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Jeff Hughes
*Head of Democratic and Legal
Support Services*

MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 21 JANUARY 2015
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

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

Substitutes

Conservative Group: Councillor J Wyllie

*(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.)

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AGENDA

1. Training Item - Grant Thornton (External Audit) National Financial Resilience

2. Apologies

To receive apologies for absence.

3. Minutes (Pages 5 - 12)

To confirm the Minutes of the meeting held on 26 November 2014

4. Chairman's Announcements

5. Declarations of Interest

To receive any Member's Declarations of Interest.

6. External Audit - Grants Claim Certification Work 2013/14 (Pages 13 - 16)

7. Treasury Management Statement and Annual Investment Strategy (Pages 17 - 44)

8. Shared Internal Audit Service - Internal Audit Plan Progress Report (Pages 45 - 84)

9. Update on Implementation of Annual Governance Statement Action Plan (Pages 85 - 98)

10. Audit Committee Work Programme 2015/16 Civic Year (Pages 99 - 104)

11. Urgent Business

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

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 26
NOVEMBER 2014, AT 7.00 PM

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

ALSO PRESENT:

Councillors E Buckmaster and G Williamson.

OFFICERS IN ATTENDANCE:

Mandy Barton	- Accountancy Manager
Lorraine Blackburn	- Democratic Services Officer
Chris Gibson	- Head of Governance and Risk Management
Adele Taylor	- Director of Finance and Support Services

ALSO IN ATTENDANCE:

Sarah Ironmonger	- Grant Thornton, External Auditor
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377 TRAINING ITEM – "DE-CLUTTERING" THE ACCOUNTS:
PRESENTATION BY THE EXTERNAL AUDITORS, GRANT
THORNTON

The External Auditor provided Members with a presentation on how the Council's accounts could be "de-cluttered" in line with a recent External Audit recommendation. She explained that the Council's

accounts included a lot of disclosure which prevented key messages from being seen. The External Auditor provided key tips for de-cluttering the accounts which could better meet the needs of users, including stakeholders and the general public. She explained that there was a need to consider what needed to be contained including information required by statute and that which was relevant and material to the accounts. The External Auditor suggested that the order in which this information was presented was also something for further consideration.

The External Auditor suggested that clarity of information could be improved by the use of graphics.

The Chairman sought feedback from the External Auditor on what items could be removed. The External Auditor provided a number of suggestions including the removal of individual assets held for sale, and duplicated information, adding that there was a need for further discussions on this matter with the Director of Finance and Support Services.

Councillor J Wing commented that over the years, the accounts had become impenetrable and welcomed the suggestion of de-cluttering them. The External Auditor commented that the accounts followed an international reporting standard to ensure consistency in both the private and public sectors.

Councillor R Sharma supported de-cluttering the accounts which, he felt, could make them easier for the public to read. He suggested the production of a summary version. The External Auditor stated that to prepare a summary version involved more work and needed to be weighed up in terms of how much the Council wanted to invest in changing the format of the accounts and in meeting statutory requirements.

The Director of Finance and Support Services reminded Members that the public were also provided with financial information via other avenues including through Council

Tax leaflets.

Members received the presentation and thanked the External Auditor for her informative comments.

RESOLVED – that the presentation be received.

378 MINUTES – 24 SEPTEMBER 2014

RESOLVED – that the Minutes of the meeting held on 24 September 2014 be confirmed as a correct record and signed by the Chairman.

379 CHAIRMAN'S ANNOUNCEMENTS

The Chairman reminded Members that this was the last meeting in 2014, and wished everyone a Happy Christmas.

380 EXTERNAL AUDIT REPORT – ANNUAL AUDIT LETTER 2013/14

The External Auditor submitted a report setting out the key findings arising from the work undertaken for the year ended 31 March 2014.

The External Auditor provided a summary of the key issues in relation to Value for Money, Whole of Government Accounts and Certification of Grant Claims and Returns.

The External Auditor explained that the Audit Fee for 2013/14 was £69,775, which was £900 higher than planned because of additional work undertaken in relation to material business rate balances.

Members received the report

RESOLVED – that the report be received.

381 COUNCIL'S RESPONSE TO ANNUAL AUDIT LETTER
2013/14

The Executive Member for Finance submitted a report which set out the Council's proposed response to the issues and recommendations raised in the Annual Audit Letter 2013/14.

