03/2013 £000
Other Land & Buildings	48,128	940	(275)	(129)	774	49,438
Vehicles, Plant, Furniture & Equip.	16,293	474	(37)	-	-	16,730
Infrastructure	7,826	194	-	-	-	8,020
Community Assets	1,268	5	-	-	-	1,273
	73,515	1,613	(312)	(129)	774	75,461

Depreciation & Impairment	As at 01/04/2012 £000	Charge for Year £000	Acc depreciation w/o on revaluation £000	Disposals £000	Impairment (reversal) recognised in the service £000	Revaluations £000	Total as at 31/03/2013 £000	Balance Sheet as at 31/03/13 £000
Other Land & Buildings	15,305	899	(319)	(11)	(83)	408	16,199	33,239
Vehicles, Plant, Furniture & Equip.	8,658	1,440	-	(37)	-	-	10,061	6,669
Infrastructure	4,252	303	-	-	-	-	4,555	3,465
Community Assets	47	22	-	-	-	-	69	1,204
	28,262	2,664	(319)	(48)	(83)	408	30,884	44,577

In line with the rolling programme the remaining miscellaneous range of other Land and Buildings were revalued in 2012/13. This included residents car parks across the district, the Rye Street car park that became fee charging and the Hostel at Spellbrook. The Hostel valuation reflects receivable income and expenditure rather than the one off cost of reconstruction on a like for like basis.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

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

2011/12

Cost or Valuation	As at 01/04/2011 £000	Additions £000	Disposals £000	Reclassifications £000	Revaluations £000	Total as at 31/03/2012 £000
Other Land & Buildings	46,003	1,996	(152)	(173)	454	48,128
Vehicles, Plant, Furniture & Equip.	12,145	4,148	-	-	-	16,293
Infrastructure	7,570	256	-	-	-	7,826
Community Assets	1,218	50	(1)	-	1	1,268
	<u>66,936</u>	<u>6,450</u>	<u>(153)</u>	<u>(173)</u>	<u>455</u>	<u>73,515</u>

Depreciation & Impairment	As at 01/04/2011 £000	Charge for Year £000	Acc depreciation w/o on revaluation £000	Disposals £000	Impairment (reversal) recognised in the service £000	Revaluations £000	Total as at 31/03/2012 £000	Balance Sheet as at 31/03/12 £000
Other Land & Buildings	6,217	969	(652)	(2)	(538)	9,311	15,305	32,823
Vehicles, Plant, Furniture & Equip.	7,261	1,397	-	-	-	-	8,658	7,635
Infrastructure	3,968	284	-	-	-	-	4,252	3,574
Community Assets	25	22	-	-	-	-	47	1,221
	<u>17,471</u>	<u>2,672</u>	<u>(652)</u>	<u>(2)</u>	<u>(538)</u>	<u>9,311</u>	<u>28,262</u>	<u>45,253</u>

Reconciliation of Additions in the year to Capital Spend

	2012/13 £000	2011/12 £000
Additions in the year (as above)	1,614	6,450
less Vehicles Finance Lease	-	(3,149)
Intangible assets	222	227
	<u>1,836</u>	<u>3,528</u>
plus REFCUS (not included in note 6)	743	1,999
Local Authority Mortgage Scheme	1,000	-
Total Capital Spend	<u>3,579</u>	<u>5,527</u>

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

7. Heritage Assets

The Council has identified a number of Heritage assets in line with new accounting requirements. The Council's policy is to maintain these assets in order to preserve them for future generations because of their cultural and historical associations. The Council does not consider that a commercial value can be placed upon these assets and its policy is, therefore, not to disclose on the balance sheet. They continue to be included within community assets with a nominal value. The assets are insured in order to protect the Council's interest in the event of damage or destruction.

The Heritage assets held within Community assets at a nominal sum are as follows:

	Insurance Value	
	2012/13 £000	2011/12 £000
The Castle Wall (ancient flint), Hertford	1,114	1,082
Scott's Grotto, Ware	1,134	1,101
Monument, remains of Church of St Mary's, Old Cross	53	52

See also Accounting Policy xxii (page 22).

8. Investment Properties

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

	2012/13 £000	2011/12 £000
Rental income from investment property	(550)	(559)
Direct operating expenses arising from investment property	384	352
Net gain	<u>(166)</u>	<u>(207)</u>

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

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

	2012/13 £000	2011/12 £000
Balance at start of the year	9,545	9,763
Additions:		
Transferred through re-classification	-	173
Disposals		-
Transferred through re-classification	(140)	(220)
Net gains / (losses) from fair value adjustments	30	(171)
Balance at end of the year	<u>9,435</u>	<u>9,545</u>

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

9. Intangible Assets

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

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

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

	Software £000	2012/13 Other Intangible Assets £000	Total £000	Software £000	2011/12 Other Intangible Assets £000	Total £000
Balance at start of year:						
Gross carrying amounts	2,833	21	2,854	2,606	21	2,627
Accumulated amortisation	(2,205)	(11)	(2,216)	(1,909)	(6)	(1,915)
Net carrying amount at start of year	628	10	638	697	15	712
Additions:						
Purchases	222	-	222	227	-	227
Amortisation for the period	(302)	(5)	(307)	(296)	(5)	(301)
Net carrying amount at end of year	548	5	553	628	10	638
Comprising:						
Gross carrying amounts	3,055	21	3,076	2,833	21	2,854
Accumulated amortisation	(2,507)	(16)	(2,523)	(2,205)	(11)	(2,216)
	548	5	553	628	10	638

10. Financial Instruments Balances

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

	Long Term		Current	
	31 March '13 £000	31 March '12 £000	31 March '13 £000	31 March '12 £000
Borrowing				
Financial Liabilities at amortised cost	10,034	10,481	4,732	5,524 *
Total Borrowing	10,034	10,481	4,732	5,524
Investments				
Loans and Receivables	16,311	15,251	17,107	9,588
Available for Sale Financial Assets	-	-	40,923	47,223
Total Investments	16,311	15,251	58,030	56,811

* Prior year figure amended in the interest of consistency

See also Notes 33 and 34 to the Core Statements. (Investments and Borrowings)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

10. Financial Instruments Balances - continued

Available for Sale Reserve

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

The table below sets out the transactions for the year

	2012/13 £000	2011/12 £000
Balance brought forward	(9)	23
Net unrealised gain/loss on investments	-	(9)
Realised gain to Revenue	9	(23)
Balance carried forward	0	(9)

See also Note 19, page 36.

11. Financial Instruments Gains / Losses

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

	Financial Liabilities	Financial Assets		
2012/13	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available for Sale Assets £000	Total £000
Interest Expense	(739)	-	-	(739)
Interest Payable and Similar Charges	(739)	0	0	(739)
Interest Income	-	923	197	1,120
Realised Gains	-	-	86	86
Interest and Investment Income	0	923	283	1,206
Losses on revaluation	-	-	-	0
Loss arising on revaluation of financial assets	0	0	0	0
Net Gain / (Loss) for year	(739)	923	283	467

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

11. Financial Instruments Gains / Losses - continued

	Financial Liabilities	Financial Assets		
2011/12	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available for Sale Assets £000	Total £000
Interest Expense	(743)	-	-	(743)
Interest Payable and Similar Charges	(743)	0	0	(743)
Interest Income	-	409	168	577
Realised Gains	-	-	270	270
Interest and Investment Income	0	409	438	847
Losses on revaluation	-	-	(9)	(9)
Loss arising on revaluation of financial assets	0	0	(9)	(9)
Net Gain / (Loss) for year	(743)	409	429	95

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

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

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

The fair values are calculated as follows:

	31st March 2013		31st March 2012	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	14,766	18,930	16,005	19,996

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

12. Fair Value of Assets and Liabilities carried at Amortised Cost - continued

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

	31st March 2013		31st March 2012	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	33,411	34,030	23,286	23,784

* Excludes Fund Managers cash included within Note 10.

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

Also see notes 33 and 34 to the Core Statements. (Investments and Borrowings)

13. Debtors

Short Term Debtors	31 March '13 £000	31 March '12 £000
Central government bodies	1,260	978
Other local authorities	345 *	319
Bodies external to general government (ie all other bodies)	4,545	4,772
	6,150	6,069

* includes £157k (2012/13) and £290k (2011/12) relating to the Shared Revenues and Benefits Service (see Note 21).

Long Term Debtors	31 March '13 £000	31 March '12 £000
Bodies external to general government (ie all other bodies)	1,166	170
	1,166	170

14. Cash and Cash Equivalents

	31 March '13 £000	31 March '12 £000
Short-term deposits with banks	12,211	4,339
Total Cash and Cash Equivalents	12,211	4,339

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

15. Assets Held for Sale

	Current		Non-Current	
	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000
Balance outstanding at start of year	220	-	-	-
Assets newly classified as held for sale:				
Investment Properties	140	220	-	-
Property, Plant and Equipment	112	-	-	-
Intangible Assets	-	-	-	-
Assets sold in year	(220)	-	-	-
Balance outstanding at year-end	252	220	0	0

16. Creditors

Short Term Creditors	31 March '13 £000	31 March '12 £000
Central government bodies	700	390
Other local authorities	227	208
Bodies external to general government (ie all other bodies)	4,339	5,089
	5,266	5,687
Long Term Creditors	31 March '13 £000	31 March '12 £000
Bodies external to general government (ie all other bodies)	2,324	2,770
	2,324	2,770

17. Provisions

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

At 31 March 2012 the Council identified a contingent liability relating to the Municipal Mutual Insurance Scheme Arrangement. The Council were notified in November 2012 that the scheme had been 'triggered' and that an initial levy of 15% of the value of total claim payments less £50,000 (£129,622 net) would be made. A provision of £19,443 has been made within the 2012/13 accounts.

	2012/13 £000	2011/12 £000
Balance at 1 April	63	61
Additional provisions made in 2012/13	19	3
Amounts used in 2012/13	(2)	(1)
Balance at 31 March	80	63

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

18. Usable Reserves

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

19. Unusable Reserves

	31 March '13 £000	31 March '12 £000
Revaluation Reserve	3,874	3,213
Available for Sale Financial Instruments Reserve	0	(9)
Capital Adjustment Account	94,454	96,471
Deferred Capital Receipts Reserve	157	158
Pensions Reserve	(36,133)	(30,571)
Collection Fund Adjustment Account	151	157
Accumulated Absences Account	(99)	(99)
Total Unusable Reserves	62,404	69,320

Revaluation Reserve

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

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

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

	2012/13 £000	2011/12 £000
Balance at 1 April		2,838
Upward revaluation of assets	780	749
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6)	(294)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		455
Difference between fair value depreciation and historical cost depreciation	(113)	(80)
Balance at 31 March	3,874	3,213

Available for Sale Financial Instruments Reserve

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

	2012/13 £000	2011/12 £000
Balance at 1 April		23
Upward revaluation of investments	0	13
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	0	(22)
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		(9)
	9	(23)
Balance at 31 March	0	(9)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

19. Unusable Reserves - continued

Capital Adjustment Account

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

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

	2012/13		2011/12
	£000	£000	£000
Balance at 1 April		96,471	104,384
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(2,664)		(2,672)
· Charges for depreciation on revalued assets	113		80
· Revaluation/Impairment on Property, Plant and Equipment	(23)		(8,123)
· Amortisation of intangible assets	(307)		(301)
· Revenue expenditure funded from capital under statute	(742)		(1,998)
· Revenue grants written down to the Capital Adjustment Account	288		262
· Disposal of property, plant and equipment	(484)		(151)
· Disposal of investment properties	-		-
		(3,819)	(12,903)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	1,230		4,522
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	25		163
· Application of grants to capital financing from the Capital Grants	68		72
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	424		379
· Capital expenditure charged against the General Fund	25		25
		1,772	5,161
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		30	(171)
Balance at 31 March		94,454	96,471

Pensions Reserve

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

19. Unusable Reserves - continued

Pensions Reserve (continued)

	2012/13 £000	2011/12 £000
Balance at 1 April	(30,571)	(22,093)
Actuarial gains or (losses) on pensions assets and liabilities	(4,651)	(8,222)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(2,866)	(2,264)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,955	2,008
Balance at 31 March	(36,133)	(30,571)

Deferred Capital Receipts Reserve

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

	2012/13 £000	2011/12 £000
Balance at 1 April	158	159
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	157	158

Collection Fund Adjustment Account

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

	2012/13 £000	2011/12 £000
Balance at 1 April	157	62
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(6)	95
Balance at 31 March	151	157

Accumulated Absences Account

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

	2012/13 £000	2011/12 £000
Balance at 1 April	(99)	(80)
Settlement or cancellation of accrual made at the end of the preceding year	99	80
Amounts accrued at the end of the current year	(99)	(99)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	(19)
Balance at 31 March	(99)	(99)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

20. Amount reported for Resource Allocation Decisions

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

Services Income & Expenditure 2012/13	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Other £000	Total £000
Fees, charges and other service income	(1,636)	(637)	(1,239)	(567)	(1,579)	(4,326)	(2,873)	-	(12,857)
Government grants	(41,739)	(2)	-	(320)	-	-	(772)	-	(42,833)
Total Income	(43,375)	(639)	(1,239)	(887)	(1,579)	(4,326)	(3,645)	0	(55,690)
Employee expenses	2,679	3,011	2,334	1,720	-	-	2,977	-	12,721
Other service expenses	40,898	2,734	374	730	2,263	2,638	6,695	-	56,332
Support service recharges	-	(440)	-	-	-	-	-	-	(440)
Depreciation, amortisation & Impairment	120	500	123	865	98	311	1,734	-	3,751
Total Expenditure	43,697	5,805	2,831	3,315	2,361	2,949	11,406	0	72,364
Net Expenditure	322	5,166	1,592	2,428	782	(1,377)	7,761	0	16,674

Services Income & Expenditure 2011/12	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Other £000	Total £000
Fees, charges and other service income	(969)	(707)	(1,181)	(586)	(1,567)	(4,382)	(2,585)	(8)	(11,985)
Government grants	(38,635)	(5)	-	(586)	-	-	(616)	(54)	(39,896)
Total Income	(39,604)	(712)	(1,181)	(1,172)	(1,567)	(4,382)	(3,201)	(62)	(51,881)
Employee expenses	2,115	3,256	2,064	1,840	-	-	2,767	754	12,796
Other service expenses	37,723	2,939	438	977	2,233	2,653	6,426	429	53,818
Support service recharges	-	(161)	-	(25)	-	-	-	(231)	(417)
Depreciation, amortisation & Impairment	89	2,977	87	2,142	179	5,603	1,864	166	13,107
Total Expenditure	39,927	9,011	2,589	4,934	2,412	8,256	11,057	1,118	79,304
Net Expenditure	323	8,299	1,408	3,762	845	3,874	7,856	1,056	27,423

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

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

	2012/13 £000	2011/12 £000
Net expenditure in the Service Analysis	16,674	27,423
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	51	172
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	16,725	27,595

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

20. Amount reported for Resource Allocation Decisions - continued

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

2012/13	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(12,857)	-	(12,857)	-	(12,857)
Interest and Investment income	-	-	-	(1,756)	(1,756)
Income from Council Tax	-	-	-	(12,926)	(12,926)
Government grants and contributions	(42,833)	-	(42,833)	(6,631)	(49,464)
Total Income	(55,690)	-	(55,690)	(21,313)	(77,003)
Employee expenses	12,720	51	12,771	1,029	13,800
Other service expenses	56,333	-	56,333	384	56,717
Support Service recharges	(440)	-	(440)	-	(440)
Depreciation, amortisation and impairment	3,751	-	3,751	-	3,751
Interest payments	-	-	-	739	739
Precepts and Levies	-	-	-	3,541	3,541
Payments to Housing Capital Receipts Pool	-	-	-	2	2
Changes in value of Investment Properties	-	-	-	(30)	(30)
Gain or loss on disposal of fixed assets	-	-	-	(749)	(749)
Total Expenditure	72,364	51	72,415	4,916	77,331
Surplus or deficit on the provision of services	16,674	51	16,725	(16,397)	328

2011/12 comparative figures	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(11,985)	-	(11,985)	-	(11,985)
Interest and Investment income	-	-	-	(1,406)	(1,406)
Income from Council Tax	-	-	-	(12,839)	(12,839)
Government grants and contributions	(39,896)	-	(39,896)	(7,006)	(46,902)
Total Income	(51,881)	0	(51,881)	(21,251)	(73,132)
Employee expenses	12,796	172	12,968	401	13,369
Other service expenses	53,818	-	53,818	352	54,170
Support Service recharges	(417)	-	(417)	-	(417)
Depreciation, amortisation and impairment	13,107	-	13,107	-	13,107
Interest payments	-	-	-	743	743
Precepts and Levies	-	-	-	3,526	3,526
Payments to Housing Capital Receipts Pool	-	-	-	5	5
Changes in value of Investment Properties	-	-	-	171	171
Gain or loss on disposal of fixed assets	-	-	-	(655)	(655)
Total Expenditure	79,304	172	79,476	4,543	84,019
Surplus or deficit on the provision of services	27,423	172	27,595	(16,708)	10,887

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

21. Jointly Controlled Operations

The Council entered into a Shared Revenues and Benefits Service with Stevenage Borough Council on the 1st August 2011 for which this Council acts as host (employing) authority.

	2012/13 £000	2011/12 £000
Expenditure		
Employees	2,560	1,132
Transport Related Expenses	32	14
Supplies and Services	253	90
Support Services	1,002	0
Total Expenditure	<u>3,847</u>	<u>1,236</u>
Income		
Stevenage Borough Council	1,380	710
East Herts District Council	2,467	526
Total Income	<u>3,847</u>	<u>1,236</u>
Net Expenditure	<u><u>0</u></u>	<u><u>0</u></u>

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement.

22. Members Allowances

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

	2012/13 £000	2011/12 £000
Basic Allowances	254	237
Special Responsibility Allowances	110	104
Travel and Subsistence expenses	10	9
	<u><u>374</u></u>	<u><u>350</u></u>

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

The 2011/12 figure does not include £17k of ICT expenses. This payment was discontinued in 2012/13.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

23. Officer Emoluments

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

Remuneration Band	Number of Employees	
	2012/13 Total	2011/12 Total
£50,000 to £54,999	2	2
£55,000 to £59,999	5	3
£60,000 to £64,999	6	6
£65,000 to £69,999	1	3
£70,000 to £74,999	-	-
£75,000 to £79,999	-	1
£80,000 to £84,999	-	1
£85,000 to £89,999	-	-
£90,000 to £94,999	1	1
£95,000 to £99,999	-	-
£100,000 to £104,999	-	1
£105,000 to £109,999	1	-
£110,000 to £114,999	-	-
£115,000 to £119,999	-	-
£120,000 to £124,999	-	1
£125,000 to £129,999	-	-
£130,000 to £134,999	-	1

The above table includes those members of staff who left the Council and received an exit package. See Note 24 below.

24. Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below.