The Director of Finance and Support Service stated that, since the last meeting of Audit Committee, the Council had received an unqualified opinion on its 2013/14 financial statement from the External Auditor. It was noted that no issues had been identified on the Annual Audit letter which had not been raised in the Audit Findings report. Key recommendations made by the External Auditor for the Council were that it should:

- consider taking out disclosures and notes to the Accounts which were no longer mandatory requirements under CIPFA's Code of Practice;
- review the Council's approach to revaluating assets;
- enhance and further develop the Medium Term Financial Plan (MTFP) to ensure that it was robust;
- deliver a robust savings plan which addressed future budget gaps; and
- ensure that reserves remained within the range set by Council policy.

The suggested response to the recommendations was set out in the report now submitted.

The Director of Finance and Support Services explained the timescales in relation to asset revaluations and assured Members that this approach was in line with other Councils. She stated that if the Council was to revalue more frequently, then this could have resource implications.

The Chairman commented on the Council's levels of

reserves and suggested that it should consider investing £1 million in the pension fund in line with a previous course of action. The Director of Finance and Support Services stated that the level of reserves had been discussed by Corporate Management Team (CMT) and that there would be a report to Members on this issue, as part of the budget setting process. She stated that any decision to invest in the pension fund had to be as a result of formal advice from actuaries based on a deficit in the pension fund, although the Council could seek additional advice from them and of the costs involved.

RESOLVED – that the Council's response to the Annual Audit letter be agreed.

382 EXTERNAL AUDIT REPORT – AUDIT FEES FOR 2014/15

The External Auditor submitted a report setting out the planned audit fee for 2014/15. It was noted that the scale fee for 2014/15 was set by the Audit Commission and this had been set at £68,875 (unchanged from the scale fee for 2013/14). The scope of the fee was set out in the report.

The External Auditor provided clarification in relation to grant claims.

The Director of Finance and Support Services stated that there would eventually be a move to Universal Credit that could see the one remaining grant for Housing Benefit further reducing, but that further information was still awaited.

The Committee received the report.

RESOLVED – that the report be received.

383 TREASURY MANAGEMENT STRATEGY – 2014/15 MID YEAR REVIEW

The Executive Member for Finance submitted a report setting out the Council's treasury management activities

for the six months up to 30 September 2014. The mid-year report had been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice.

The Director of Finance and Support Services provided a summary of the factors affecting investments, the detail of which was set out in the report now submitted. The Director of Finance and Support Services provided an update in relation to the Council's recent decision to invest in pooled property funds, and stated that the Council was now on the waiting list to invest.

Councillor R Sharma suggested that it might be interesting to have information regarding how accurate previously predicted forecasts of interest rates had been.

Councillor D Andrews stated that the Council was relying heavily on traditional methods of investment. He referred to a neighbouring authority which had invested in property and was receiving high rates of return. The Director Finance and Support Services commented that she was aware of this and that the other authority had already set up a company to facilitate its property investment approach.

The Chairman expressed concern at the low level of interest paid by the bank on overnight deposits. The Director of Finance and Support Services stated that, having already taken a decision to invest in Pooled Property Funds, the Council needed to keep sufficient cash on hand so that it could move quickly, if needed.

The Committee received the report.

RESOLVED – that (A) the loan and investment position as at 30 September 2014 be noted; and

(B) the Prudential Indicator position as at 30 September 2014 be noted and that no changes to Prudential Indicators be proposed.

384 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Director of Finance and Support Services submitted a report setting out the measures in the 2013/14 Annual Governance Statement to enhance the Council's internal control framework during 2014/15.

The Head of Governance and Risk Management provided a summary of the current position.

Councillor M Pope asked for an update in relation to the Section 106 monies. The Director of Finance and Support Service stated that Corporate Management Team (CMT) had agreed that it could take another full year before this became fully embedded as there was a need to ensure that there was complete clarity of process.

The Chairman reminded Members that there had been a situation in the past, whereby Section 106 agreements had not been drafted sufficiently wide enough which had had the effect that developers were legally entitled to walk away from previously agreed conditions and could claw back monies paid to the Council. The Director of Finance and Support Services stated that there was now a lot more monitoring undertaken and links made between services and community groups so that schemes were maximised to achieve greater value for money for the community.

The Committee received the report.

RESOLVED – that the progress made against implementing the action plan contained in the 2013/14 Annual Governance statement be noted.

385 RISK MANAGEMENT MONITORING REPORT 1 JULY 2014 TO 30 SEPTEMBER 2014

The Leader of the Council submitted a report on the action taken to mitigate and control strategic risks during the period 1 July 2014 to 30 September 2014.