Exit package cost band (including special payments)	Number of Compulsory redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £	2011/12 £
£								
0-20,000	1	5	2	2	3	7	36,248	45,348
20,001-40,000	1	3	-	3	1	6	22,566	155,889
40,001-60,000	-	-	-	2	-	2	-	109,558
60,001-80,000	-	-	-	2	-	2	-	140,550
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
Total	2	8	2	9	4	17	58,814	451,345

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

25. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 23, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance) £	Benefits in Kind £	Compensation for Loss of Office £	Total Remuneration excluding pension contributions £	Pension Contributions £	Total Remuneration including pension contributions £
2012/13						
Chief Executive & Director of Customer and Community Services	104,148	3,291	-	107,439	16,399	123,838
Director of Neighbourhood Services	88,470	2,245	-	90,715	14,034	104,749
Director of Internal Services **	55,324	-	-	55,324	8,300	63,624
Director of Finance & Support Services	33,099	-	-	33,099	5,478	38,577
2011/12						
Chief Executive	79,211	1,839	50,000	131,050	47,742 *	178,792
Director of Neighbourhood Services	88,470	2,232	-	90,702	14,034	104,736
Director of Customer and Community	78,775	3,302	-	82,077	12,374	94,451
Director of Internal Services	103,797	-	-	103,797	16,600	120,397

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

** Left during the year to be replaced by the Director of Finance and Support Services

26. External Audit Costs

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

In 2012/13 East Herts Council incurred the following fees relating to external audit and inspection:

	2012/13 £000	2011/12 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	75	115
Rebate from the Audit Commission in respect of audit fees	(6)	(9)
Fees payable to Grant Thornton for the certification of grant claims and returns	13	21
Fees payable to the Audit Commission in respect of the National Fraud Initiative	1	-
	83	127

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

27. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

	2012/13 £000	2011/12 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,926	12,839
Non-Domestic Rates	5,432	4,644
Revenue Support Grant	105	1,435
Council Tax Freeze Grant	233	231
New Homes Bonus	772	483
Local Services Support Grant	50	50
Other Capital Grants	25	163
Other Revenue Grants	14	-
	19,557	19,845
Credited to Services		
<u>Grants</u>		
DWP	41,668	38,637
DCLG	360	351
Environment Agency	4	169
LAA	28	55
DCMS	-	10
DEFRA	31	64
EEDA	744	608
	42,835	39,894
<u>Other Contributions</u>		
Contributions from Other Authorities*	2,419	1,709
Income from Other Bodies	548	709
	2,967	2,418

* includes the contribution from Stevenage Borough Council for the Shared Revenues and Benefits Service

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

Grants Receipts in Advance	2012/13	2011/12
Capital	£000	£000
Performance Reward Grant	31	31
Developer Contributions	1,295	70
	1,326	101
Revenue	£000	£000
Developer Contributions	486	337
	486	337

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

28. Related Party Transactions

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

Related parties to this authority would include :

central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund. Members of the close family, or the same household of an individual identified as a related party are also assumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement, page 7.

The spouse of a member of the Council held the position of Chairman of CVS Broxbourne and East Herts which received £15k core funding from the Council, a further £5k for a car scheme and a grant of £34,750 from the Local Strategic Partnership in 2012/13.

The Hertfordshire County Council are a related party in respect of various transactions including pensions contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown on pages 34 & 35 within Notes 13 & 16.

29. Capital Expenditure and Capital Financing

	2012/13 £000	2011/12 £000
Opening Capital Financing Requirement	(44,028)	(47,281)
Capital investment		
Property, Plant & Equipment	1,614	6,450
Intangible Assets	222	227
Revenue Expenditure Funded from capital under Statute	743	1,999
Sources of finance		
Capital receipts	(1,230)	(4,521)
Government grants and other contributions	(381)	(497)
Sums set aside from Revenue:		
Direct revenue contributions	(25)	(25)
Loan/ finance lease principal repayments	(425)	(380)
Closing Capital Financing Requirement	(43,510)	(44,028)
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	518	3,253
Decrease in Surplus in Capital Resource *	518	3,253

* East Herts has a negative Capital Financing Requirement which represents a surplus in capital resources

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

30. Leases

Council as a lessee

Finance leases

As a result of transition to IFRS, the Council has identified an arrangement containing a lease relating to vehicles used in the Refuse and Recycling and Street Cleansing contract with Veolia Environmental Services. Under the Code, the Council is seen as effectively leasing 27 vehicles from Veolia. The lease term is for 7 years starting from May 2011. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease.

The assets acquired under the lease are carried as Vehicles, Plant and Equipment in the Balance Sheet at £2,287k at 31 March 2013 after the two years depreciation.

The Council has commitment to make five minimum payments under the lease as at 31 March 2013.

The gross commitment is made up of the following amounts:

	2012/13 £000	2011/12 £000
Finance lease Creditor as at 31 March	2,347	2,771
Finance expenditure	207	286
Gross commitment in lease as at 31 March	2,554	3,057

The gross commitment in the lease which is the minimum lease payments (fair value is not considered to be materially different) will be made over the following periods:

	Gross investment in lease 31 March '13 £000	Gross investment in lease 31 March '12 £000
Not later than 1 year	502	502
Later than 1 year and not later than 5 years	2,010	2,010
Later than 5 years	42	545
	2,554	3,057

Operating leases

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

30. Leases - continued

Operating Leases - continued

Previously, the Council had leased the car park and accounted for it as an operating lease where the Council is a lessor. There was a pre-existing agreement between the lessee and the Council, and it was agreed that the lessee will continue to pay the Council the lease payments due, and the Council will forward the payment received to the new owners of the car park. The amounts due to the new owner has been accounted for as lease payments below. In 2012/13, the lease payments received from the lessee which was subsequently paid over to the new owners was £97,000.

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

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

	31 March '13	31 March '12
	£000	£000
Not later than one year	444	449
Later than one year and not later than five years	1,775	1,775
Later than five years	5,072	5,516

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

	2012/13	2011/12
	£000	£000
Minimum lease payments	444	449
Lease payments payable	(139)	(139)
	305	310

Council as a lessor

Finance leases

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

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

	2012/13	2011/12
	£000	£000
Finance lease debtor as at 31 March	157	158
Unearned finance income	317	330
Gross investment in lease as at 31 March	474	488

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

30. Leases - continued

Finance leases - continued

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

	Gross investment in lease	Gross investment in lease
	31 March '13	31 March '12
	£000	£000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	404	418
	474	488

Operating Leases

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

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

	31 March '13	31 March '12
	£000	£000
Not later than one year	476	473
Later than 1 year and not later than 5 years	1,531	1,597
Later than 5 years	26,066	26,412

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £194k contingent rents were receivable by the Council (2011/12 £181k).

31. Pension Scheme

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

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

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

31. Pension Scheme - continued

The following transactions set out the position for the year:

	2012/13	2011/12
	£000	£000
Comprehensive Income & Expenditure Statement:		
Net Cost of Services:		
Current service cost	1,786	1,691
Non Distributed Costs -		
Past Service Cost / (Gain)	21	89
Losses / (Gains) on Curtailments & Settlements	30	83
Net Operating Expenditure:		
Interest cost	4,450	4,643
Expected returns on assets in the scheme	(3,421)	(4,242)
Costs charged against CI&E	2,866	2,264
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	(911)	(256)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	1,955	2,008

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £37,370k

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2012/13	2011/12
	£000	£000
1 April	93,394	85,316
Current Service Cost	1,786	1,691
Interest Cost	4,450	4,643
Contributions by scheme participants	562	581
Actuarial (gains) and losses	10,436	5,266
Benefits paid	(3,778)	(4,275)
Past service costs (Gains)	21	89
Losses on Curtailments	30	83
31 March	106,901	93,394

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

31. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2012/13	2011/12
	£000	£000
1 April	62,823	63,223
Expected rate of return	3,421	4,242
Actuarial gains and losses	5,786	(2,956)
Employer contributions	1,955	2,008
Contributions by scheme participants	562	581
Benefits paid	(3,778)	(4,275)
31 March	70,769	62,823

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

The actual return on scheme assets in the year was £9,216,000 (2011/12 £1,296,000).

Scheme history

	31 March	31 March	31 March	31 March	31 March
	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Present value of liabilities	(106,901)	(93,394)	(85,316)	(102,115)	(64,699)
Fair value of assets	70,769	62,823	63,223	60,047	46,757
(Deficit) in the scheme	(36,132)	(30,571)	(22,093)	(42,068)	(17,942)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £106,901k has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £36,132k.

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

The total contributions expected to be made to the pension scheme by the authority in the year to 31 March 2014 is £1,803k.

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

31. Pension Scheme - continued

Basis for estimating assets and liabilities

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

The principal assumptions used by the actuary have been:

	31 March '13	31 March '12
Long-term expected rate of return on assets in the scheme:		
Equity investments	4.5%	6.2%
Bonds	4.5%	4.0%
Property	4.5%	4.4%
Cash	4.5%	3.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.0 years	21.0 years
Women	23.8 years	23.8 years
Longevity at 65 for future pensioners:		
Men	22.9 years	22.9 years
Women	25.7 years	25.7 years
Rate of inflation/ Pension increase	2.8%	2.5%
Rate of increase in salaries	5.1%	4.8%
Expected Return on Assets	4.5%	5.5%
Discount Rate	4.5%	4.8%
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%	50%
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%	75%

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

	31 March '13	31 March '12
	%	%
Equity investments	71	69
Bonds	18	18
Property	5	6
Cash	6	7
	100	100

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	%	%	%	%	%
History of experience gains and losses					
Differences between the expected and actual return on assets	8.19	(4.69)	1.75	19.98	22.31
Experience gains and losses on liabilities	0.16	(1.43)	2.11	0.00	0.02

(Prior year percentages have been amended in the interest of consistency)

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

32. Nature and Extent of Risks arising from Financial Instruments

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

1 Credit Risk

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

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

	Long Term Rating	Short Term Rating	Limits per category £000	Amounts as @ 31.3.13 £000	Historical Experience Default
UK Treasury	AAA-AA	F1	No limit	5,296	0
Canadian Banks	AA	F1	5,500	3,281	0
UK Banks	AA-A	F1	55,500	39,306	0
Australian Banks	AA	F1	5,500	3,202	0
Netherlands Banks	AA	F1	5,500	1,518	0
Finland Banks	AA	F1	5,500	3,202	0
Sweden Banks	AA	F1	5,500	3,201	0
Investec Money Market Funds	AAA		No limit	1,259	0
Other Money Market Funds	AAA		No limit	8,000	0
				<u>68,265</u>	

Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts. The table recognises the changes in accounting arrangements for Council Tax and National Non Domestic Ratepayers. The past due amount can be analysed by age as follows: (see policy xvii, page 21)

	31 March '13 £000	31 March '12 £000
Less than three months	598	1,713
Three months to six months	208	236
Six months to one year	530	410
More than one year	1,602	1,051
	<u>2,938</u>	<u>3,410</u>

The Council pursues all debts in line with its established debt recovery policy.

2 Liquidity Risk

The Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council reviews its borrowing requirements as part of its annual Treasury Management strategy in order to optimise financial performance and reduce exposure to interest rate risk. This includes safeguards that if borrowing is undertaken then the maturity profile would be monitored to alleviate any future funding problems in any one year. As no new borrowings have been entered into in recent years this has not been relevant. (see note 34, page 54).

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

32. Nature and Extent of Risks arising from Financial Instruments - continued

3 Market Risk

Interest rate risk

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

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

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

The Council has a number of strategies for managing interest rate risk. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2013 was fixed rate. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

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

With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. In 2012/13 £1,249k has been added to the reserve with a further planned additional £600k in 2013/14.

Based on the current Treasury Management position at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	29
Increase in government grant receivable for financing costs	de-minimis
Impact on Comprehensive I & E Statement	<u>29</u>
Decrease in fair value of fixed rate investment assets (impact on Comprehensive I & E Statement)	<u>334</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive I & E Statement)	<u>939</u>

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

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

32. Nature and Extent of Risks arising from Financial Instruments - continued

4 Price Risk / Foreign Exchange Risk

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

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

33. Investments

The Council's investments consists of:

	31 March 2013 £000	31 March 2012 £000
Long term investments	15,145	15,081
Temporary investments:		
Money market fund	-	2,300
Building Society Deposits	-	-
Bank deposits	35,627	8,323
Uk Treasury Securities	5,296	36,600
	56,068	62,304

34. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding	
		31 March '13 £000	31 March '12 £000
Public Works Loan Board	8.875 - 10.125	1,521	1,522
Bonds	8.785	6,189	6,189
		7,710	7,711

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	6,189	6,189
Maturing in 10-15 years	-	-
Maturing in 40-45 years	1,521	1,522
	7,710	7,711

Also see notes 10 and 12 to the Core Statements.

35. Deferred Credits

Deferred Credits are amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses.

	Mortgages	
	31 March '13 £000	31 March '12 £000
Balance as at 1 April	13	21
Movements in the year	(3)	(8)
Balance as at 31 March	10	13

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

36. Publicity

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

	2012/13 £000	2011/12 £000
Recruitment Advertising	48	4
Local Authority Periodical	34	37
Total	82	41

37. Building Regulations Charging Account

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

The following statement sets out the costs and income for 2012/13 divided between chargeable and non-chargeable activities.

	2012/13		Building Control
	Chargeable	Non Chargeable	Total
	£000	£000	£000
Expenditure			
Employee Expenses	457	93	550
Premises	22	4	26
Transport	28	6	34
Supplies and Services	16	3	19
Support Service Charges	126	32	158
Total Expenditure	649	138	787
Income			
Building Regulation Charges	496	-	496
Total Income	496	0	496
(Surplus) / Deficit	153	138	291

	2011/12		Building Control
	Chargeable	Non Chargeable	Total
	£000	£000	£000
Expenditure			
Employee Expenses	419	109	528
Premises	81	21	102
Transport	28	7	35
Supplies and Services	28	6	34
Support Service Charges	145	38	183
Total Expenditure	701	181	882
Income			
Building Regulation Charges	576	-	576
Total Income	576	0	576
(Surplus) / Deficit	125	181	306

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE FINANCIAL STATEMENTS

38. Analysis of Fixed Assets

		31 March '13 (Nos.)	31 March '12 (Nos.)
Council Dwellings	Hostels	1	1
	Houses	2	3
Council Offices	Freehold	1	1
	Leasehold	1	1
Service Centre	Leasehold	1	1
Cash Offices		2	2
Off-Street Car Parks (incl. Leasehold)		29	29
Swimming Pools (including 3 joint-use pools)		5	5
Parks and Recreation Grounds/Open spaces		187 HA	187 HA
Public Halls/Community Centres (incl leasehold)		9	9
Commercial Property Rented Out		48 Units	49 Units
Land Awaiting Development		3 Acres	3 Acres

39. Contingent Liability

The Council has identified two contingent liabilities which may give rise to future costs. The first relates to a possibility that current litigation may lead to a settlement whereby the Council would need to reimburse personal search agents / companies for Land Charge fees for certain services as the power to make these charges is being contested. A potential liability of circa £185k has been identified. Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liability identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

At 31 March 2012 the Council identified a contingent liability relating to the Municipal Mutual Insurance Scheme Arrangement (Run Off). Following notification that the scheme has been formally 'triggered' the Council has made a provision of £19,443 based upon an initial levy of 15% (see note 17). A contingent liability of around £110,000 remains in respect of potential further exposure against existing claims.

40. Post Balance Sheet Event

Non Domestic rates - from 1st April 2013 new arrangements came into effect relating to the retention of business rates. From this date the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties will fall, in part to the Council. The value of the Council's share of appeals has been estimated at £854k. As this liability did not exist at the Balance Sheet date no adjustment has been made in accordance with CIPFA guidance.

STATEMENT OF ACCOUNTS 2012/13

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

		2012/13 £000	2011/12 £000
INCOME			
Council Tax	<i>Note 2</i>	80,768	80,084
Transfers from General Fund			
- Council Tax Benefits	<i>Note 2</i>	6,993	6,987
Income collectable from business ratepayers	<i>Note 3</i>	41,653	40,662
Contribution towards previous years deficit		-	211
		<u>129,414</u>	<u>127,944</u>
EXPENDITURE			
Precepts and Demands	<i>Note 4</i>	87,131	86,396
Business Rate			
- Payment to National Pool	<i>Note 3</i>	41,456	40,464
- Costs of Collection	<i>Note 3</i>	197	198
Bad Debt Provision - Increase: Council Tax		255	243
Transfer of previous years surplus		417	-
		<u>129,456</u>	<u>127,301</u>
MOVEMENT ON FUND			
Net (Income)/Expenditure		42	(643)
Balance as at 1 April		(1,060)	(417)
(Surplus)/Deficit as at 31 March	<i>Note 5</i>	<u>(1,018)</u>	<u>(1,060)</u>

STATEMENT OF ACCOUNTS 2012/13

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1. General

As a billing authority The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

The funds key features relevant to accounting for council tax in the core financial statements are:

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

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

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

2. Council Tax

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

Band	Estimated No. of Taxable Properties after effect of discounts	Ratio	Band D Equivalent Dwellings
A	693.25	6/9	462.17
B	4,872.25	7/9	3,789.53
C	13,077.25	8/9	11,624.22
D	13,504.50	9/9	13,504.50
E	9,606.00	11/9	11,740.67
F	6,618.25	13/9	9,559.69
G	4,937.75	15/9	8,229.58
H	712.75	18/9	1,425.50
	<u>54,022.00</u>		<u>60,335.86</u>

Plus adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief and exempt properties.

(1,708.18)

2012/13 Estimated Council Tax Base

58,627.68

Tax Collection

£000

12/13 Tax Base of 58,627.68 x £1,486.17 (Average Band D Charge)

87,131 Estimated Tax Due

12/13 Council Tax Income (including Council Tax Benefits)

87,761 Actual Tax Income

(630) Surplus

This surplus is explained by movements in the tax base.

The actual Tax Base for 2012/13 equates to 59,051.70

The estimated Tax Base for 2013/14 of 55,084.00 now reflects the impact of the localisation of Council Tax Support scheme from 1 April 2013.

STATEMENT OF ACCOUNTS 2012/13

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

3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate which for 2012/13 was 45.8p. The total amount, less certain reliefs and other deductions, is paid to a central pool (the National Non Domestic Rate (NNDR) pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. This contribution is paid into the General Fund.

At the year end the total non-domestic rateable value was £115.851 million.

The amounts included in the accounts for 2012/13 can be analysed as follows:

	2012/13 £000	2011/12 £000
Gross rates payable	42,489	41,297
Less allowances and other adjustments	(836)	(635)
Income collectable from business ratepayers	41,653	40,662
Less Costs of Collection	(197)	(198)
Payable to national NNDR pool	41,456	40,464

4. Precepts and Demands

	2012/13 £000	2011/12 £000
East Hertfordshire District Council	12,870	12,774
Hertfordshire County Council	65,595	65,030
Police Authority	8,666	8,592
	87,131	86,396

5. Balance on Fund

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

	2012/13 £000	2011/12 £000
(Surplus) on Council Tax element of the Fund	(1,018)	(1,060)
	(1,018)	(1,060)

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

	2012/13 £000	2011/12 £000
East Hertfordshire District Council	(151)	(157)
Hertfordshire County Council	(766)	(798)
Police Authority	(101)	(105)
	(1,018)	(1,060)

STATEMENT OF ACCOUNTS 2012/13

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

Those principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising
- Selecting measuring bases for
- Presenting

Accruals

The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.

Accumulated Absences

Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.

Actuarial Gains and Losses

Changes in the net pensions liability that arise because

- events have not coincided with assumptions made at the last actuarial valuation, or
- the actuarial assumptions have changed

Amortisation

The term used to refer to the charging of the value of a transaction or asset (usually related to intangible fixed assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for tangible fixed assets.

Asset

An item having value measurable in monetary terms. Assets can either be defined as fixed or current. A fixed asset has use and value for more than one year whereas a current asset (eg stocks or short term debtors) can readily be converted into cash.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or works which have a long term value to the Council, either directly to the Council or indirectly in the form of grants to other bodies.

Capital Financing Requirement

It measures an authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.

Capital Receipts

The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by government, but they cannot be used for revenue purposes.

CIPFA

Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.

Code of Practice on Local Authority Accounting (The Code)

Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

STATEMENT OF ACCOUNTS 2012/13

GLOSSARY OF TERMS (continued)

Community Assets

Assets that a local authority intends to hold indefinitely, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Council's control.

Contingent Liability

A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.

Creditor

An amount owed by the Council for work done, goods received, or services provided within the accounting period and for which payments has not been made at the Balance Sheet date.

Current Service Cost (Pensions)

The increase in liabilities as a result of years of service earned this year.

Curtailment

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Curtailments include:

- Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business.
- Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtor

Sums of money due to the Council but not yet received at the Balance Sheet date.

Deficit

An excess of expenditure over income (or liabilities over assets)

Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded.)

Depreciation

Charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing

STATEMENT OF ACCOUNTS 2012/13

GLOSSARY OF TERMS (continued)

DCLG

Department for Communities and Local Government

DCMS

Department for Culture, Media and Sport

DEFRA

Department for Environment, Food and Rural Affairs

DWP

Department for Work & Pensions

EEDA

East of England Development Agency

Expected Rate of Return on Pensions Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Earmarked reserve

These are funds that are set aside for a specific purpose, or a particular service, or type of service.

Financial Instruments

Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local services.

International Financial Reporting Standards

International Financial Reporting Standards cover specific aspects of accounting practice and set out the correct accounting treatment. Compliance with them is mandatory.

Impairment

This is a reduction in value of a fixed asset as shown in the balance sheet to reflect its true Value

Infrastructure Assets

Expenditure on works of construction or improvement but which have no tangible value, such as construction or improvement to highways and footpaths.

Intangible Asset

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority through custom or legal rights e.g. computer software.

STATEMENT OF ACCOUNTS 2012/13

GLOSSARY OF TERMS (continued)

Interest Cost (pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (non-pensions fund)

A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Investment properties

Property that is used solely to earn rentals and/or for capital appreciation.

LAA

Local Area Agreement

Liquid resources

Current asset investments that are readily disposal by the authority without disrupting its business.

Operating Lease

A lease whereby the ownership of the fixed asset remains with the lessor.

Past Service Cost

The increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years

Revenue Expenditure

The day to day running costs incurred by the Council in providing its services.

REFCUS (Revenue Expenditure Funded from Capital Under Statute)

Capital expenditure which is allowable under statute to be funded from capital resources but which does not fall within the definition of a fixed asset. An example is a grant made to another party to finance capital investment.

Surplus

An excess of income over expenditure (or assets over liabilities)

STATEMENT OF ACCOUNTS 2012/13

ANNUAL GOVERNANCE STATEMENT

STATEMENT OF ACCOUNTS 2012/13

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required:

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

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

to approve the Statement of Accounts.

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the local authority Code.

The Chief Finance Officer has also:

kept proper accounting records which were up to date;

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

The Chief Finance Officers' responsibilities

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

EAST HERTFORDSHIRE DISTRICT COUNCIL

Certificate of Responsible Financial Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2013.

Signed

Dated

A Taylor
Director of Finance and Support Services
East Hertfordshire District Council

Signed

Dated

Councillor J Ranger
Chairman of Audit Committee

STATEMENT OF ACCOUNTS 2012/13

INDEPENDENT AUDITORS' REPORT TO EAST HERTFORDSHIRE DISTRICT COUNCIL

Signed

Dated

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

18 September 2013

Dear Sirs

East Hertfordshire District Council

Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of East Hertfordshire District Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xii We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 18 September 2013.

Signed on behalf of the Board

Name.....

Name.....

Position.....

Position.....

Date.....

Date.....

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EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY COMMITTEE – 27 AUGUST 2013

EXECUTIVE – 3 SEPTEMBER 2013

AUDIT COMMITTEE – 18 SEPTEMBER 2013

REPORT BY THE LEADER OF THE COUNCIL

ANNUAL GOVERNANCE STATEMENT 2012/13

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- This report presents the 2012/13 Annual Governance Statement at **Essential Reference Paper ‘B’** and the 2013/14 Annual Governance Statement Action Plan at **Essential Reference Paper ‘C’**.

RECOMMENDATION FOR CORPORATE BUSINESS SCRUTINY: that

(A)	The proposed Annual Governance Statement and Action Plan be scrutinised; and
(B)	The Executive be advised of any recommendations.

RECOMMENDATION FOR THE EXECUTIVE: that:

(A)	The comments of Corporate Business Scrutiny Committee be received; and
(B)	The Audit Committee be advised of any comments from the Executive.

RECOMMENDATION FOR AUDIT COMMITTEE: that

(A)	The comments of the Corporate Business Scrutiny Committee and the Executive be received; and
(B)	The Annual Governance Statement 2012/13 and Action Plan 2013/14 be approved.

1.0 Background

- 1.1 The Annual Governance Statement is necessary to meet the requirements set out in the Accounts and Audit Regulations 2011 that requires authorities to carry out an annual review of the effectiveness of its system of internal control.

2.0 Report

- 2.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, used economically, efficiently and effectively.
- 2.2 The Council should undertake regular, at least annual, reviews of its governance arrangements by means of an Annual Governance Statement, to ensure continuing compliance with best practice. It is important that such reviews are reported both within the Council, to the Audit Committee and externally with the published accounts, to provide assurance that:
- governance arrangements are adequate and operating effectively in practice, or
 - where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in the future.
- 2.3 The process of preparing the governance statement should itself add value to the corporate governance and internal controls framework of the Council.
- 2.4 A governance statement should include the following information:
- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
 - an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide
 - a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.

- a brief description of the process that had been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - ◇ the Council
 - ◇ the Executive
 - ◇ the Audit Committee/ overview and scrutiny function/ Standards Committee
 - ◇ Internal Audit
 - ◇ other explicit review/ assurance mechanisms.
- an outline of the actions taken, or proposed, to deal with significant governance issues.

2.5 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:

- the authority's policies are implemented in practice.
- high quality services are delivered efficiently and effectively.
- the authority's values and ethical standards are met.
- laws and regulations are complied with.
- required processes are adhered to.
- financial statements and other published performance information are accurate and reliable.
- human, financial, environmental and other resources are managed efficiently and effectively.

2.6 Grant Thornton, the Council's External Auditors, have previously highlighted that to add real value the Annual Governance Statement should:

- have greater status within the council's management and reporting processes as the key document that records the planned and obtained assurances around the achievement of the vision and strategic objectives.
- be owned from the top and used to plan and monitor internal and external assurance gathering throughout the year.
- be fundamentally reviewed each year so that it highlights what is significant and excludes what is not.
- have only significant weaknesses recorded with SMART action planning.

- provide a robust, transparent and honest assessment of the year's governance framework.
- 2.7 Those areas of the Annual Governance Statement that are considered to be static have been added to the Constitution as Part 8. The statement outlines the Governance Framework through the six core principles published by CIPFA.
- 2.8 In order to add real value to the Annual Governance Statement officers have considered the current Annual Governance Statement Action Plan, External and Internal Audit reports, Risk registers, Ombudsman reports, 3 C's reports, National Fraud Initiative reports and the Annual Report.
- 2.9 The Audit Committee has monitored the 2012/2013 Annual Governance Statement Action Plan throughout the year. At the Audit Committee on 10 July 2013, it was reported that six significant governance issues remained outstanding and showed their status as "Amber".
- 2.9.1 Two of these issues are now considered to be complete:
- CCTV governance issues are now in place following the Executive's approval of the incorporation of a new company to conduct the commercial trading affairs of the Hertfordshire CCTV Partnership.
 - Shared Support Services governance arrangements are now in place as a shared service partnership with Stevenage Borough Council to deliver ICT, Business Improvement, Print and Design services came into operation from 1 August 2013.
- 2.9.2 Some progress has been made during the period on the issue to "Improve arrangements for Members to report on their services on outside bodies" such that this is no longer considered significant enough to remain on the Action Plan and has therefore been removed.
- 2.9.3 The issue previously headed as "Pro-actively seek opportunities to improve performance" has now been revised to cover the one outstanding action from that issue as "Asset Management Plan".
- 2.9.4 The two outstanding issues carried forward from the 2012/13 Action Plan to the 2013/14 Action Plan are:

- Risk of failure to deliver an effective, efficient and economic IT service.
- Hertford Theatre future governance arrangements.

2.9.5 The following new issues have been identified and added to the Action Plan:

- IT Risk Diagnostic.
- Impact of Welfare Reform changes.
- Operating effectively in Shared Services.
- Risk that Section 106 Monies remain unspent.

2.10 Any items that are considered to be significant governance issues that have come to light in the past year have been discussed by the Monitoring Officer, the Chief Finance Officer and the Manager of Corporate Risk and an Annual Governance Statement and 2013/2014 Action Plan that identifies required enhancements to internal control arrangements has been drawn up.

2.11 The static part of the Annual Governance Statement can be found at **Essential Reference Paper 'B'**. This document shows tracked changes made to last year's statement. Changes have been made that update the Council's governance arrangements to ensure the current position is reflected.

2.12 The Annual Governance Statement Action Plan 2013/2014 can be found at **Essential Reference Paper 'C'**. The seven issues identified will continue to be monitored through Audit Committee. As in previous years, the final certificated Action Plan will not detail the current position or RAG status of each of the seven issues.

2.13 These documents will be considered by Corporate Business Scrutiny Committee on 27 August 2013 and the Executive on 3 September 2013. Responsibility for approval of the Annual Governance Statement rests with the Audit Committee, as part of the approval of the Annual Accounts. The results of on-going consultations will be reported verbally to each Committee as part of the process.

3.0 Implications/Consultations

3.1 Consultation documents were sent to the Leader and Executive Members, Chairmen of Committees, Directors and senior managers, the Shared Internal Audit Service and External Audit. Corporate

Management Team considered the Annual Governance Statement and Action Plan on 13 August 2013.

- 3.2 The Annual Governance Statement and Action Plan will be considered by Corporate Business Scrutiny Committee and the Executive, prior to approval by Audit Committee.
- 3.3 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Annual Governance Statement 2012/13 – Audit Committee 10 July 2013.

Contact Member: Councillor Tony Jackson, Leader of the Council, Extn: 1642. anthony.jacksonr@eastherts.gov.uk

Contact Officers: Adele Taylor, Director of Finance and Support Services, Extn: 1406. adele.taylor@eastherts.gov.uk
Simon Drinkwater, Director of Neighbourhood Services, Extn: 1405.
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Report Author: Chris Gibson, Manager of Corporate Risk, Extn: 2073.
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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS:

Contribution to the Council's Corporate Priorities/ Objectives	<p><i>People</i> This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</p> <p><i>Place</i> 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><i>Prosperity</i> This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic and social opportunities.</p>
Consultation:	Consultation has taken place with Councillors, Senior Management, Internal and External Audit.
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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PART 8

**ANNUAL GOVERNANCE
STATEMENT**

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007).

This statement explains how the Council has complied with the code and also how it meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011~~103 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 that requires authorities to carry out an annual review of the effectiveness of its system of in relation to the publication of a statement on~~ internal control.

~~Further copies of this statement are available on the Council's website www.eastherts.gov.uk/, alternatively paper copies can be obtained from:~~

~~East Hertfordshire District Council~~

~~Director of Internal Services~~
~~Wallfields~~
~~Pegs Lane,~~
~~Hertford~~
~~SG13 8EQ~~

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and by which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Controls cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify risks to the achievement of the council's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, and it prioritises and manages them efficiently, effectively and economically.

The Governance Framework

The Council's governance framework derives from the six core principles identified by the Independent Commission on Good Governance in Public Services – a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office for Public Management. The Commission used work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007.

The six core principles are:

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

The key elements of East Herts Council's application of each of these core principles are as follows:

a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

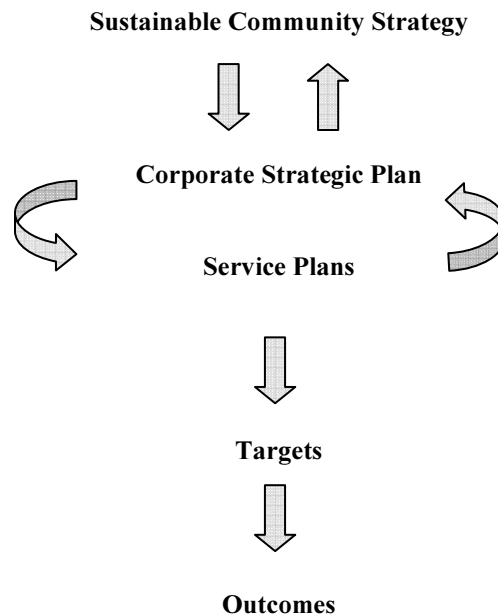
The Sustainable Community Strategy outlines the vision, aims and priority themes for the district. It was produced in conjunction with the East Hertfordshire Local Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.

The Council's aims and objectives are set out in the annually updated Corporate Strategic Plan. This sets out what the Council expects to deliver over the next four years and, in many cases, beyond this timeframe. The details of how the Council will get there are incorporated in the individual service plans. The Plan will be updated each year to include new service developments and to remove outcomes once they are achieved. The Plan sets the direction for the financial planning of the Council based on the Council's priorities.

The Executive receives the Medium Term Financial Strategy covering a four-year period, which is used to set initial parameters for the

coming budget process to ensure that spending proposals are affordable and sustainable over the medium term.

The diagram below sets out the various links in the process of establishing and subsequently monitoring the achievement of the Council's ambitions. It shows the links between the Sustainable Community Strategy and Corporate Strategic Plan which then feed into, and are informed by, service plans, service targets and individual employees via specific areas of responsibility allocated to them.



The Council has an effective performance management framework using a dedicated IT system to record and report performance. The system is driven by the Service Plans which focus on activities that will deliver the Council's ambitions and priorities. This is cascaded through individual employee appraisals.

This process monitors how the Council is meeting its performance targets and triggers corrective actions where targets are proving

challenging, through the Corporate Healthcheck report and Service Plan monitoring reports.

The Council's Executive and its Scrutiny Committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary. For ease of interpretation performance graphs are reported. There are reports which include the results of monthly and quarterly budget monitoring reports covering the revenue expenditure, capital projects, key performance indicators and absence monitoring.

The monitoring process has enabled the Council to concentrate on areas which require particular attention.

The Council is therefore able to monitor all key measures on a monthly basis and respond quickly and effectively to changes at an early stage.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies, Shared Internal Audit Service (SIAS), and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the use of resources. The Council has regularly reviewed Financial Regulations and has ~~adopted Procurement~~adopted Procurement Regulations to ensure proper arrangements are in place for procurement of goods and services.

All budget cost centres are allocated to a named post holder, who is responsible for controlling spend against those budgets, and who is also responsible for maximising the benefits from assets used in the provision of their service.

b) Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council has adopted a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people.

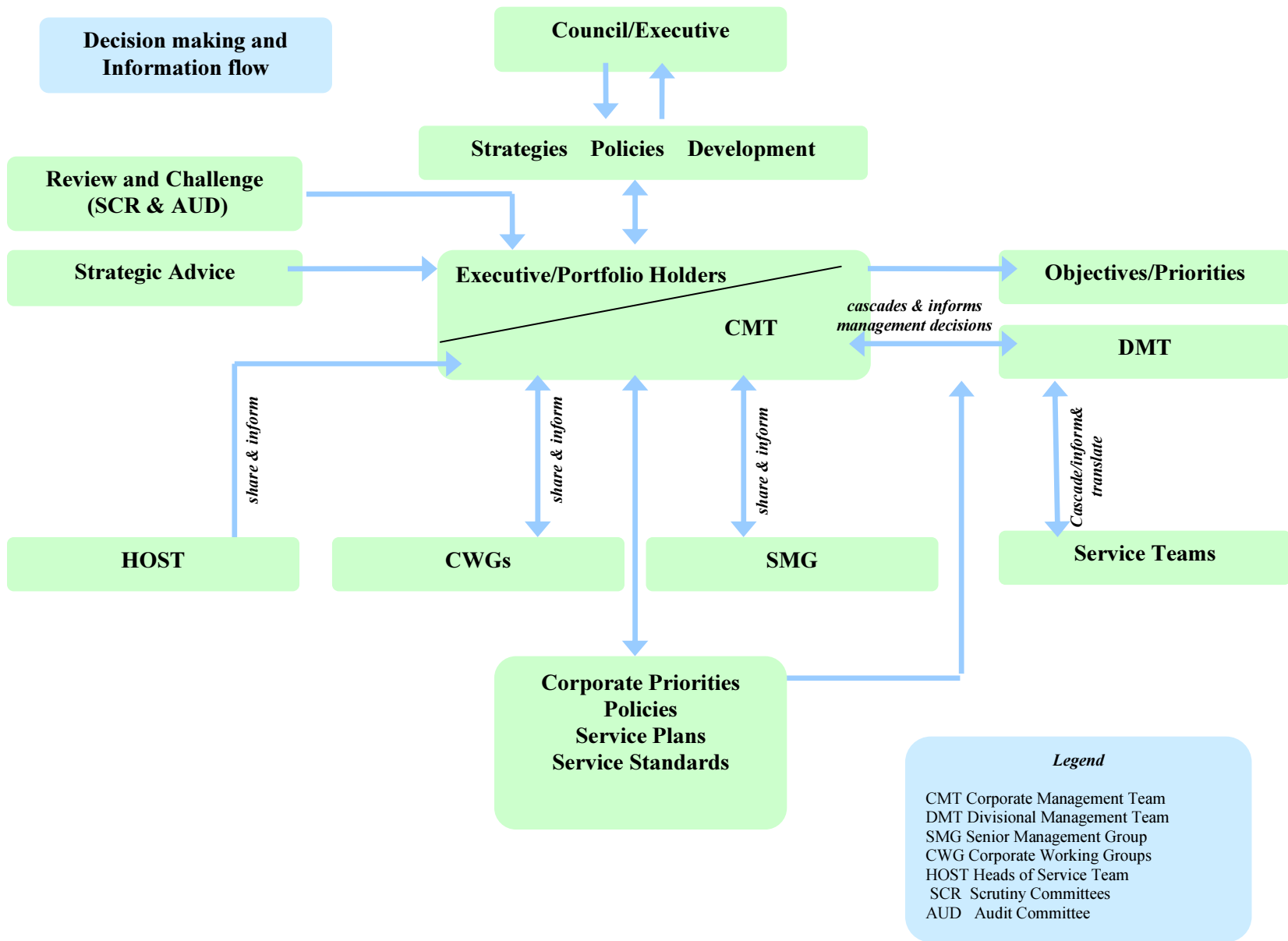
The Council adopted the Leader and Cabinet Executive model. The main features are:

- The Council's Executive consists of a Leader and between two and nine other Councillors.
- The Leader is elected by full Council and will hold office in accordance with the Local Government and Public Involvement in Health Act 2007.
- The other Executive Members will be appointed by the Leader who will decide their portfolios and also which executive functions will be discharged by full Executive, any of its Committees or any individual Executive Member or officers.
- There are currently ~~seven~~^{ix} Councillors on the Executive.

The Council's Corporate Management Team (CMT) consisting of the Chief Executive and Director of Customer and Community Services, Directors and the Head of People, ~~ICT~~ and Property Services ~~Services~~ meets on a fortnightly basis to develop policy issues commensurate with the Council's aims, objectives and priorities. CMT also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of CMT meet with Portfolio Holders on a monthly basis to review progress in achieving the Council's ambitions, priorities for action, budget monitoring, performance management and forward planning for major issues. CMT has a corporate responsibility for the messages that the Council produces, both internally and externally.

~~During 2010/11 the Chief Executive had an extended period of absence and all her functions and responsibilities were shared between the three Directors, enabling strong governance arrangements to remain in place.~~

Below CMT the management structure is well defined. The chart below indicates how decisions are implemented and cascaded:



The Council has adopted a number of codes and protocols that will govern both Member and officer activities. These are:

- Members' Code of Conduct
- Officers' Code of Conduct
- Members' Planning Code of Good Practice
- Member/Officer Relations Protocol

c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive and Section 151 Officer he will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Under Section 5 of the Local Government and Housing Act 1989 it is the duty of the Council's Monitoring Officer to report to Council if it appears that the Authority, a Committee or Officer of the Authority has made a decision which is contrary to law.

The Council has responsibility for responding to Freedom of Information Requests (FOI) promptly and within 20 working days.

The Council has taken action to improve its speed of response to FOI's. An important element of that plan is to shift the Council from waiting for FOI requests to proactively reducing the need for individuals to request information by making a wider range of information more easily available through the Council's website.

The Council recognises that expenses of politicians have come under serious scrutiny. The current Members Allowances scheme is published in the Constitution.

All Council services are delivered by trained and experienced people. All posts have a detailed post profile and person specification. Training needs are identified through the Personal Development Review Scheme and addressed via the Human Resources service and/or individual services as appropriate.

The Council achieved re-accreditation for a further three years from April 2012 under the Investors in People Standard, which is a

quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

The financial management of the Council is conducted in accordance with the Constitution and with Financial Regulations.