The Head of Governance and Risk Management provided a summary of the report.

The Committee approved the report, as now detailed.

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

386 AUDIT COMMITTEE WORK PROGRAMME

The Director of Finance and Support Services submitted a report detailing the proposed work programme for the civic year 2014/15.

The Head of Governance and Risk Management stated that the Risk Management Strategy would be submitted to Audit Committee on 18 March 2015. The External Auditor had indicated that they may be in a position to provide training on Financial Resilience at the next meeting of Audit Committee on 21 January 2015, depending on the official release date for their report.

Members agreed that there would be no training item at the Audit Committee on 18 March 2015 as the Committee would be coming to the end of its cycle.

Members approved the work programme, as now amended.

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

The meeting closed at 8.10 pm

Chairman
Date



Grant Thornton

An instinct for growth™

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7 January 2015

Dear Adele

Certification work for East Hertfordshire District Council for year ended 31 March 2014

We are required to certify certain claims and returns submitted by East Hertfordshire District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm your entitlement to funding.

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency and issues auditors with a Certification Instruction (CI) for each specific claim or return.

We have certified one claim for the financial year 2013/14 relating to expenditure of £36.1 million. Further details of the claim certified is set out in Appendix A.

One amendment has been made to the claim which had no impact on the overall subsidy claimed. There are no other issues arising from our certification work which we wish to highlight for your attention. We are satisfied that you have appropriate arrangements to compile complete, accurate and timely claims for audit certification.

The indicative fee for 2013/14 certification work is based on the final 2011/12 certification fees, adjusted to reflect the amount of work required by the auditor to certify the claims and returns in the current year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. Further, the fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. The indicative scale fee set by the Audit Commission for your council for 2013/14 is £11,088. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£36,126,351	Yes	£nil	No	The claim is certified as amended.

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	12,300	11,088	11,088	-	-
Total	£12,300	£11,088	£11,088	-	-

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 JANUARY 2015

EXECUTIVE – 3 FEBRUARY 2015

COUNCIL – 18 FEBRUARY 2015

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2015-16

WARDS AFFECTED: NONE SPECIFIC

Purpose/Summary of Report

- The report sets out the proposed Treasury Management Strategy and Annual Investment Strategy for 2015-16.
- Where changes have been made to the revised Treasury Management Strategy and Annual Investment Strategy for 2014-15 or to the credit criteria for selection of investment counterparties approved for 2014-15, these have been referred to and discussed below.
- This report also presents the 2015-16 Prudential Indicators for approval.

RECOMMENDATIONS FOR THE AUDIT COMMITTEE:

That:

(A)	The Treasury Management Strategy and Annual Investment Strategy discussed in paragraphs 2.1 – 2.2 be recommended for submission to Executive.
(B)	The Prudential Indicators discussed as set out in paragraph 2.3 be recommended for submission to Executive.
(C)	The counterparty listing discussed in paragraph 2.4 be recommended for submission to Executive.

<u>RECOMMENDATIONS FOR THE EXECUTIVE:</u>	
That:	
(A)	The Treasury Management Strategy and Annual Investment Strategy discussed in paragraphs 2.1 – 2.2 be recommended for submission to Council.
(B)	The Prudential Indicators discussed paragraph 2.3 be recommended for submission to Council.
(C)	The counterparty listing discussed in paragraph 2.4 be recommended for submission to Council.
<u>RECOMMENDATIONS FOR THE COUNCIL:</u>	
That:	
(A)	The Treasury Management Strategy and Annual Investment Strategy discussed in paragraphs 2.1 – 2.2 be approved.
(B)	The Prudential Indicators discussed in paragraph 2.3 be approved.
(C)	The counterparty listing discussed in paragraph 2.4 be approved.

1 Background

- 1.1 Treasury management is defined as: ‘The management of the Council’s investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council’s risk management policy for treasury management.’
- 1.2 The Council is required by the CIPFA Treasury Management Code of Practice to approve a Treasury Management Strategy and Annual Investment Strategy each year. The purpose of the Strategy is to ensure that there is adequate cash flow to fund the Council’s revenue and capital aspirations in both short and longer term.
- 1.3 The Strategy sets out a risk management policy for the investment of surplus cash. The Strategy is designed to obtain the highest possible yield, contingent upon investments being secure, and there being sufficient liquidity to meet the Council’s daily cash needs.
- 1.4 The Council is required by the CIPFA Prudential Code to approve each year a set of Prudential Indicators. The Indicators must be approved by Full Council before the beginning of each financial

year. Their purpose is to help the Council ensure that its capital investment plans are affordable, prudent and sustainable.

2 Report

- 2.1 Please refer to the recommended Treasury Management Strategy and Annual Investment Strategy in **Essential Reference Paper 'B': Treasury Management Strategy and Annual Investment Strategy 2015-16**.
 - 2.2 There have been no additional regulatory changes since those that were included in the revised Treasury Management Strategy submitted to the Audit Committee on 10 July 2014. No additional changes to the 2015-16 Strategy have been proposed.
 - 2.3 Prudential Indicators have been summarised in **Essential Reference Paper 'C': Prudential Indicators 2015-16**.
 - 2.4 Please refer to the recommended counterparty listing in **Essential Reference Paper 'D': Credit Rating Tables 2015-16** (Annex 2a, b, and c). There have been no further changes to the revised listing provided with the revised Treasury Management Strategy 2014-15 submitted to the Audit Committee on 10 July 2014. The revised 2014-15 Strategy was updated to include criteria for investment in non-treasury investment vehicles such as Pooled Property Funds and direct investment in property.
 - 2.4 The Treasury Management Strategy also includes the Council's Minimum Revenue Provision (MRP) policy. The Strategy recommends that the Council continue to have a nil MRP.
- 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

CIPFA Code of Practice on Treasury Management (2011)

CIPFA Prudential Code for Capital Finance in Local Authorities (2011)

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	<p><i>Prosperity – Improving the economic and social opportunities available to our communities</i></p> <p>This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.</p> <p>The effective management of the council's investments and loans and the mitigation of risks associated with Treasury Management contributes to the maximisation of resources for the provision of council services.</p>
Consultation:	Advice was received from the Council's independent treasury management advisers – Capita Asset Services – on economic trends and forecasts and on changes to counter party credit ratings.
Legal:	The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011). The Treasury Management Strategy and Annual Investment Strategy has been prepared in compliance with CIPFA's Code.
Financial:	Within the body of the report.
Human Resource:	No staffing implications.
Risk Management:	The mitigation of risks associated with Treasury management practices is an integral part of the Council's Treasury Management Strategy and operations.
Health and wellbeing – issues and impacts:	No direct implications from this report.

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Essential Reference Paper “B”

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2015/16 to 2017/18

1 Introduction

1.1 Background

The Council's treasury management function ensures that cash is available when needed to fund revenue and capital expenditure. Surplus monies are invested in line with the council's risk management policy which matches expected returns to the level of risk taken within set limits.

The treasury management function also ensures that capital expenditure and the repayment of loans are funded in the medium to long term.

1.2 The Council defines its treasury management activities as:

'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions: the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'

1.3 The Council's treasury management activities will be undertaken with regard to the following Treasury Management Strategic Principles:

- To achieve the minimum interest rate cost on external debt, whilst recognising the risk management implications;
- To protect the capital value of external investments and ensure the liquidity of the investments;
- To provide a return on investments which is maximised in relation to determined risk levels, security and liquidity requirements;
- To mitigate the risks associated with treasury management operations; and
- To seek to follow best practice in the administration of the treasury management function.

Monitoring of these strategic principles will be assessed by the forecasting and review of prudential indicators and associated reporting.

1.4 Statutory and CIPFA Requirements

The Council is required under the Local Government Act 2003 and associated regulations to 'have regard to' the requirements of the CIPFA Prudential Code and the CIPFA Treasury Management

Code of Practice in setting out its treasury management plans and arrangements for the next three years.

The Code's primary requirements are as follows:

- To set out a Treasury Management Policy Statement as detailed at paragraph 1.3 above;
- To set out a Treasury Strategy for borrowing and prepare an Annual Investment Strategy for a three year budgeting period;
- To create and maintain adequate Treasury Management Practices, setting out how treasury management activities will be managed and controlled.
- To ensure the organisations receives reports on its treasury management policies, practices and activities as a minimum: an annual strategy and plan in advance of the financial year, a mid year review of activity and an annual report.