The Director of ~~Finance and Support~~Internal Services is the statutory Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council has a Treasury Management Strategy Statement and Annual Investment Strategy in place. Investments are made in accordance with the Council's approved policy. All investment transactions and transfers undertaken in house are supported by appropriate documentation and are properly authorised. External fund managers are subject to strict regulation by the FSA. The Portfolio holder and the Leader of the Council receive regular updates from the Director of ~~Finance and Support~~Internal Services. The Chairman of the Audit Committee is invited to participate in review meetings with Fund Managers.

The Council shares an Internal Audit service with ~~seven~~five other Councils. This service operates to the standards set out in the CIPFA ~~Public Sector Code of Practice for Internal Audit~~ Standards which came into effect on 1 April 2013~~in Local Government in the United Kingdom 2006~~. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility operates and has been well publicised. Each year all staff are required to complete Annual Declaration forms. The Council has adopted a policy on bribery. The Council does not tolerate bribery committed by Council employees or its contractors or partners and will take consistent and swift action against those persons committing bribery.

Individual services have produced Service Plans that are updated each year so that services know what they are required to do to achieve the Council's priorities and ambitions.

At individual employee level the Council has established a Personal Development Review Scheme so as to jointly agree individual employee objectives and identify training and development needs. The Scheme provides for a mid-year review as well as an annual appraisal at which past performance is reviewed.

d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

The Council has several committees which carry out regulatory or scrutiny functions. These are:

- Overview and Scrutiny committees (Corporate Business Scrutiny, Community Scrutiny and Environment Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions, developing the capacity and capability of members and officers to be effective.
- Audit Committee provides assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management is in place. Its work is intended to enhance public trust in the corporate and financial governance of the Council;
- Development Control Committee determines planning applications and related matters;
- Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures;
- The Human Resources Committee's functions relate to all aspects of the Council's role as an employer. This includes the monitoring and strategic overview of Human Resources activities.
- Standards Committee promotes and maintains high standards of conduct for the Council's Members, and advises and assists Parish Councils and Councillors to maintain high standards of conduct;

The Council has data protection policies, [a Data Protection Action Plan](#) and a data sharing protocol in place to ensure that personal data is maintained securely and used correctly. [There is a Data Protection Compliance Governance Framework which involves the Corporate Business Scrutiny Committee in the governance structure. The Committee will take a strategic oversight of the completion of the Data Protection Plan and Data Protection compliance through a formal annual report.](#)

The Risk Management Strategy defines risk management, explains the benefits of a strategic approach, outlines how it will be implemented, identifies roles and responsibilities and formalises the process. The Strategy sets out the links between risk management, emergency planning and business continuity. It recognises that risk management is a key part of the management

The Strategy highlights how risk management supports strategic planning, financial planning, policy making and review and performance management.

The Corporate Management Team is responsible for ensuring that the key risks on the strategic risk register are managed. Strategic and service risk registers are reviewed four times a year. Risks will be amended so that they reflect the current situation, obsolete risks deleted and new risks added. This will ensure that the risk register and the resulting risk mitigation measures are appropriate for corporate objectives and services.

Members have received risk management training.

The Council also has a Partnership Protocol in place. ~~The Council is one of four partners in the Stevenage CCTV Partnership.~~

The Council is represented on the Joint Committee and the Joint Management Board following the introduction of a shared Revenues and Benefits service with Stevenage Borough Council.

A shared service partnership with Stevenage Borough Council to deliver ICT, Business Improvement, Print and Design services came into operation on 1 August 2013. A Partnership Board with Director representation is responsible for making the key decisions about the way that the partnership operates.

The Shared Internal Audit Service (~~SIAS~~) ~~came into being in July 2011 and~~ is a partnership of ~~eightsix~~ Hertfordshire Authorities. The Council is represented on the Board that provides strategic direction and oversight for the partnership. The ~~Manager~~Director of ~~Corporate Risk~~Internal Services is the Audit Champion for the Council and has monitoring meetings every two months with the Director of Finance and Support Services and Shared Internal Audit Service managers. Progress reports are submitted to four Audit Committee meetings per year.

The Council is one of four partners in the Hertfordshire CCTV Partnership. Approval has been given for the incorporation of a new company to conduct the commercial trading affairs of the Hertfordshire CCTV Partnership.

e) Developing the capacity and capability of Members and officers to be effective

The Council plans and provides training for members in carrying out their roles effectively including their responsibilities for governance, challenge, scrutiny and review. The Council holds accreditation for the Charter for Member Development.

The Council's vision is to empower Members to be more self sufficient, confident in their community leadership roles and responsive to local issues, problems and challenges in a variety of ways by drawing on existing skills, knowledge, strength, resources and expertise from within. This vision is being taken forward through Action Learning Sets.

The Council is taking forward the concept of 'Here to Help'. This includes outlining the stages by which it will be implemented. It will be shaped around the needs and demands of individual services. IT should be a significant enabler of this future approach.

The Council has an infrastructure in place to support members' needs in respect of ICT requirements and the Council's Democratic Services team provide advice and assistance.

Protocols have been adopted to ensure clarity of the respective roles of officers and members.

The Council's recruitment process is designed to ensure only well qualified applicants are employed and the subsequent induction process is robust so that employees are effective. The Performance Development Review process ensures individual contributions are effective in meeting corporate priorities and capability issues addressed by training. Internal communications methods and processes are reviewed to ensure staff remain well informed and their feed back is responded to. A biennial staff survey leads to action plans to improve effectiveness.

The Council reviews its organisation and capacity as part of its annual service planning to ensure its staffing is commensurate in both quantitative and qualitative terms with its business plans. The Council is committed to taking forward the shared services agenda which will ensure more effective use of scarce skills by sharing across boundaries.

The Council's HR People Strategy seeks to ensure its pay and terms and conditions are adequate to attract and retain sufficient staff and to encourage staff to invest in their own development.

The Council seeks to maintain effective ~~employee~~industrial relations to enable a high standard of service to the public to be maintained. Staff are fully consulted on proposed changes to terms and conditions. The Council engages with the trade union and staff to manage issues arising from pay settlements and changes to the organisation including the Local Joint Panel and the Human Resources Committee. The Council also utilises Staff Surveys.

~~Extensive~~Use is made of the Intranet to provide staff with ready access to learning material and best practice via a series of tool kits.

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council encourages all members of the local communities to contribute to, and participate in, the work of the Council. The Council achieves this through Residents' Surveys and budget consultation exercises, to ensure that what it is doing meets the needs of its residents. In 2012/ 2013 informal budget consultation took place with businesses. Engagement events around specific issues will be considered where they provide a proportionate and cost effective model for engagement.

The Council's Communications Strategy has identified a need to engage more through social media and reconfirmed the use of the LINK magazine quarterly as a communications and engagement tool.

Individual members are active in their localities and with local groups and serve on a number of external bodies.

The Hertfordshire County LSP and the East Herts District LSP are forums for active engagement with wider stakeholders and a mutual holding to account in delivering the Community Plans.

The Council publishes an Annual Report setting out progress on its priorities in the prior year. ~~Going forward there may be an opportunity to combine the Annual Report and the Annual Governance Statements and officers will look into the viability of this during 2012/13.~~

An Annual Report on Overview and Scrutiny is also presented to Council and published every year.

There is a strategic approach to consultation to ensure the information returned is reliable – the Council has adopted a Consultation Toolkit setting out best practice.

The Council's web site is under constant review to ensure it is of a good standard and that information is easily accessed. A consultation section has been introduced so members of the public can easily access open consultations and information on closed consultations.

The Council manages freedom of information requests effectively to ensure transparency including the corporate governance arrangements. Information is made available on the website to reduce the need for requests. The Council has procedures in place to engage with members of the public to receive Comments, Compliments and Complaints. The Local Government Ombudsman reported on complaints made about the authority for the year ended 31 March 2013³² that there were no concerns about response times and no issues arising from complaints.

As part of the Council's drive to increase the transparency of its spending, the Council publishes all payments on a weekly basis as opposed to the Government's expectation that spend over £500 is detailed.

The Council has approved a Pay Policy Statement as required under section 38 of the Localism Act. The statement follows three principles when publishing data; responding to public demand; releasing data in open formats available for re-use: and releasing data in a timely way.

Review of Effectiveness

This statement explains the Council's overall governance arrangements. Each year, the Council reviews its governance framework including the system of internal control. The Council produces and monitors an Action Plan each year. The process is detailed below:

- All Directors, Heads of Service, Members of the Executive and Chairmen of Committees given the opportunity to make contributions.
- Consideration by the Audit Committee.
- Production of a draft Annual Governance Statement.
- Consideration by Corporate Management Team
- ~~Consideration by the Audit Committee.~~

- Consideration by the Corporate Business Scrutiny Committee.
- ~~Consideration by Corporate Management Team~~
- Consideration by the Executive
- Approval by the Audit Committee.

The review of effectiveness is informed by the work of the Directors within the Council who have responsibility for the development and maintenance of the governance environment, the reports by the ~~Shared Internal Audit Service~~ and also by comments made by the Council's External Auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution annually to incorporate any necessary changes.

The Council has three overview and scrutiny committees. The committees can establish 'task and finish' groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to their 'parent' Scrutiny Committee and on to the Executive. Four Members can "call-in" a decision which has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. In addition the Corporate Business Scrutiny Committee can exercise its scrutiny role in respect of Executive functions, Scrutiny Committees will conduct regular performance monitoring of all services, with particular attention to areas identified as under-performing.

The Council complies with the Regulation of Investigatory Powers Act (RIPA) 2000:

The Audit Committee

Seven Councillors sit on the Audit Committee. The Committee's terms of reference are detailed below:

Audit Activity

1. To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

2. To consider summaries of specific Internal Audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of Internal Audit services.
4. To consider reports from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
6. To consider specific reports as agreed with the External Auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's External Auditor.
9. To commission work from internal and external audit.

Regulatory Framework

10. To maintain an overview of the Council's Constitution in respect of rules of procedure relating to contracts, financial regulations and financial procedures and codes of conduct and behaviour.
11. To review any issue referred to it by the Chief Executive or a Director or any Council body.
12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on "Confidential Reporting" and the anti-fraud and anti-corruption strategy and the Council's complaints process.
14. To oversee the production of the Authority's Annual Governance Statement and to recommend its adoption.

15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
16. To consider the Council's compliance with its own and other published standards and controls.
17. To review arrangements for delivering value for money.
18. To review the Council's finances including borrowing, loans, debts investments and banking arrangements.

Accounts

- To approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the External Auditors' report to those charged with governance on issues arising from the audit of the accounts.

The Audit Committee's work programme and the minutes of its meetings are public documents and are published on the Council's web site.

The Shared Internal Audit Service (SIAS) has responsibility for delivery of the Internal Audit Plan at the Council. The SIAS also delivers a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council, Welwyn Hatfield Borough Council, Watford Borough Council and Three Rivers District Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.

The ~~SIAS~~ Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate an annual audit plan. A model for assessing risk against desirability of audit work is used across SIAS and allows for the prioritisation of potential audit projects. Future risks are identified as appropriate and a forward plan for future audit work is in operation.

The reporting process for ~~SIAS~~ Internal Audit requires a report of each audit to be submitted to the relevant chief officer and service manager. The report includes recommendations for improvements

that are included within an action plan (and graded as high, medium or merits attention). This requires agreement or rejection by relevant chief officer and/or service manager. The process includes follow-up reviews of high priority recommendations by SIAS and reports to the Audit Committee as part of the SIAS update report. The Audit Champion monitors all other recommendations which are also followed up by SIAS at the time of their next audit to ensure that they are acted upon, usually within six months. All ~~S~~Internal ~~A~~Sudit reports include an opinion on the quality and effectiveness of internal control within the Council's systems, and an assurance assessment.

All ~~S~~Internal ~~A~~Sudit reports are circulated to members of the Audit Committee. All reports for the key financial systems audits are also sent to ~~and the progress reports on the work of Internal Audit address issues arising from these ratings.~~

~~The Internal Audit service is subject to regular inspection by the Council's External Auditors who place reliance on the work carried out by SIAS the section. In order to comply with the requirements of the Public Sector Internal Audit Standards, SIAS will be required to have an independent external review of performance at least every five years.~~

~~The Hertfordshire Shared Internal Audit Service has responsibility for delivery of the Internal Audit Plan. The Shared Internal Audit Service (SIAS) also delivers a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council and Welwyn Hatfield Borough Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.~~

For performance management, a traffic light monitoring and reporting system is in place. Performance data is reported to the Scrutiny committees on a frequent basis, with corrective action plans put in place for any under-performing areas.

Significant governance issues are reviewed each year and required enhancements to internal control arrangements are identified. These required enhancements form an Action Plan that is monitored through the Audit Committee.

The Annual Governance Statement is certificated by the Council Leader and the Head of Paid Service.

Further copies of this Statement and the Action Plan are available within the Annual Statement of Accounts on the Council's website www.eastherts.gov.uk, alternatively paper copies can be obtained from:

East Hertfordshire District Council
Manager of Corporate Risk
Wallfields
Pegs Lane,
Hertford
SG13 8EQ

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ESSENTIAL REFERENCE PAPER 'C'

ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2013/14

Significant governance issues

The following required enhancements to internal control arrangements were identified during 2012/13 as a result of the review of arrangements and by the work of external and internal audit:

Required enhancements to internal control arrangements:

Issue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone	Current position	RAG status
Risk of failure to deliver an effective, efficient and economic IT service (from 2010/11 Action Plan)	Director of Finance and Support Services/ Head of ICT	March 2014	<ul style="list-style-type: none">• All outstanding high risk IT audit recommendations implemented.• Resilient IT business continuity arrangements in place.	<ul style="list-style-type: none">• SIAS continue to monitor.• IT business continuity arrangements will be picked up within the Shared Service.	AMBER

IT Risk Diagnostic (Highlighted by SIAS during 2012/13)	CMT	March 2014	<ul style="list-style-type: none"> • Develop an IT strategy which is aligned with the business objectives of the Council and sets out the vision and core priorities for ICT over the next 3 years. • Implement a governance committee to focus on strategic decision making and prioritisation within IT and assign the monitoring of ICT delivery to more operational committees. • Define performance indicators for ICT which are aligned with the business need and with ICT capacity to deliver. On a periodic basis, monitor and report them to business stakeholders. 	<ul style="list-style-type: none"> • Shared ICT Service to take forward all actions. 	AMBER
Hertford Theatre future governance arrangements (from 2011/12)	CMT	March 2014	<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"> • Executive Member and a relevant councillor met with officers and agreed that current business 	AMBER

Action Plan)				<p>plan was working well. Still only two full years into ten year plan and therefore no early decisions would be made to move to alternative governance arrangements.</p> <ul style="list-style-type: none"> • This position will be reviewed annually and is scheduled for Community Scrutiny Committee in September 2013. 	
<p>Asset Management Plan {formerly- Pro-actively seek opportunities to improve performance Plan} (from 2012/13 Action Plan)</p>	CMT	March 2014	<ul style="list-style-type: none"> • Review assets held by the Council. 	<ul style="list-style-type: none"> • Asset Management Plan 2013-17 approved by CMT but has been put on hold pending senior management review of viability of investing in property to generate revenue for the Council. 	AMBER

Impact of Welfare Reform changes (Identified as a new strategic risk)	CMT	March 2014	<ul style="list-style-type: none"> New Legislation will have an adverse financial impact on a significant number of residents. Provide residents more support for services across the Council to staffing levels, manage the budget and the public expectations. Implement Council policies effectively. 	<ul style="list-style-type: none"> The workload in Revenues and Benefits service continues to increase. Services across the Council including Housing and Customer Service continue to also experience an increase in demand. Services are working together to work efficiently and effectively to manage workload. 	AMBER
Operating effectively in Shared Services (taken forward from 2012/13 Action Plan)	CMT	March 2014	<ul style="list-style-type: none"> Complete a review of the operation of all shared service partnership arrangements 	<ul style="list-style-type: none"> Review planned. 	AMBER

Risk that S106 Monies remain unspent (Highlighted by SIAS during 2012/13)	Head of Comms, Engagement and Cultural Services/ Head of Planning and Building Control	March 2014	<ul style="list-style-type: none"> Ensure that funds are spent on appropriate schemes in accordance with the terms of the Section 106 agreement which provide value for money for the community. 	<ul style="list-style-type: none"> Regular reports are made to CMT identifying projects and tracking outstanding payments. 	AMBER
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We propose to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Certification by the Leader of the Council and the Head of Paid Service:

<u>Name</u>	<u>Position</u>	<u>Date</u>	<u>Signature</u>
Councillor A P Jackson	Leader of the Council		
George A Robertson	Chief Executive and Director of Customer and Community Services		

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East Herts District Council Audit Committee

SIAS Annual Report 2012/13

18 September 2013

Recommendation

<p>Members are recommended to note the Shared Internal Audit Service Annual Report 2012/13</p>
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Shared Internal Audit Service
Hertfordshire in Partnership

Shared Internal Audit Service
Annual Report
2012/13

Annual Report Contents

	Page
Introduction & Highlights	1-5
Performance	6-9
Future Developments	10-11
Our Board Members	12
Appendix A: SIAS Balanced Scorecard 2012/2013	13
Appendix B: SIAS Trading Account 2012/2013	14
Appendix C: Definitions	15

Introduction



*Helen Maneuf
Head of Assurance for the
Shared Internal Audit
Service*

I am delighted to set out this second SIAS annual report which looks back at the first full year of operation since creation of the partnership in July 2011.

The report begins by highlighting key areas of success in the year before describing the performance of the partnership during 2012/13. We then look ahead to the future and the developments we plan so that we continue to deliver the partners' vision.

That vision is to create a core assurance service which provides for resilience, efficiency, access to specialisms, high standards of customer service and career development opportunities for its employees. By delivering across these business objectives in year SIAS has continued to build on the strong foundations established by the partners.

Growth and development has always formed part of the ambition for SIAS and we were thrilled to welcome Watford Borough Council and Three Rivers District Council into SIAS on 1 April 2013; we see this as great endorsement of the partnership approach.

The Shared Internal Audit Service is, again, very grateful for the enthusiastic and active support it has received from all stakeholders during the period. This has helped the service make significant steps forward and demonstrate the benefits of real collaboration and partnership working. I look forward to celebrating the ongoing success of SIAS with you in future.



Helen Maneuf

Head of Assurance for the Shared Internal Audit Service

May 2013



A smarter, leaner way of working

We continue our leading edge work to emphasise LEAN and efficient principles such as:

- prioritisation of risk, so that the most important areas are looked at, rather than those that can be done most easily
- pro-actively assessing throughout the assignment to clarify or validate whether further detailed testing is necessary. It should be no surprise that LEAN internal audit avoids auditors continuing with detailed work simply to utilise the budgeted number of days
- dialogue about appropriate practical remediation which adds value in the customer's eyes, fits with existing processes and systems wherever possible, and reinforces management accountability for addressing the issues.

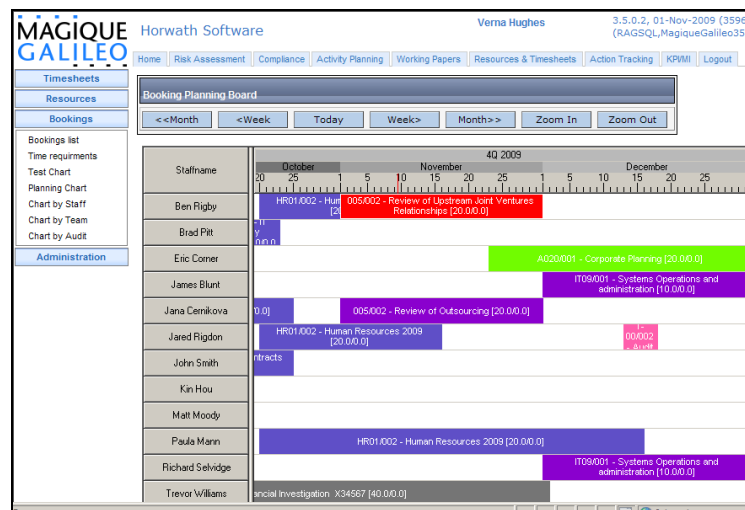
Continuing to innovate, in 2012-13, we have introduced Control Risk Self-Assessment (CRSA). This technique adds value and contributes to embedding risk management. It achieves this by increasing an operating unit's involvement in designing and maintaining risk management and control systems, as well as identifying risk exposures and determining corrective action.

Figure 1: Example CRSA Template

A		B	C	D	E	F	G	H	I	J	K
PAYROLL		N/A		COMPLIANT		PARTLY COMPLIANT			NOT COMPLIANT		
		0		0		0			17		
Please enter your departments name											
Compliance											
Reference	Key Question	N/A	Yes	Supporting Evidence	Hyperlink (optional)	In Part	No	Future Action Plans	Action Plan Deadline	Responsible Officer	
PR1	Are starter / leave / amendment forms authorised by an independent officer with delegated responsibility and is this checked before the starter/amendment is added/made to the payroll										
PR2	Are appropriate checks on new starters performed to ensure appropriate NI, bank, establishment details etc?										
PR3	Does HR / payroll verify leaver details (including notice period) and check that there is an original request to leave from										
PR4	Is overtime authorised, in line with council policy and appropriately monitored?										
PR5	Are only appropriate staff expenses reimbursed and coded with in line with HMRC regulations?										
PR6	Is a dummy payroll run performed and checked for completeness and accuracy before the live final payroll run?										

We are able to reduce audit time on areas where we can use a CRSA approach, offering our partners the opportunity to realise efficiencies, or to deploy audit resources into other areas.

Figure 2: Galileo Audit Management System



We have re-designed our Galileo Audit Management system to ensure our working papers fully reflect our LEAN approach. Further efficiencies will be achieved by utilising the Library system in Galileo where standard working papers will be stored to generate working papers for an audit.

Figure 3: Galileo Working Papers

Risk Matrix									
<div> <div>Edit</div> <div>Print</div> <div>Remove</div> <div>Close</div> </div>									
<div> <div>Details</div> <div>Testing of Co..</div> <div>Categorisation:</div> <div>Review Points:</div> <div>Actions:</div> <div>Word Reports:</div> <div>Attachments:</div> <div>Status</div> <div>Audit Trail</div> </div>									
<div> <div>Get Risks</div> <div>New Risk</div> <div>Expand All</div> <div>Collapse All</div> <div> <input checked="" type="checkbox"/> Risk <input checked="" type="checkbox"/> Expected Control <input checked="" type="checkbox"/> Test <input checked="" type="checkbox"/> Action Ref </div> </div>									
<div> <div>Risk: 01 Possible fraudulent payments (Draft)</div> <div>Fraudulent payments could be made if proper controls are not put in place.</div> <div> <div>Del Risk</div> <div>New Control</div> </div> <div> <div>Expected Control: 01.01 Only accept original invoices (Draft)</div> <div>Control Design: Not Yet Entered</div> <div> <div>Del Control</div> <div>New Test</div> </div> </div> </div>									

Solid Business Performance

With ever increasing financial pressures facing Local Government, the SIAS business model has contributed efficiency savings in order of £350k for its partner organisations. The SIAS risk focused approach has delivered high quality value added assurance work with less resource.

Commentary on our financial performance can be found in Appendix B.



Investing in our team

We are committed to the development of our team and set out the arrangements we have to support this important area:

Table 1: SIAS Development Activities

Investing in our talented staff

Professional Training & Development	<p>Supporting the team in obtaining qualifications from the Chartered Institute of Internal Auditors. In addition, trainees from HCC's CIPFA scheme are now routinely placed in our service.</p> <p>The team participate in Hertfordshire County Council's Performance Management and Development Scheme which underpins the Council's Investors in People accreditation.</p> <p>Team members with full professional qualifications participate in the continuing professional development requirements of their respective institutes.</p>
Technical	<p>A technical update is given at every SIAS team meeting. We can source technical training through both our partnership with PwC and our excellent professional networks.</p>
Relationship Skills	<p>We have identified five core attributes that we believe form the basis of effective internal audit relationships:</p> <ul style="list-style-type: none"> ○ communication ○ relationship building ○ persuasion ○ negotiation ○ influencing <p>We have designed training activity to support our staff in developing these skills and monitor individual performance through feedback questionnaires.</p>
Management and Development	<p>Four of the team have participated in 'LEAP', a management development programme. In addition, all Audit Managers have completed a set of recommended management courses.</p> <p>Three of the team are nominated for the county council's 'Talent Pool' which is intended to retain and facilitate the career development of the very best performing employees in the organisation.</p> <p>We have built commercial skills within the team in partnership with PwC.</p>

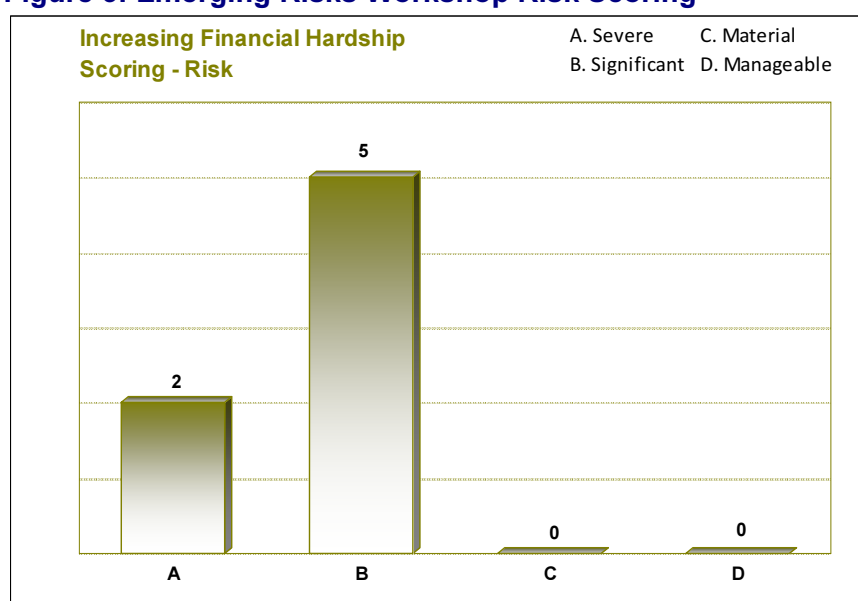
Greater synergies across partners

A vision for sharing across the partnership

Our partners have always seen the potential for a shared service to be a force for sharing learning and ideas. During the year, we issued our first combined benchmarking report which looked at opportunities for greater synergy across partners in relation to financial regulations.

We were pleased to be able to facilitate a workshop on emerging risk and assurance requirements with our Chief Financial Officers. This event set the foundations for audit planning by identifying shared concerns and opportunities for joint assurance work.

Figure 3: Emerging Risks Workshop Risk Scoring



Later in the year we designed a seminar day for Audit Committee Members aimed at updating these key stakeholders on the issues of the day.

First Class Customer Service

In order to monitor our effectiveness and improve our service, at end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that we have received 99% satisfactory or higher feedback rating from our customers.

'I found the audit process helpful and together with my colleagues I found working with the auditor a positive and enjoyable experience'

'The auditor quickly gained a good understanding of how we operate and took time to properly familiarise himself with our systems. The working discussions were helpful and constructively challenging. The findings were fair and the resolutions realistic'

'...willingness to participate in a dynamic audit during the development of a process'



Performance

Context

SIAS worked on more than 393 assurance and other projects during the year, giving assurance opinions and recommendations as demonstrated in the charts below.

Figure 4: Distribution of Audit Opinion 2012/13

*More than 393
assurance and other
projects identifying
954 recommendations*

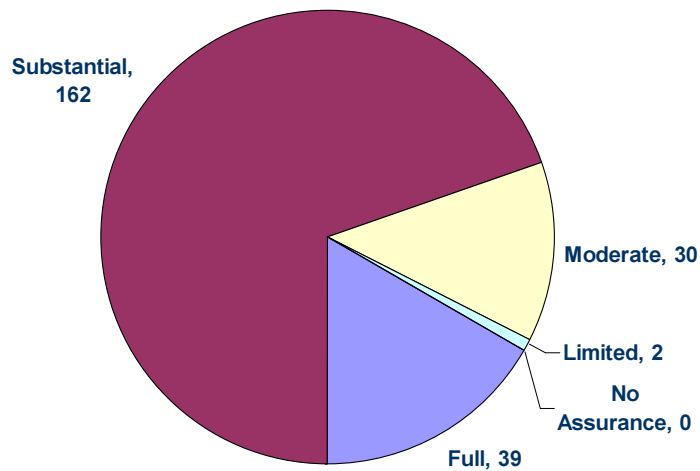
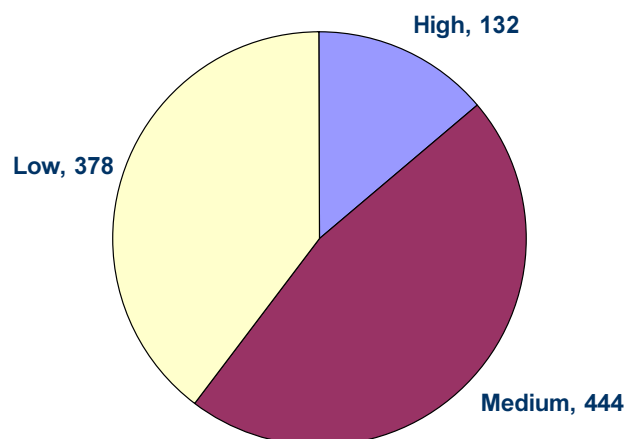


Figure 5: Prioritisation of Recommendations 2012/13



Business Performance of SIAS

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The full balanced scorecard for 2012/13 is provided in Appendix A to this report, and the headlines are summarised in the table below.

Table 2: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2012	Actual as at 31 March 2013	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	88%	98%	3,695 billable days were delivered by 31 March 2013.
Progress against plan: audits issued in draft by 31 March 2012	NA	84%	91%	359 audits were delivered to at least draft stage by 31 March 2013.
Client satisfaction	Satisfactory and above	100%	99%	All but one audit met the minimum target; 32% rated as very good; 67% rated as excellent.
Financials: income recovered	NA	£430,560	£1,119,015	No target was set for this indicator.

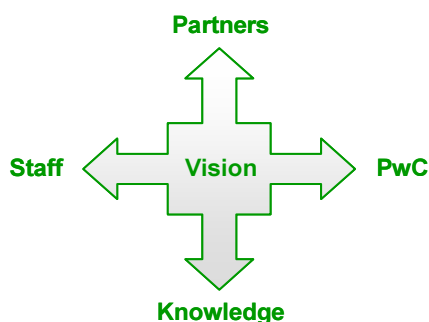
Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13; Appendix B sets out the summary financial position at 31 March 2013. In our first year as a fully-traded unit, we showed a deficit outturn; this was because a number of one-off costs were funded in year.

Professional Performance

Professional standards are fundamental to the effectiveness and credibility of internal audit, and are therefore taken extremely seriously by the SIAS Board.

In our last annual report, we highlighted peer review of our services undertaken by the Director of Veritau, a well-established local authority internal audit company owned by North Yorkshire County Council and York City Council.



The assessor concluded that SIAS had built a good reputation and profile, especially amongst senior client officers. Equally, the assessor recognised that the service had begun to deliver additional value as business case objectives were realised.

The assessors made a number of recommendations and the progress we have made this year against these is summarised below.

Working seamlessly with PwC

We reviewed the lessons learned from the first year of operation with PwC and took action to review work allocations in order to facilitate the building of effective relationships. We have monitored performance closely and carefully planned activity. Although there is still work to do, there has been much greater progress towards a 'seamless' approach as a result of these steps.

Communicating our new approach to managers

This has been regularly reviewed at audit champion meetings during the year and various activities were identified and delivered such as articles in office newsletters and presentations to managers, according to the individual needs of each partner.

Engaging our team in developing and delivering our vision

Significant work to enhance communications and build engagement within the team has taken place. The Head of Assurance has held a series of regular meetings with staff members to listen to views and opportunities and suggestions. Team meetings have been used to ensure all team members are briefed on the next steps for the shared service and the role we all play in creating success. We have worked to improve commercial awareness within the whole team so we are well placed to match our competitors.

Building skills and competencies

We have carried out a wide range of development activity across SIAS, including supporting professional, technical and managerial training and building customer relationship management skills within the service.

Using IT effectively

Significant work has been done to implement Galileo working papers, with a training day held in early April and roll out in progress.

A new SIAS Lap Top is being rolled out and all the team will be on this by June 2013. Those who have been using the lap top so far have been delighted with the improvement in performance.

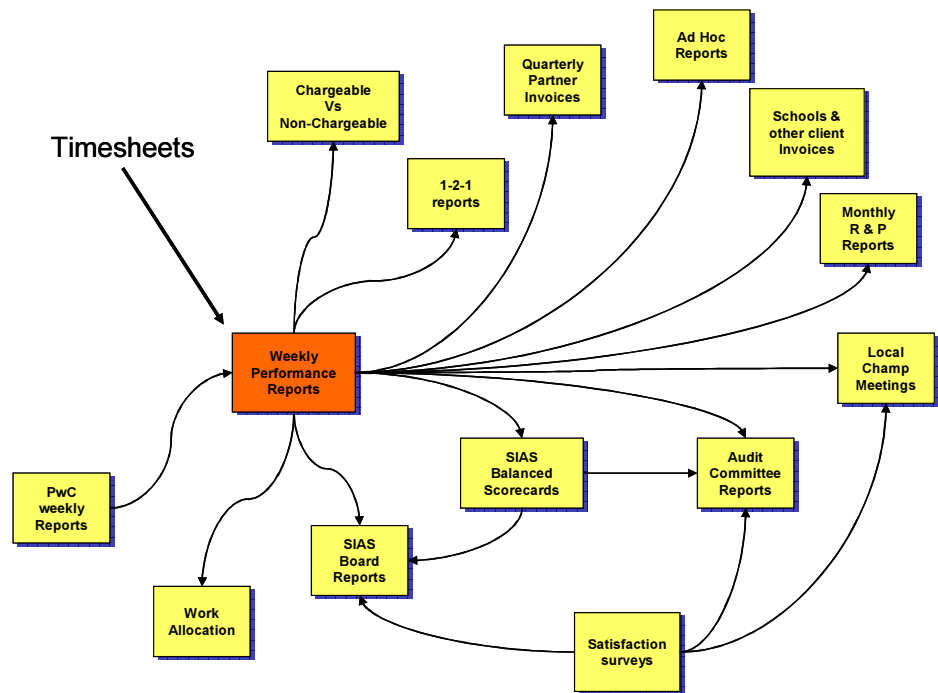
Sharing Learning

Highlights during the year included a development day for Audit Committee Members and a joint risk and assurance identification workshop for Chief Financial Officers. The current focus of this activity is in the development of benchmark reports for IT, Procurement and Fraud across the partnership.

Enhancing performance information

Performance information is in continual review and refinement and the focus at present is on developing reports which facilitate the management of the business.

The SIAS post audit questionnaire has been amended to include reference to how the service can add value.



Future Development

The final section of this Annual Report looks forward to the future. The partnership has signed off this vision for SIAS:

‘SIAS aims to operate at industry-standard levels of productivity and output and to demonstrate best practice by being at the leading edge of audit service delivery. The service aims to operate as an exemplar shared service and provide a return on investment for the partner councils by identifying opportunities to grow the business’.

Four priority areas have been identified for development activity in the year ahead:

1. Establish a leading reputation in respect of governance, risk assurance and internal control services – ensuring SIAS delivers a good quality service
2. Be at leading edge of audit service delivery –ensuring SIAS delivers an efficient, resilient, cost-effective service
3. Build a team ready to meet the challenges of the future – ensuring SIAS has the right skills to deliver in the changing public sector environment
4. Be an exemplar shared service with a ‘return on investment’ for partners and first choice public sector internal audit provider in the region with a growing client base.

The detailed development actions which feed into each of these priority areas were agreed by the Board in March 2013 and are monitored regularly by the SIAS Management Team. The table below sets out the mission-critical activities

Table 3: SIAS Mission Critical Activities

Priority	Activity
Leading reputation in governance, risk and control	<ul style="list-style-type: none"> • Compliance with Public Sector Internal Audit Standards • Joint reviews and seminars • Control Risk Self-Assessment roll-out
Leading edge of service delivery	<ul style="list-style-type: none"> • Full implementation of Galileo Working Papers • Roll out of new IT • Continued work on efficiency of audit delivery • Improved work allocation process
Team are ambassadors with the right skills	<ul style="list-style-type: none"> • Individual and team development plans agreed and maintained • Team development day on customer relationship management skills
Exemplar shared service	<ul style="list-style-type: none"> • Smooth expansion of the service to

Priority	Activity
	include Watford Borough Council and Three Rivers District Council • Review of management structure to ensure continued effectiveness

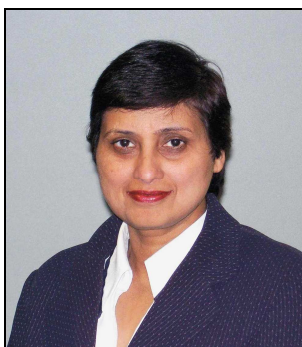
Building on the strong foundations already in place, these activities will take SIAS forward in the year ahead in a way that we believe will be to the benefit of all the partnership stakeholders.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.



Scott Crudgington, SBC
Director of Resources



Sajida Bijle, HBC
Director of Resources



Sarah Pickup, Herts CC
Deputy Chief Executive



Norma Atlay, NHDC
Director Finance, Policy & Governance



Pam Kettle, WHBC
Director of Finance & Operations



Adele Taylor, EHDC
Director of Finance and Support Services



Helen Maneuf, SIAS
Head of Assurance



SIAS Rolling Audit Balance Scorecard 31st March 2013

Progress Against Plan		⇒	Audit Progress		⇒	Level of Assurance		⇒	Recommendations		⇒	Client Satisfaction	
Total Plan Days*	3768		Allocated	0		Full	39		High	132		Excellent	67%
Billable Days to Date	3695		In Planning	0		Substantial	162		Medium	444		Very Good	32%
Percentage progress	98%		ToR Issued	5		Moderate	30		Low	378		Satisfactory	0%
*ex-unused contingency			In Field Work	24		Limited	2					Potential for Improvement	1%
			Drafting Report	1		No Assurance	0					Unsatisfactory	0%
			Quality Review	4		Not Assessed	67					No score	0%
			Draft Report Issued	33									
			Final Report Issued	262									
			Audit Closed	64									
			Cancelled	19									
			Percentage Progress	91%									
Targets			Targets			No Targets						Targets	
2012/13	95%		2012/13 - To Draft	95%								Min satisfactory and 39/65	60%

Please note that for the purpose of producing information on performance against in-year targets, figures represent the position at the cut-off point of 31 March 2013. Work to complete the 2012/13 activity was undertaken after year-end.

SIAS cost centre: budget against outturn 2012/13

	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	
Salaries & Salary Related	1,072,465	1,021,164
Partner / consultancy costs	111,326	135,599
Transport	17,870	16,050
Supplies	36,812	31,247
Office Accommodation cost	<u>23,274</u>	<u>23,274</u>
 Total expenditure	 1,261,747	 1,227,334
Less income from Districts, Police and HCC Trading Units	(628,606)	(606,465)
Less income / contribution from HCC	<u>(633,141)</u>	<u>(636,406)</u>
	0	(15,537)

Notes:

1. Figures exclude recharges (except for note 2 below), IAS19 and capital charges.
2. Office accommodation costs figure is represented by Admin Buildings Recharge.
- 3 Deficit includes funding of one-off costs of £33,180 associated with implementation

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.



East Herts District Council Audit Committee Progress Report 18 September 2013

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report
- Approve the amendments to the Audit Plan as at 30 August 2013; 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
 - 2.4 Proposed Amendments to Audit Plan
 - 2.5 Performance Management

Appendices

- A Progress against the 2013-14 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 2013-14 as at 30 August 2013.
- b) Proposed amendments to the approved 2013-14 Audit Plan.
- c) Implementation status of previously agreed high priority audit recommendations.
- d) An update on performance management information as at 30 August 2013.

Background

- 1.2 The 2013-14 Audit Plan was approved by Audit Committee on 13 March 2013.
- 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 10 July 2013.
- 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 30 August 2013, 22% of the 2013-14 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 report has been issued in the period since 14 June 2013 (cut-off for July 2013 Audit Committee):

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Fraud Baseline Assessment	Jun '13	Not assessed	nine recommendations on areas of best practice applicable to all SIAS clients

The final 2012-13 audit (IT Business Continuity) is currently in draft. An update on progress in finalising this piece of work will be provided by the Head of Shared Service at this meeting of the Audit Committee.

The following 2013-14 reports have been finalised:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Corporate Governance	Aug '13	Substantial	two merits attention
Section 106 Follow Up	Aug '13	N/A	All original recommendations now implemented

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.

Proposed Audit Plan Amendments

- 2.4 The following deletions from, and additions to the 2013-14 Audit Plan have been agreed with Officers of the Council and are detailed below for Audit Committee approval:

Deletion:

VAT (8 days) – A high level review of VAT was carried out by a Grant Thornton tax specialist in April 2012. The Council has an action plan to address issues identified and no value is anticipated from a further assurance review at this time (budgeted days reallocated as below).

Addition:

Processes for Complaints, Compliments and Comments (8 days) - Review of the use/application of the 3Cs procedure across council services as low levels of 3Cs are being recorded.

Performance Management

- 2.5 Annual performance indicators and associated targets were approved by the SIAS Board in 2011.
- 2.6 As at 30 August 2013 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 to 30 August 2013	Actual to 30 August 2013
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	25%	22%
2. Planned Projects – percentage of actual completed projects to draft report stage against	95%	10%	6%

planned completed projects			
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%	None made

2.7 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2013-14 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 civic 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 2013-14 AUDIT PLAN AS AT 30 AUGUST 2013

2013-14 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Key Financial Systems								
Asset Management					12	No		Target Q4
Benefits					15	No		Target Q3
Council Tax					12	No		Target Q3
Creditors (Control Risk Self Assessment – CRSA)					10	No		Target Q4
Debtors (CRSA)					10	No		Target Q4
Main Accounting					12	No		Target Q4
NNDR					12	No		Target Q3
Payroll					12	No		Target Q4
Treasury					7	No		Target Q3
Operational Audits								
Building Control Mutual					12	Yes	3.5	In planning
Community Infrastructure Levy					15	No		Target Q3/4
Development Control					15	Yes	13	In quality review
Emergency Planning					10	Yes	1	In planning
Environmental Protection					8	Yes	3	In planning
Facilities Management					15	No		Target Q3
Hertford Theatre					15	Yes	14	In fieldwork

APPENDIX A PROGRESS AGAINST THE 2013-14 AUDIT PLAN AS AT 30 AUGUST 2013

Page 206

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Home-working Project					15	Yes	2	In planning
Licensing					12	No		Target Q3
Local Development Planning					12	No		Target Q4
Parking Services Enforcement					15	Yes	1	In planning
Processes for Complaints, Compliments & Comments					8	Yes	1	In planning
S106 Follow Up	N/A				5	Yes	5	Final report issued
Shared Services					15	No		Target Q3
VAT					0	N/A	0	Audit cancelled
Procurement								
Land Drainage – continuous assurance					5	Yes		In planning
Leisure Contract – contractor accounts and inspections					12	Yes	10	In fieldwork
Recycling					10	No		Target Q4
Risk Management and Governance								
Corporate Governance	Substantial	0	0	2	12	Yes	12	Final report issued

APPENDIX A PROGRESS AGAINST THE 2013-14 AUDIT PLAN AS AT 30 AUGUST 2013

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
IT Audits								
IT Business Continuity					12	No		Target Q3/4
IT Data Management					12	No		Target Q3/4
IT Strategy – controls assurance					10	No		Target Q3/4
Transition to new financial system					1	Yes	0.5	On-going
Joint Reviews								
Comparative review of budget setting and monitoring arrangements					2	No		Target Q3/4
New ways of working – seminar					2	No		Target Q3/4
Herts Waste Partnership – consortium arrangements					3	Yes		Work in progress, time not yet allocated to clients
Strategic Support								
Strategic Support					50	N/A	18	On-going
SIAS Development					5	N/A	5	On-going

APPENDIX A PROGRESS AGAINST THE 2013-14 AUDIT PLAN AS AT 30 AUGUST 2013

Page 208

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Follow Ups								
Follow up of high priority recommendations					8	N/A	1	On-going
2012-13 Projects requiring completion								
Various					17	N/A	2**	Completed
EHC TOTAL					435		92	

Notes:

All audits in the 2013-14 Audit Plan have been allocated for the year. A 'No' in the Lead Auditor assigned column indicates the work is not expected to commence until Q3/4.

** excludes 15 days already billed in 2012-13

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 (last 12 months only)	SIAS Comment (Aug 13)
1.	Follow-up of Various ICT reviews (IA Report 22/6/09)	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.	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	Head of Shared Service	Revised to December 2011 (no date set at final report stage)	<p><u>Feb 13</u> IT BCP audit in progress.</p> <p><u>Jun / Aug 13</u> IT BCP audit report in draft for management review / comment.</p>	Separate update to be given at September Audit Committee by Head of Shared Service - 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 (last 12 months only)	SIAS Comment (Aug 13)
		A detailed timetable be prepared and issued to ensure that the Council's Business Continuity and Disaster Recovery Plan is completed and tested.	presented 09/02/09. Progress report is to be presented to Business Continuity Group in June. There was no evidence to confirm that a timetable has been prepared. It was, however, confirmed that a draft	Head of Shared Service	Mar 2012 (originally 31/03/10)	<u>Dec 12</u> 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	Separate update to be given at September Audit Committee by Head of Shared Service - continue to

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 (last 12 months only)	SIAS Comment (Aug 13)
			Business Continuity Plan had been produced but as this was still a work in progress, it had not yet been tested.			contract with Phoenix, taking into account the impact of shared services with Stevenage BC. <u>Feb 13</u> No update <u>Jun / Aug 13</u> IT BCP audit report in draft for management review / comment.	monitor
		The Information Technology Team should approve and oversee the implementation of	Draft IT Strategy in programme to go to ITSG, CMT/ICT –	Head of Shared Service	Mar 2012 (originally 30/09/09)	<u>Dec 12</u> Draft high level strategy document exists but does not meet the needs of	Separate update to be given at September Audit

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 (last 12 months only)	SIAS Comment (Aug 13)
		<p>the Council's Information Systems Strategy.</p> <p>IT management should consider the implementation of fire suppression systems in the Council's two</p>	<p>C3W Board, Executive and full Council for approval on 3/9/09.</p> <p>There was no evidence available to confirm that this had been implemented.</p>	<p>Head of Shared Service</p>	<p>Jun 2011 (originally 30/09/09)</p>	<p>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> <p><u>Feb / Jun / Aug 13</u> No updates obtained.</p> <p><u>Dec 12</u> Fire detection in place and approval given for suppression systems.</p>	<p>Committee by Head of Shared Service - continue to monitor</p> <p>Separate update to be given at September Audit Committee</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 (last 12 months only)	SIAS Comment (Aug 13)
		computer rooms.	This has been recognised as a risk and is to be considered by the Business Continuity Group.			Quotations being sought. <u>Feb / Jun / Aug 13</u> No updates obtained	by Head of Shared Service - continue to monitor
2.	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	Agreed. This will be considered with the full move to Hertford.	Head of Shared Service	Mar 2012	<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 included a review of payroll disaster recovery	Separate update to be given at September Audit Committee by Head of Shared Service - 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 (last 12 months only)	SIAS Comment (Aug 13)
		should the Payroll/HR system fail for any length of time.				<p>plans.</p> <p><u>Feb 13</u> Contingency arrangements for the introduction of the new payroll system in April are currently being developed.</p> <p><u>Jun / Aug 13</u> No updates obtained</p>	
3.	Business Continuity (IA Report 7/6/11)	It is recommended that the Business Continuity Plan is reviewed annually. It is further recommended that	The current East Herts Council Business Continuity Plan was	Director of Neighbourhood Services	Sep 2011	<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</p>	Separate update to be given at September Audit Committee

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 (last 12 months only)	SIAS Comment (Aug 13)
		the Business Continuity Plan is communicated to staff and made available on the intranet.	<p>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 has already reviewed the Council's strategic risks. This work is being finalised</p>			<p>consider the status and relevance of this recommendation.</p> <p><u>Feb 13</u> IT BCP audit in progress.</p> <p><u>Jun / Aug 13</u> IT BCP audit report in draft – awaiting management comment.</p>	by Head of Shared Service - 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 (last 12 months only)	SIAS Comment (Aug 13)
			before being put to CMT.				
	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>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><u>Feb 13</u> IT BCP audit in progress.</p> <p><u>Jun / Aug 13</u> IT BCP audit report in draft – awaiting</p>	Separate update to be given at September Audit Committee by Head of Shared Service - 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 (last 12 months only)	SIAS Comment (Aug 13)
						management comment.	
	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 recommended that the Disaster Recovery Plan is tested after it has been finalised.	The 2011/12 ICT Service Plan contains the required actions of developing an ICT Business Continuity Plan by the end of Sep 11 and testing the plan by the end of Dec 11. The arrangements for data back up and recovery will	Head of Shared Service	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> <p><u>Feb 13</u> IT BCP audit in progress.</p> <p><u>Jun / Aug 13</u> IT BCP audit report in draft – awaiting</p>	Separate update to be given at September Audit Committee by Head of Shared Service - continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 21 of 29

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (last 12 months only)	SIAS Comment (Aug 13)
			be contained within the ICT BCP. The preparation of the ICT BCP was deferred to Sep 11 due to the demands of 3W and changes and improved resilience that have been incorporated into the ICT infrastructure as part of C3W. Testing of the ICM business			management comment.	

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 (last 12 months only)	SIAS Comment (Aug 13)
			continuity contract is planned to take place in line with new business solutions by the end of March 2012.				
4.	Section 106 Agreement	Roles and responsibilities of all departments involved in the S.106 process should be documented to ensure that all parts of the process are completed for each contribution	Head of Planning and Building Control and Head of Communications, Engagement and Cultural Services to produce	Head of Planning & Building Control	March 2013	<u>Feb 13</u> Draft note being prepared, input from all relevant officers being sought. Anticipated that completed note will be prepared by the end of March 2013.	Complete – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 220

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (last 12 months only)	SIAS Comment (Aug 13)
		received.	procedure note.			<u>Jun 13</u> Action still to be completed. <u>Aug 13</u> Procedure note now complete.	

EAST HERTS COUNCIL

AUDIT COMMITTEE - 18 SEPTEMBER 2013

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

OUTSTANDING SIAS HIGH PRIORITY ICT RECOMMENDATIONS

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report should be viewed in the context of the SIAS Progress Report for September 2013 being considered elsewhere on this committee's agenda. It provides a detailed update on the outstanding ICT recommendations set out in the SIAS report.

<u>RECOMMENDATION FOR AUDIT COMMITTEE: That:</u>	
(A)	The Committee notes the progress in implementing the outstanding high priority recommendations set out in Essential Reference Paper B.

1.0 Background

1.1 SIAS provide an update to Audit Committee on the implementation of high priority recommendations in their regular progress reports. Pending a decision being made on the implementation of shared ICT Services a number of recommendations have been outstanding for some time. This report provides a detailed update set out in **Essential Reference Paper "B"** of proposals to implement these recommendations following the recent decision on Shared Services and appointment of a Head of Shared ICT, Business Improvement and Print and Graphic Design Services.

2.0 Report

2.1 The majority of outstanding recommendations focus upon the need for an effective business continuity/disaster recovery solution covering ICT services. While solutions are in place locally

in East Herts to deliver business continuity in the event that single systems fail, the plans in place to address a serious incident, such as a fire or flood, are not clear and have been untested recently. Furthermore the ability of the ICT service to deliver an effective comprehensive business continuity solution depends upon strong underlying infrastructure solutions. As noted in the report on ICT Infrastructure approved by Executive on 23 July 2013, investment in improved infrastructure is required in East Herts (irrespective of a decision around shared services). For these reasons it was determined that the significant work required to deliver a full business continuity solution was best deferred until decisions about infrastructure and shared services had been made. To have done so earlier would have led to significant additional costs being incurred and abortive work being undertaken by an ICT Team struggling due to lack of capacity.

- 2.2 The Business Continuity solution to be delivered through shared services is based around the existing infrastructure solution provided (and proven) in Stevenage. The shared service will deliver a shared infrastructure for both authorities that is physically in two separate data centres connected by an existing high capacity network link. This solution allows all systems to be recovered and delivered with only minimal performance implications from either data centre should one fail, within four hours. This is a solution which is far more effective and economic than traditional, insurance type, ICT business continuity solutions based around third party companies agreeing to reinstate infrastructure in the event of a disaster occurring, normally within one to two days.
- 2.3 The timeframes set out in **Essential Reference Paper “B”** are driven by the work required to set up the new data centre arrangements themselves. These need to be rigorously tested before they go live and involve deploying the new solutions in a structured way across the whole authority. Some communication around the new infrastructure has begun but more is planned to explain how risks are to be managed and what the project will mean for Members and Officers. The business continuity solution is designed in to the new solution and will be delivered as a by product of the overall project.

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

SIAS Audit Committee Progress Report – Audit Committee 10 July 2013.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	<p><i>People</i> This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</p> <p><i>Place</i> 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><i>Prosperity</i> 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'

STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Current Position
1.	Follow-up of Various ICT reviews (IA Report 22/6/09)	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>East Herts Executive approved the Business Case for setting up shared ICT Services on 23rd July 2013. A key proposal within the business case was to deliver core ICT services from the two data centres already in place and operational in Stevenage. This solution provides for all technology to be recoverable from either site within four hours. This includes scenarios such as fire or flood which might render either of the two data centres inoperable.</p> <p>Given the reasonable prospect that this solution would be supported by Members no significant work was undertaken to take forward interim solutions focused around the existing East Herts ICT infrastructure pending a decision on shared services.</p> <p>The first meeting of the Shared Services Partnership Board is to take place on 9th September 2013. It is likely that work to deliver the new infrastructure (which is already underway) will be prioritised by the Board. On that basis it is expected that the following prudent timeframe estimates will be</p>

ESSENTIAL REFERENCE PAPER 'B'

STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Current Position
		<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>The Information Technology Team should approve and oversee the implementation of the Council's Information Systems Strategy.</p>	<p>met:</p> <ul style="list-style-type: none"> ▶ Core infrastructure delivered through the data centre – December 2013 ▶ Priority Business Applications transferred into new environment – April 2014 <p>A plan exists and has been tested for the business continuity solution operating at Stevenage. This will be updated and tested in the new shared services environment by December 2013.</p> <p>An approach to delivering a new ICT Strategy for East Herts has recently been agreed with the portfolio holder. This will involve putting in place a Member Working group who will work with officers to agree a strategy. The strategy will then be implemented by the Head of Shared ICT, Business Improvement and Print and Graphic Design Services. A timetable is yet to be definitively agreed and will be subject to the availability of Members and officers participating in the</p>

ESSENTIAL REFERENCE PAPER 'B'

STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Current Position
		<p>IT management should consider the implementation of fire suppression systems in the Council's two computer rooms.</p>	<p>group. However, the broad aim is to agree the strategy through Executive no later than December 2013.</p> <p>This recommendation is no longer relevant as services will be sited in Stevenage in the future. Fire suppression systems are already in place for the new solution.</p>
2.	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.	The payroll system is now hosted at Stevenage and a comprehensive business continuity solution is in place which involves the system being recoverable within 4 hours should either of the two existing data centres fail (see response to recommendation 1).
3.	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	The Plan will be reviewed as recommended and communicated immediately once available by December 2013.

ESSENTIAL REFERENCE PAPER 'B'

STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Current Position
		<p>available on the intranet.</p> <p>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 recommended that the Disaster Recovery Plan is tested after it has been finalised.</p>	<p>This is covered under the response to recommendation 1 above and the undertaking to complete and test the Disaster Recovery Plan by December 2013.</p>

EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY COMMITTEE – 27 AUGUST 2013

AUDIT COMMITTEE – 18 SEPTEMBER 2013

EXECUTIVE – 1 OCTOBER 2013

REPORT BY THE LEADER OF THE COUNCIL

RISK MANAGEMENT STRATEGY

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- The Risk Management Strategy has been updated to reflect current best practice.

<u>RECOMMENDATION FOR CORPORATE BUSINESS SCRUTINY COMMITTEE</u> : that

(A)	The updated Risk Management Strategy be scrutinised; and
(B)	The Executive be advised of any recommendations.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u> that:

(A)	The comments of Corporate Business Scrutiny Committee be received; and
(B)	The Executive be advised of any recommendations.

<u>RECOMMENDATION FOR THE EXECUTIVE:</u> that
--

(A)	The comments of Corporate Business Scrutiny Committee be received; and
(B)	The Executive recommend to Council that the updated Risk Management Strategy be approved.

1.0 Background

- 1.1 The Risk Management Strategy has been updated to reflect current best practice.

2.0 Report

- 2.1 Risk management can be defined as:
The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).
- 2.2 By managing risks effectively, the Authority is in a stronger position to deliver services in accordance with corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.
- 2.3 The Director of Neighbourhood Services, the Manager of Corporate Risk and the Risk Assurance Officer have revised the Strategy to reflect current legislation, best practice, and to simplify policy and procedures. The review was delayed pending an Internal Audit report, and also release of a toolkit from ALARM, the Association of Local Authority Risk Managers. Both documents are reflected in the revised strategy. The Strategy will in future be reviewed annually and any significant amendments will be reported to Corporate Business Scrutiny Committee, Audit Committee and The Executive.
- 2.4 Key changes to the previous version of the strategy are detailed in the following paragraphs (2.5 to 2.11). The strategy document is attached as **Essential Reference Paper 'B'**.
- 2.5 **Scoring** – The risk scoring matrix has been simplified, and now clearly defines the Council's 'risk appetite', i.e. the level of service disruption, financial loss or reputation damage that the authority can tolerate. More consistent scoring can be expected in future, and it is hoped that Members and officers will receive more assurance regarding the likelihood or levels of exposure, particularly financial.
- 2.6 **Timetable** – Risk reporting periods have been following the Audit Committee timetable as best as possible. This was originally

requested to ensure that risk registers were received in a timely manner shortly after the reporting period. However, these timing issues have continued.

2.7 Other negative consequences of following the Audit Committee timetable are:

- Risk registers are not produced quarterly. Two reports span a period of two months and two reports span four months. There can be limited information to capture due to the short time span between service planning and risk report preparation, or report preparation and the next round of risk discussions at team meetings.
- The risk year commences in May so does not mirror the financial year. This causes confusion and Covalent has frequently been updated with controls for the wrong period.
- Consequently we have reverted to a quarterly reporting cycle for 2013/14, commencing April 2013.

2.8 **Frequency of monitoring** – Risk management will become a standing item on monthly Departmental Management Team meeting agendas in order that critical risks ('red risks') can be discussed regularly. Covalent will be updated quarterly unless there has been significant movement.

2.9 All strategic and operational risks, including control commentary completed by officers, can be viewed at any time on Covalent by all Members.

2.10 **Operational Risk Management Group** – The group was not as productive as originally envisaged; membership has therefore been reconsidered. More senior officers will attend in future so that the group can:

- manage corporate risks, e.g. IT performance, data protection, contract management, and determine the level of risk facing the Authority.
- produce consistent policies across the Authority, e.g. land management and inspection, lone working arrangements.
- advise on and support reviews of existing policy or new initiatives, e.g. HR and IT policies, health and safety, anti-

fraud measures, internal controls, data protection, business continuity planning and project management.

- monitor existing procedures, e.g. receive health and safety or data protection compliance reports.
- 2.11 It is expected that the first meeting of the new Operational Risk Management Group will consider lone working, front line staff safety and land inspection regimes.
- 2.12 There has been **no** changes to the way in which risks are explained to Members in committee reports, but any weak commentary should be challenged and assurance sought.
- 2.13 The risk identification process is considered to be robust, and remains **unchanged**. Service planning requires completion of a risk register, which is scrutinised by a panel of officers and also at Departmental and Corporate Management Team meetings. Risk registers are compared with other local authorities, emerging trends and guidance from professional bodies.

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

None.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS:

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	<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:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report. However the risk matrix has been updated to include potential financial exposure.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.

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Risk Management Strategy

2013/14

Agreed at CMT on 10th June 2013.

SMG 30th July 2013.

**To Corporate Business Scrutiny Committee, Audit Committee
and The Executive.**

Contents

		Page
Section 1 – Context	Policy statement	3
	Approval, communication, implementation and review	3
Section 2 – What is risk management	National drivers behind strategic risk management	4
	Local drivers behind strategic risk management	5
	Benefits	5
	Risk management, emergency planning and business continuity	5
Section 3 – Implementation	Risk management cycle	6
	Stage 1 Risk identification	7
	Stage 2 Analysing and evaluating risks	7
	Matrix	8
	Risk appetite	9
	Stage 3 Respond to risks	9
	Stage 4 Recording, monitoring and reporting	10
	Stage 5 Integrate with strategic and audit planning decision making	10
Section 4 – Risk management in projects and partnerships	Project / programme management	12
	Partnerships	12
Section 5 – Roles and Responsibilities	Members	12
	Full Council	12
	Executive	13
	Audit Committee	13
	Corporate Business Scrutiny Committee	13
	Chief Executive and Corporate Management Team	13
	Directors	13
	Senior Managers	14
	Operational Risk Management Group	14
	Corporate Risk	14
	Shared Internal Audit Service	14
Section 6 – Conclusion		15
Appendix 1	Categories of Risk	16
Appendix 2	Risk Register	17
Appendix 3	Covalent - example	18

Section 1 - Context

Policy statement

Risk is present in everything that we do, so it is our policy to identify, assess and manage the key areas of risk.

East Herts Council recognises that risk management is a vital activity, and we seek to embed risk management into the culture of the Authority. This includes the strategic decision making process, service planning, project management, partnerships, audit, procurement and contracts.

In order to obtain a clear picture of the risks that threaten the Council's ability to achieve its objectives, it is important that the Council determines its 'risk appetite' – the level of risk that is considered acceptable for the organisation to be exposed to. The Risk Management Strategy reflects our 'risk appetite', the size of the Authority and the nature of our operations.

The processes in place should provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of our strategy and related objectives.

The objectives of this strategy are: -

- Define what risk management is about and what drives risk management within the Council.
- Set out the benefits of risk management and the strategic approach to risk management.
- Outline how the strategy will be implemented.
- Identify the relevant roles and responsibilities for risk management within the Council.
- Formalise the risk management process across the Council.

Approval, Communication, Implementation and Review of the Risk Management Strategy

The Risk Management Strategy is on the intranet, and is specifically issued to:

- The Executive
- Audit Committee
- CMT
- Senior managers

To demonstrate how risk management contributes to the achievement of the Council's and service objectives, training is provided to those listed above, and members of staff who prepare committee reports and / or those who should consider risk in the roles that they perform.

The strategy is reviewed internally each year, and following key changes in central or local policies. Risk management is also subject to frequent audit by the Shared Internal Audit Service (SIAS).

Section 2 - What is risk management and why do we do it?

Risk Management can be defined as:

The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

Risk management therefore is essentially about identifying all the obstacles and weaknesses that exist within the Council. The approach is vital to ensuring that all elements of the organisation are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of assets – both staff and physical assets.

Once the obstacles have been identified, the next stage is to prioritise them to identify which are key to the Council moving forward. It is essential that steps are then taken to manage these effectively. The result is that major risks / obstacles that exist can be mitigated / controlled, providing the Council with a greater chance of being able to achieve objectives. Included within this should also be a consideration of the positive or 'opportunity' risk aspect.

National drivers behind strategic risk management

- The CIPFA/SOLACE framework on Corporate Governance requires the Council to make a public assurance statement annually, on amongst other areas, the Council's risk management strategy, process and framework. The framework requires the Council to establish and maintain a systematic strategy, framework and processes for managing risk.
- Risk management is best practice in both the public and private sectors.
- The coalition government have announced a number of changes in order to reduce bureaucracy and central government burdens and to save money. At the heart of all these changes is the government's ambition to decentralise – to transfer power from central government to local authorities and the communities and individuals they represent.

As set out in the Localism Act, work has already started to progress decentralisation. For example:

- The Comprehensive Area Assessment has been abolished and the Audit Commission disbanded.
- Central monitoring of targets associated with Local Area Agreements has ended.
- The national indicator framework has been deleted.

This means that going forward local authorities are in control of their systems and processes to allow them to fulfil their commitment to deliver their priorities and to account to their local communities for their performance.

Therefore it is essential that the Council's business planning and performance management processes are relevant and fit for purpose to support the delivery of the council's three key priorities – People, Place and Prosperity. Within this framework it

is important that risk management continues to be a key discipline that is carried out. The Council's risks are managed by having a clear strategy and effective arrangements in place, including appropriate resources to manage the risk of fraud and corruption and partnership working.

Local drivers behind strategic risk management

The Council's vision is:

'To improve the quality of people's lives and preserve all that is best in East Herts'.

The Council's Strategic Priorities:

'East Herts Council is here to help you. 'We are committed to the communities we serve; delivering good quality services that reflect local priorities and resources'.

In order to strive to meet the vision and priority, East Herts Council has recognised the need to further embed its risk management arrangements. The desired outcome is that risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

Benefits of risk management

Implementation of risk management produces many benefits for the Council including:

- Improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of reputation.
- Reduced losses arising from accidents and illnesses.
- Increased chance of achieving strategic objectives as key risks are minimised.
- The possibility of becoming less risk averse because risks are understood.
- Improved performance (accountability and prioritisation) - feeds into performance management framework.
- Better governance can be demonstrated to stakeholders.

Risk management, emergency planning and business continuity

There is a link between these areas; however it is vital for the success of risk management that the roles of each, and the linkages, are clearly understood. The diagram below sets out to demonstrate the differences.



Risk management is about trying to identify and manage those risks which are more than likely to occur and where the impact on our strategic objectives can be critical or even catastrophic.

Business continuity management is about trying to identify and put in place measures to protect priority functions against catastrophic risks that can stop the Council in its tracks. There are some areas of overlap e.g. IT infrastructure and resilience features as a strategic risk, but is a key element of business continuity plans.

Emergency planning is about managing those incidents that can impact on the community (in some cases they could also be a business continuity issue) e.g. a plane crash is an emergency, it becomes a continuity event when significant numbers of Council staff are required to provide support.

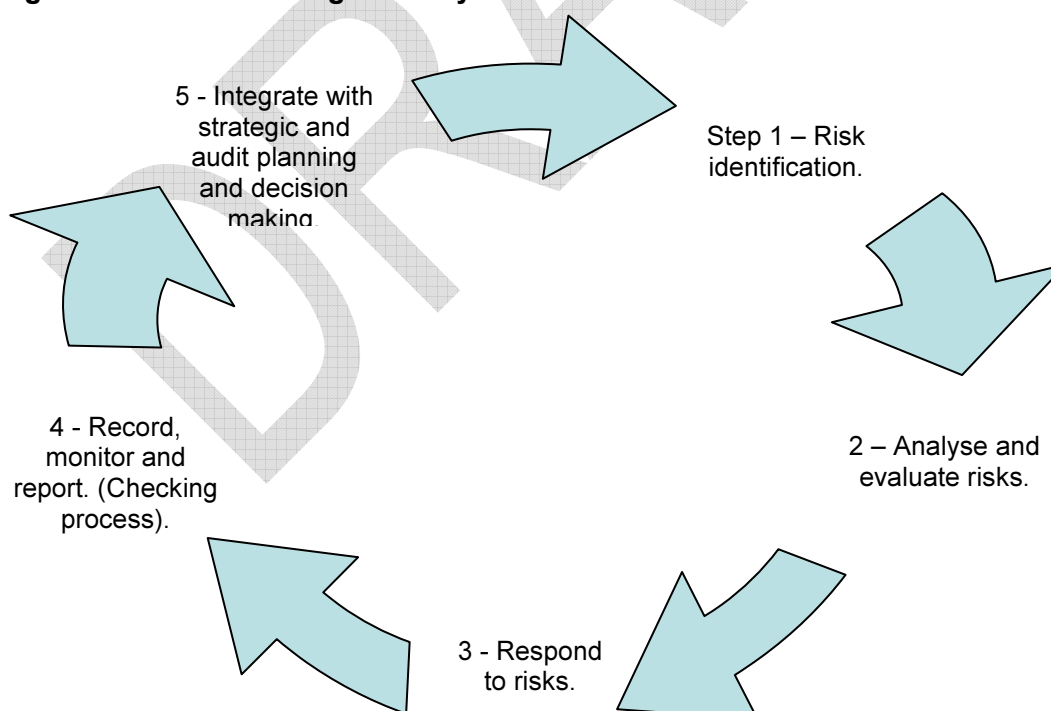
The Council recognises that there is a link between Risk Management, Business Continuity Management and Emergency Planning. Corporate Management Team leads in all three areas and strategies are developed concurrently.

Section 3 - Implementation of risk management

The risk management process

Implementing the strategy involves a 5-stage process as shown in figure 1.

Figure 1: The risk management cycle



Stage 1 – Risk identification

The first step is to identify the risks that could have an adverse affect or prevent key business objectives from being met. It is important that those involved with the process clearly understand what the Council wants to achieve in order to be able to identify the barriers.

When identifying risks it is important to remember that risk management is also about making the most of opportunities, e.g. making bids for funding, pursuing beacon status or other awards, taking a national or regional lead on policy development, savings that may be achievable if a project goes to plan etc.

Using appendix 1 as a prompt, various techniques can then be used to begin to identify 'key' or 'significant' business risks including:

- A 'brainstorm' session
- Own (risk) experience
- Challenge within team meetings
- 'Strengths, Weakness, Opportunities and Threats' analysis or similar
- Experiences of others - can we learn from others mistakes?
- Exchange of information / best practice with other authorities, organisations or partners.

The process for the identification of risk should be undertaken for projects (at the start of each project stage), partnerships, service planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.

Stage 2 – Analysing and evaluating the risks

The risk should be given a clear and concise title. A fuller description to include the root cause and the possible consequences of the risk if it occurs should be provided separately, e.g.

Title	Description
Response to changes to the Civil Procedure Rules governing the handling of liability (insurance) claims.	The timeframe to handle liability claims below £25,000 will reduce from 111 days to 30 / 40 days in April 2013. Failure to meet deadlines could result in financial penalties.

It is prudent to combine risks from more than one service that share common causes and consequences, e.g. IT network performance, data protection, staff recruitment and retention, health and safety etc. An appropriate officer or the Operational Risk Management Group will review such risks and recommend controls and devise policy where possible. These corporate risks will feature on DMT risk registers to keep services informed, and to ensure that comments and ideas are recorded and Council policy followed.

Following identification and analysis, risk scoring is agreed at DMT and / or in a facilitated workshop. Participants review risk scenarios, rate the potential likelihood of occurrence and the impact if it were to occur. A matrix is used to plot risks to illustrate priority. Impact and likelihood scoring criteria have been revised for 2013/14, and are detailed in the following matrix.

Risk appetite

A material risk is deemed to be any risk rated higher than 2:2. This is the Council's 'risk appetite' i.e. the level of risk that it is prepared to tolerate. Where a risk rating exceeds this 'control' area of tolerance, demonstrable evidence of how risks are being mitigated will be required, together with proposals for future controls.

Stage 3 – Respond to risks

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, accept transfer or terminate the risk on an agreed 'risk appetite'. Risks may be able to be: -

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, severity and financial consequences of the risk event.

Accepted - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc.

Terminated - By ending all or part of a particular service or project.

It is important to recognise that, in many cases, controls will already be in place. It is therefore necessary to look at these controls before considering further action. They may be out of date or not complied with.

The potential for controlling the risks identified will be addressed through service plans. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be transferred or terminated. These service plans will also identify the resources required to deliver the improvements, timescale and monitoring arrangements.

Existing controls, their adequacy, new mitigation measures and associated action planning information are all recorded on the risk register, including ownership of the risk and allocation of responsibility for each mitigating action. Full details of the risk mitigation measures that are to be delivered are likely to be recorded in the respective service plans and cross reference should be made to this in the risk registers.

Consideration should also be given here as to the 'Cost-Benefit' of each control weighed against the potential cost / impact of the risk occurring. N.B. 'cost / impact' here includes all aspects including financial, resourcing, but also reputational.

Stage 4 – Recording, monitoring and reporting

Corporate Management Team (CMT) is responsible for ensuring that key strategic risks are managed.

Directors and senior managers are responsible for ensuring that key risks in their service are managed.

Risk owners should update descriptions, scores, controls and planned controls on Covalent. See Appendix 3 for details and an example.

CMT then undertakes a review of the strategic risk register and receives updates from Directorate Management Teams (DMT). Operational risks affecting more than one service within the Council can be referred to the Operational Risk Management Group for controls to be devised.

A comprehensive review of risk registers is undertaken annually by the Risk Assurance Office, Manager of Corporate Risk and the Director of Neighbourhood Services following receipt of service plans. A comparison is made between risks identified in the service plan, existing risk registers, and new risks and trends identified elsewhere. Risk ratings will be moderated where necessary, and proposals for the following year's risk registers are then presented at DMT meetings for amendment and final approval before addition to Covalent. (Proposed strategic risks are also presented to CMT).

All operational and strategic risks are reviewed and challenged at least quarterly at DMT healthcheck meetings, with controls discussed and agreed.

During the year new risks are likely to arise that have not previously been considered. The environment in which risks exist will change making some more critical, and others less important or obsolete. Risk registers and scores should be updated to reflect these changes, ensuring that risk registers and resulting mitigation measures are appropriate for the current service and corporate objectives. (Addition of new risks to and deletion of obsolete risks from Covalent can only be carried out by the Risk Assurance Officer).

If any risks require corporate ownership and management then they should be incorporated into the strategic risk register or referred to the Operational Risk Management Group, as appropriate.

Risks scored 'critical' (red) will be reviewed monthly at DMT meetings, although Covalent need not be updated unless significant movement occurs.

CMT will report strategic risks to the Executive quarterly as part of the Corporate Healthcheck report. Audit Committee will receive four monitoring reports each year.

Stage 5 - Integrate with strategic and audit planning and decision making

In order to formalise and structure risk management at the Council, it is recognised that there are obvious and clear links between risk management and strategic planning; financial planning; policy making and review and performance management. The linkages are as follows:

- Risk management is a key part of the business planning process and therefore forms one of the key elements of the integrated **Strategic and Financial Planning framework**. Guidance on the framework is issued annually to senior managers with the publication of the Medium Term Financial Strategy. The guidance includes a section on risk assessments, which clearly explains that services need to recognise risk not just in relation to planned activity coming out of the service planning process (that supports the Council's priorities) but also in terms of the broader objectives of the service.
- Risks that have been identified that have a potential financial impact need to be considered as part of the preparation of the Medium Term Financial Plan (MTFP). Sources of funding the mitigation of risks, or the consequences of risk assessment need to be clearly identified within the MTFP, either as specific budget lines, provisions or use of general reserves. In addition, consideration of the Council's ability to withstand shocks from external factors is included as part of the Consolidated Budget report annually, which stress tests the MTFP and ability to withstand unexpected events.
- Financial Regulations apply to every Member and officer of the Council, and anyone acting on its behalf. As a modern Council, East Herts encourages innovation, providing this is within the framework laid down by the Financial Regulations, and the necessary risk assessment and approval safeguards are in place.
- The Council's **performance management framework** supports the monitoring of strategic and operational risks through the Council's **Corporate Healthcheck Report**. This encourages greater ownership and accountability by service heads in managing budgets, more prudent and focused management of service performance and risk management.
- The Council's **Performance Development Review (PDR) scheme** flows through the organisation from the Chief Executive to staff and ensures that all employees have clear accountabilities and objectives linked to those of the service and the Council.
- Annually the Shared Internal Audit Service review service plans and risk registers with the Corporate Risk Team to produce the risk based audit plan for the next financial year.

The Council's **performance management system – Covalent** – also serves to strengthen the linkages. All performance and risk monitoring reports are generated from the system and the features of Covalent enable us to demonstrate the link between our corporate priorities, key activity, performance indicators and risks.

Section 4 - Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships, including shared services.

Project / Programme management

There is a consistent and robust approach to risk management used in projects, both at Project Initiation stage and throughout the entire project. This is based largely on the approach used across the authority. Written guidance is available on the intranet.

The approach to risk management defined within this strategy document and within the project management system, is exactly the same.

Partnerships

Reduced funding is leading to more public services and community projects being delivered through partnerships between the public, private and third sectors. Partnerships are essential to deliver benefits to residents, businesses, and visitors, but they bring risks as well as opportunities.

The Council's 'Partnership Protocol', which is available on the intranet, provides guidance on governance, including risk management, and the key processes that can be followed to establish and maintain effective partnerships. A review of these arrangements is undertaken annually and reported to Corporate Business Scrutiny Committee each November.

Section 5 - Roles and responsibilities

The following describes the roles and responsibilities that Members and officers have in introducing, embedding and owning the risk management process:

Members

Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces, and will be made aware of how these risks are being managed through the annual strategic and service planning process, and through reports to the Executive and Audit Committee.

All Members will have the responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the reports that are submitted to them. They cannot seek to avoid or delegate this overall responsibility, as it is key to their stewardship responsibilities. Awareness training will be available for all Members when specific training needs are identified.

All Members can access all strategic and operational risks on Covalent.

Full Council

Full Council recognises the importance of effective risk management and considers risk management issues when making decisions.

Executive

- To receive regular reports, covering implementation of the Council's risk management policy and strategy to determine whether corporate risks are being actively managed.
- Agree the Risk Management Policy and Strategy on an annual basis, or if significant changes require a revision.
- Agree / set the Council's risk appetite.
- Allocate sufficient resources to address top risks.
- The Portfolio Holder for Risk Management is recognised as the Member champion for Risk Management

Audit Committee

- To monitor the effective development and operation of risk management and corporate governance in the Council.
- Receive updates regarding the mitigation and control of strategic risks four times per year, and gain assurance that risk management is properly undertaken.

Corporate Business Scrutiny Committee

- To develop policy options and to review and scrutinise the policies of the Council including Risk Management.

Chief Executive and Corporate Management Team (CMT)

- To ensure that effective systems of Risk Management and internal control are in place to support the Corporate Governance of the Council.
- Take a leading role in identifying and managing the risks and opportunities to the Council and to set the example and standards for all staff. (The Director of Neighbourhood Services is recognised as the Officer Champion for Risk Management).
- Advise the Executive and Council on the risk management framework, policy, strategy and processes.
- Advise on the management of strategic and other significant risks.
- Ensure that the Policy and Strategy are communicated, understood and implemented by all Members, managers and staff and fully embedded in the Council's service planning and monitoring processes.
- Identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process. Refer key corporate and service specific operational risks to the Operational Risk Management Group for action.
- To report to Members on the management of strategic risks.
- Ensure that appropriate risk management skills training and awareness is provided to all Members and appropriate staff.

Directors

- To be individually responsible for proper monitoring of the relevant service risk registers and the embedding of risk management into the business and service planning of their relevant services.
- To ensure that the risk management process is part of all major projects, partnerships and change management initiatives.

- To ensure that all reports of a strategic nature written for Members include risk commentary.
- To ensure that new and existing risks are reviewed, challenged and updated quarterly at DMT meetings. Critical risks will be reviewed monthly.
- Report quarterly to CMT on the progress being undertaken to manage strategic risks.

Senior Managers

- To be individually responsible for proper monitoring of their service risk register, and the embedding of risk management into the business and service planning of their relevant service.
- Be actively involved in the identification and assessment of service risks resulting in an up to date service risk register and matrix.
- Ensure that all reports of a strategic nature written for Members include risk commentary.
- To maintain the awareness of risks and the risk identification process.
- To implement the detail of the Risk Management Strategy and risk related corporate policies, e.g. Health and Safety, Data Protection.
- Share / exchange relevant information with colleagues in other service areas.

Operational Risk Management Group

- To review operational risks that affect numerous teams within the authority. Plan mitigation activity and produce procedures / policies. Provide feedback to services and committees where necessary.
- To monitor health and safety compliance and land management standards.
- To act as a forum for the sharing of best practice.
- To receive minutes from the Council's Safety Committee and Business Continuity Group and update / act on risks as appropriate.

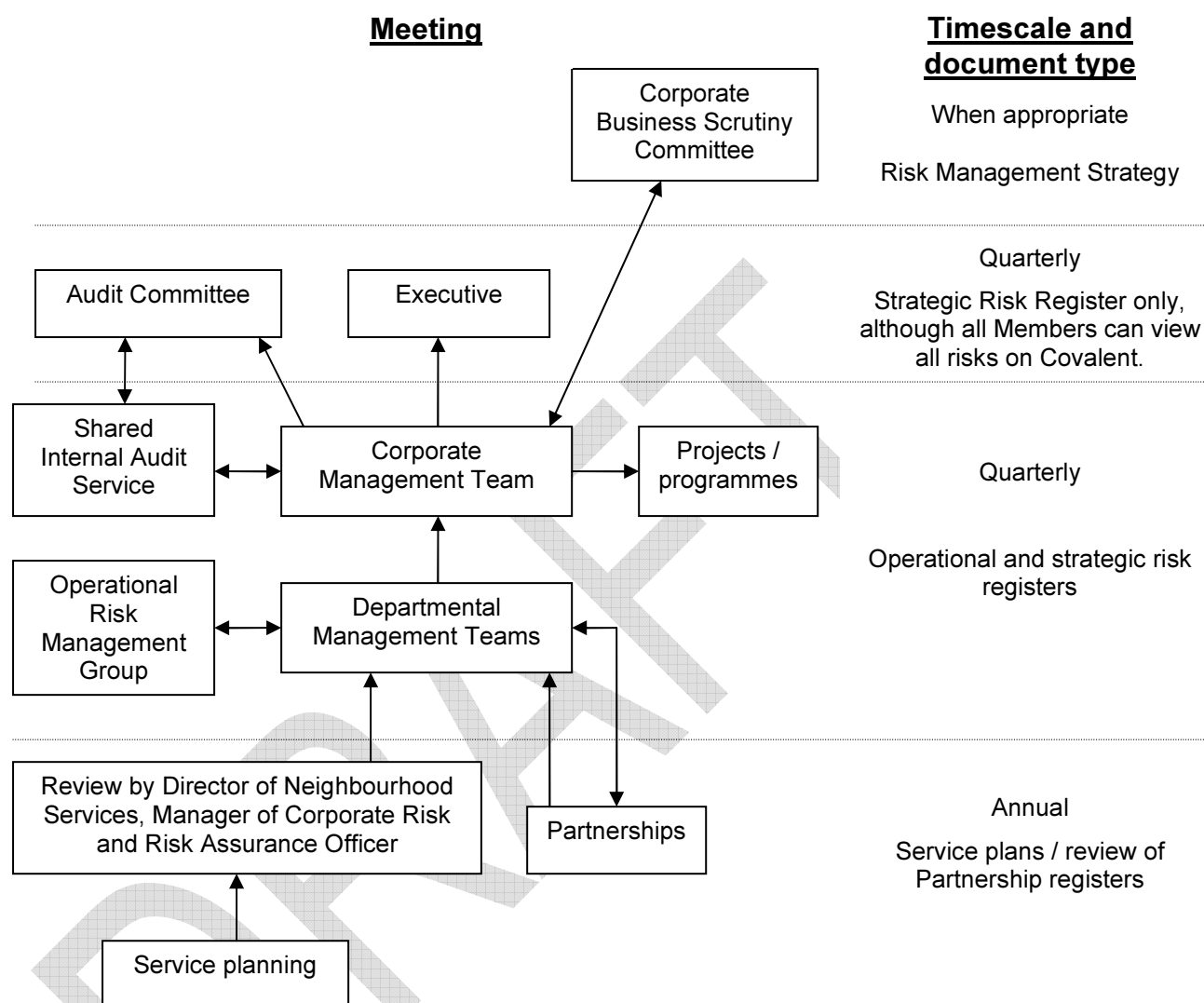
Corporate Risk Team

- Co-ordinate risk management activities and prepare related reports for management and Members.
- Review and develop the Risk Management Strategy and processes.
- Facilitate risk discussion workshops and support and assist the maintenance of risk registers. Gain assurance on the process being conducted.
- Facilitate / arrange risk management training for staff and Members.
- To play an active role within the Operational Risk Management Group.
- Pass experiences of strategy implementation to the appropriate services.
- Maintain awareness of risks and feed them into the risk identification process.
- Support the risk based audit planning process.

Shared Internal Audit Service

- To provide assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance.
- To provide an annual Audit Plan that is based on a reasonable evaluation of risk, and to provide an annual assurance statement to the Council based on work undertaken in the previous year.
- Review and challenge the effectiveness of the risk management framework.

The following table shows the risk management reporting arrangements:



Section 6 - Conclusion

This strategy will set the foundation for integrating risk management into the Council's culture. It will also formalise a process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks from Services to CMT should interlock with the existing quarterly healthcheck for performance reporting, through Covalent. The intention being that the management of risks is incorporated into business plans so that by reporting on performance naturally reports progress on the mitigation of risks.

Appendix 1 – Categories of risk

Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment.	New political arrangements. Political personalities. Political make-up. Policy and decisions.
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, external macro level economic changes or consequences of proposed investment decisions.	Financial climate. Cost of living. Changes in interest rates. Inflation. Poverty indicators.
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives.	Ageing population. Health statistics. Crime rates.
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives.	E-Gov.. IT infrastructure. Staff/client needs. Security standards.
Legislative	Associated with current or potential changes in national or European law.	Human rights. TUPE regulations
Continuity / service delivery	Ability to deliver services.	Loss of key staff, building, documents or IT.
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives.	Land use. Recycling. Pollution.
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value.	Fail to win quality accreditation. Alternative service providers.
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens.	Managing expectations. Extent of consultation.
Managerial/ Professional	Associated with the particular nature of each profession, internal protocols and managerial abilities.	Staff restructure. Internal capacity.
Financial	Associated with financial planning and control.	Budget overspends. Level of Council tax. Level of reserves.
Legal	Related to possible breaches of legislation.	Client brings legal challenge.
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification.	Contractor fails to deliver. Partnership agencies do not have common goals. Shared services.
Physical	Related to fire, security, accident prevention and health and safety.	Land / facility management. Use of equipment.

Appendix 2 – Risk Register

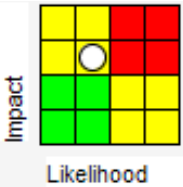
Part A – risks related to Section 3a and b of the service planning template.

(Service Title) Service Plan 2013/14

Risk No.	Risk title and detail	Consequence	Impact (1 to 4)	Likelihood (1 to 4)	Risk owner	Mitigation actions past quarter (if relevant)	Planned mitigating actions
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Quarter 1: xxxxxx
Quarter 2: xxxxxx
Quarter 3: xxxxxx
Quarter 4: xxxxxx

Appendix 3 – Covalent screen

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
13 – IS1	Response to changes to the Civil Procedure Rules governing the handling of liability insurance claims	The timeframe to handle liability claims below £25,000 will reduce from 111 days to 30 / 40 days in April 2013. Failure to meet deadlines could result in financial penalties.		3	2	Manager of Corporate Risk	<p>Mitigating actions April to June 2013:</p> <p>Procedure manual drafted and new methods of working introduced.</p> <p>Training provided to all teams.</p> <p>Planned mitigating actions:</p> <p>Monitor numbers of claims and response times. Meet teams when investigating claims. Further training as rules develop.</p>

Concise title. See guidance on page xxxx.

Description of root cause and potential consequence.

Code allocated by Corporate Risk Team. Year followed by individual code, then reference number. Codes are:
 SR = Strategic Risk
 CCS = Customer and Community departmental risk
 IS = Internal Services
 NS = Neighbourhood Services

Latest assessment of risk.

The likelihood of a risk occurring during the year may increase or decrease, and the impact similarly too. This should be reflected in the scoring.

The matrix will update automatically.

The risk owner. (A Director or senior Manager).

The controls / mitigating actions for the reporting period should be listed here, along with the actions that you plan to implement in future.

EAST HERTS COUNCIL

AUDIT COMMITTEE – 18 SEPTEMBER 2013

REPORT BY THE LEADER OF THE COUNCIL

RISK MANAGEMENT MONITORING REPORT (APRIL TO JUNE 2013)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report relates to action taken to mitigate and control strategic risks in the period April to June 2013.

<u>RECOMMENDATION FOR AUDIT COMMITTEE: That:</u>	
(A)	The action taken to mitigate and control strategic risks be approved.

1.0 Background

The Strategic Risk Register was considered by Audit Committee on 10 July 2013. The register has been updated to reflect controls implemented between April and June 2013 and is attached at **Essential Reference Paper ‘B’**.

2.0 Report

2.1 Risk management can be defined as: The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

2.2 Managing threats and opportunities helps to create an environment of “no surprises” and the Authority is in a stronger position to deliver services in accordance with corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.

- 2.3 The Council's Risk Management Strategy has been revised, and will be presented at this meeting. A new risk scoring matrix has been introduced with the following system of rating adopted:

The following scores are used to rate the potential impact if the risk was to occur:

- 4 Sum involved is greater than £280,000 and/or National criticism and/or catastrophic fall in service quality.
- 3 Sum involved is between £140,000 and £280,000 and/or Regional criticism and/or major long term fall in service quality.
- 2 Sum involved is between £50,000 and £140,000 and/or Long term local media criticism and/or minor long term or major short term fall in service quality.
- 1 Sum involved is less than £50,000 and/or Short-term local media criticism and/or short-term fall in service quality.

The following scores are used to rate the likelihood of occurrence:

- 4 The event is likely to occur within a year.
- 3 The event may occur within, or more than once in three years.
- 2 The event could occur less frequently than every three years.
- 1 The event could occur in exceptional circumstances.

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

- 2.4 All strategic and operational risks were reviewed ahead of the new risk year following completion of service plans. This followed on from consideration of new and emerging risks identified by other local authorities and other sources, and discussions at both Departmental and Corporate Management Team meetings.
- 2.5 The eight strategic risks from 2012/13 remain, and a new risk concerning the welfare reforms has been added for 2013/14. (Reference 13-SR9).
- 2.6 The Strategic Risk Register, **Essential Reference Paper 'B'**, has been updated to reflect controls implemented between April and June 2013. In previous years the Audit Committee timetable has been followed, but quarterly reporting has been re-introduced to

mirror the financial year. This has resulted in a one month overlap with the final report of 2012/13.

2.7 This information was presented to the Executive on 3 September 2013. There are no comments to relay.

2.8 The new matrix, and all strategic and operational risks, can be viewed on the Council's performance management system, Covalent (www.covalentcpm.com/eastherts).

2.9 At the Audit Committee meeting on 10 July 2013, Members enquired whether issues relating to the District Plan have been considered as part of the risk monitoring process. This has been picked up through Neighbourhood Services as Operational Risk 13-NS16 'Strategic planning issues - risk of loss of planning control by virtue of slow or insufficiently robust delivery of District Plan'.

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

Risk Monitoring Report February to April 2013 – Audit Committee 10 July 2013.

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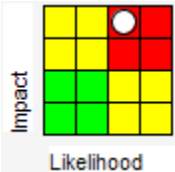
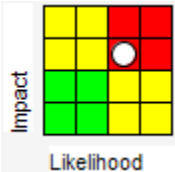
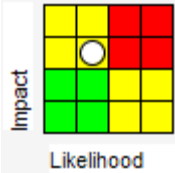
ESSENTIAL REFERENCE PAPER 'A'

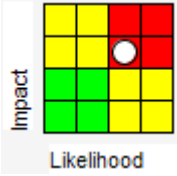
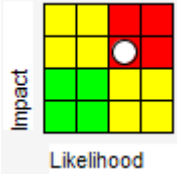
IMPLICATIONS/CONSULTATIONS

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

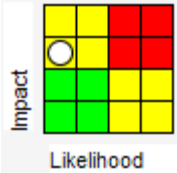
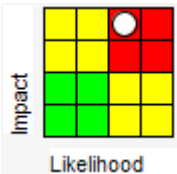
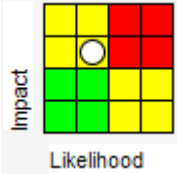
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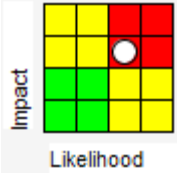
Strategic Risk Register April to June 2013

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
13-SR1	Risk of significant reduction in funding above that planned for, in particular localisation of Council Tax Support and localisation of business rates.	There is uncertainty around future funding, both from Government and other areas such as income from commodities markets for recycled materials. There are cost pressures combined with an increased awareness and scrutiny of financial position.		4	3	Adele Taylor	April to June 2013: Recent announcements on funding from the Comprehensive Spending Review are being analysed and will feed into the refreshed Medium Term Financial Plan in September.
13-SR2	Risk of a loss of capacity / capability and flexibility to deliver service levels we would like.	There are challenges around workforce planning to ensure the Council is fit for the future, in terms of workforce skills, capacity and flexibility.		3	3	Adele Taylor	April to June 2013: Workforce planning issues need to be considered alongside recent announcements of future funding cuts.
13-SR3	Risk that supplier / contractor or key third sector partner fails or fails to deliver.	A number of key external and internal services are delivered through major contracts, both directly and in consortia. This is both through private sector supply chains and in conjunction with the voluntary and third sector.		3	2	George A Robertson	April to June 2013: The council has robust contract management processes and procedures in place to ensure any concerns are flagged up early.

13-SR4	Risk that investment and effort does not deliver benefits and returns in Shared Services	Moving more towards shared services with other public sector partners. Potential for lack of consistent political buy-in by all partners resulting in considerable effort without benefit. There is also a challenging skill set for managers due to the complexity.		3	3	Adele Taylor	April to June 2013: Business case for Shared ICT, Print and Design due to go to Executive in July 13.
13-SR5	There is uncertainty on overall future government policy and a number of changes required without accompanying resource.	Risk of being unable to long term strategically plan.		3	3	Simon Drinkwater	April to June 2013: Risk on target. Risks arising from changes in government policy are identified and reported to Corporate Management Team. The reduction in Council Tax benefit and the introduction of universal credit are issues which are currently being considered. Extra resources and training have been provided. The Council is continuing to respond to changes in the benefit system. The situation is being monitored. The Council has responded to the changes in planning resulting from the introduction of the new framework and other changes arising from the Localism Act. The District Plan is progressing with a revised timetable. The delay in the provision of the District Plan increases risks of housing development being allowed on appeal. So far the impact has been limited. The situation is being kept under review.

Essential Reference Paper “B”

13-SR6	Risk that SMG does not implement Council policies in a coherent and consistent way.	There could be a lack of consistency and cohesion at senior management levels of implementing decisions.		3	1	Simon Drinkwater	April to June 2013: Corporate Management Team meets fortnightly. Part of the role of CMT is to ensure consistency in implementing decisions. Directors discuss the implementation of decisions with Heads of Service and other managers to ensure consistency of approach. Departmental Management Team meetings convey details of decisions to relevant staff. Directors are responsible for ensuring that decisions are implemented correctly. The changes from the action plan produced after the Peer Challenge are intended to improve decision making.
13-SR7	Availability and performance of IT systems and resources impacting on service delivery.	Reduced levels of service across the Authority. Targets may not be achieved. Staff morale and reputation of Council may suffer. Influence of ITSG should reduce risks		4	3	Adele Taylor	April to June 2013: New performance reporting is being introduced and should be available from July to monitor the impact of ICT performance on service delivery.
13-SR8	Data Protection: Failure to comply with the data protection principles. The potential disclosure of personal data inappropriately.	Action may be taken by the ICO. Individuals may suffer if their personal data, particularly sensitive personal data is disclosed.		3	2	George A Robertson	April to June 2013: The council is undertaking a programme of policy and process review which will further strengthen this area and mitigate potential risks.

13-SR9	Impact of welfare reform changes.	<p>New legislation will have an adverse financial impact on a significant number of residents. Residents will require more support from services across the Council affecting staffing levels, finances, and a risk of increased aggression. There may also be difficulties in implementing Government policy.</p>		3	3	Adele Taylor	<p>April to June 2013: The workload in Revenues and Benefits service continues to increase. Services across the Council including Housing and Customer Service continue to also experience an increase in demand. Services are working together to work efficiently and effectively to manage the increased workload.</p>
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EAST HERTS COUNCIL

AUDIT COMMITTEE – 18 SEPTEMBER 2013

REPORT BY DIRECTOR OF FINANCE & SUPPORT SERVICES

AUDIT COMMITTEE WORK PROGRAMME 2013/14

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides a revised Audit Committee work programme for the 2013/14 civic year for consideration and approval.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u> That:	
(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 13 March 2013.

2.0 Report

- 2.1 A revised Audit Committee work programme for the 2013/2014 civic year is given at **Essential Reference Paper 'B'**.

- 2.2 The following amendments have been made to the work programme:

- A report on Outstanding SIAS High Priority ICT Recommendations has been added to the Agenda for this meeting.
- The two reports originally to be submitted to this meeting by External Audit have been combined to form one report of Audit Findings.
- The timeframes for Risk Management monitoring reports are now quarterly.

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 2013/14 Audit Committee
10 July 2013.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	<i>People</i> 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 2013/14 Civic Year

Committee Date	Agenda Items
10 July 2013	<ul style="list-style-type: none"> • Training item- Grant Thornton- Governance • External Audit- Interim and Audit Approach Report • Draft Statement of Accounts 2012-2013. • Shared Internal Audit Service Annual Assurance Statement 2012/13. • Shared Internal Audit Service Audit Charter. • Shared Internal Audit Service- Progress Report. • Update on Payment to Members for ICT expenses- objection to 2011-2012 Accounts • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2012/13 Annual Governance Statement. • Risk Management monitoring report 1 February 2013 to 30 April 2013. • Audit Committee Work Programme.
18 Sept 2013	<ul style="list-style-type: none"> • Training item- SIAS Fieldwork Processes. • External Audit report- Audit Findings Report. • Treasury Management Strategy Statement – 2012/13 outturn and 2013/14 mid-year review. • Statement of Accounts 2012/13. • 2012/13 Annual Governance Statement. • Annual Shared Internal Audit Service Board Report 2012/13. • Shared Internal Audit Service- Progress Report. • Outstanding SIAS High Priority ICT Recommendations. • Risk Management Strategy. • Risk Management monitoring report 1 April 2013 to 30 June 2013. • Audit Committee Work Programme.
20 Nov 2013	<ul style="list-style-type: none"> • External Audit report- 2012/13 Annual Audit Letter. • Council response to 2012/13 Annual Audit Letter. • External Audit report- Planned Audit Fee for 2013/14. • Update on Section 106 Agreements. • Update on Implementation of Annual Governance Statement Action Plan.

ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2013/14 Civic Year

	<ul style="list-style-type: none"> • Risk Management monitoring report 1 July 2013 to 30 September 2013. • Audit Committee Work Programme.
22 Jan 2014	<ul style="list-style-type: none"> • External Audit- Grants Claim Certification Work 2012/13. • Treasury Management Strategy Statement 2014/15. • Shared Internal Audit Service- Progress Report. • Update on Implementation of Annual Governance Statement Action Plan. • Audit Committee Work Programme.
19 March 2014	<ul style="list-style-type: none"> • External Audit Update report. • Shared Internal Audit Service- Progress Report. • Internal Audit Plan 2014/15. • Update on Implementation of Annual Governance Statement Action Plan. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 October 2013 to 31 December 2013. • Audit Committee Draft Work Programme 2014/15 Civic Year.