2 Treasury Management Strategy for 2015/16 to 2017/18

2.1 The strategy covers three main areas:

Capital issues:

- *The Council's capital plans for the next three years and associated monitoring indicators; and*
- *The Minimum Revenue Provision (MRP) Policy.*

Treasury Management Issues:

- *Economic factors influencing the strategy;*
- *The Borrowing Strategy and associated risk management processes; and*
- *The Investment Strategy and associated risk management processes.*

Other:

- *External Treasury Management Advisors; and*
- *Governance Arrangements.*

2.2 In addition it is a statutory requirement that the strategy includes certain performance measures and limits called Prudential Indicators. The Prudential Indicators must be approved by Full Council before the beginning of each financial year. Their purpose

is to help the Council ensure that its capital investment plans are affordable, prudent and sustainable.

- 2.3 The headings listed in paragraph 2.1 comply with the necessary statutory regulations, CIPFA Codes of Practice and associated best practice guidance.

3 The Council's Capital Investment Plans – 2015/16 to 2017/18 (Prudential Indicator 1 – evaluation of prudence)

- 3.1 The capital budget recommended for approval by Council is detailed in Table 1: Prudential Indicators 1 and 2.

	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000
Proposed Capital Programme	2,719	2,987	2,259
Financed by:			
Capital receipts	1,841	950	400
Capital grants	175	175	175
3rd party contributions	134	14	275
Revenue contributions	25	25	25
Net Financing Requirement in year	544	1,823	1,384
Capital financing requirement b/f	(41,343)	(40,799)	(41,330)
Capital financing requirement c/f	(40,799)	(38,976)	(39,946)

4 Council's Borrowing Need: Capital Financing Requirement (CFR) – 2015/16 to 2017/18 (Prudential Indicator 2 – evaluation of prudence)

- 4.1 The impact of the Council's capital investment plans on CFR is detailed in table 1: Prudential indicators 1 and 2.
- 4.2 CFR represents capital expenditure which has not been financed from revenue or other capital resources such as grants, capital receipts or 3rd party contributions etc. CFR is in effect the underlying need to borrow: that element of capital expenditure financed from both internal funding and external borrowing. Capital expenditure not financed from revenue or other capital sources will increase CFR. CFR is reduced annually by the statutory revenue charge for debt repayment – Minimum Revenue Provision (MRP), as detailed at paragraph 6. CFR is also increased by other types of finance such as the finance leases for the council's trade refuse vehicles and property assets.
- 4.3 The Council has a negative credit ceiling as a result of receipts received from the housing stock transfer in 2002. As the early

redemption of Council debt of £7.5 million continues to be expensive, the Council has been given a 'debt free' status by special determination.

- 4.4 The three year capital programme is funded only partially from revenue and other capital sources. The balance of capital investment will therefore increase CFR and, at some point in the future, return CFR to a positive position.
- 4.5 The increase in CFR can be met from external borrowing, or from internal funding i.e. the use of surplus cash.
- 4.6 Rates of interest on investments remain low compared to the cost of borrowing. The Council will therefore continue to finance the requirement from internal borrowing. The financial impact of this policy is a reduction in surplus cash available for investment, with associated loss of interest income.

5 Council's ability to support the borrowing requirement to finance the capital programme – (Prudential Indicator 3 and 4 –Affordability)

- 5.1 These 2 indicators assist the evaluation of the affordability of council's capital and borrowing decisions:

Ratio of financing costs to net revenue stream

This represents the estimated net financing costs for the year divided by the amount to be met from general revenue grants and local taxpayers.

Incremental impact of financing decisions on band D council tax

This represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on the Council Tax of approving additional capital expenditure.

5.2 The ratios will fluctuate with changes to revenue and capital funding decisions and the capital programme. They are set out in Table 2: Prudential Indicators 3 and 4. They show that the Council's capital programme and level of borrowing are prudent and sustainable.

Table 2: Prudential Indicators 3 and 4			
	2015/16 estimate	2016/17 estimate	2017/18 estimate
Capital decisions affordability			
Ratio of finance costs to net revenue stream	4.79%	4.68%	4.45%
Incremental impact of financing decisions on band D council tax	£0.34	£0.38	£0.32

6 Council's Minimum Revenue Provision Policy

- 6.1 The Council is required by Statute to set aside some of its revenue as provision for the repayment of debt. In other words the Council is required to make an annual contribution to reduce its CFR. This set-aside is called the Minimum Revenue Provision (MRP). Statutory guidance requires Councils to set a prudent MRP charge.
- 6.2 Following the disposal of the Council's Housing Stock and the retention of outstanding debt, the Council has a negative CFR. MRP has therefore been set as nil.
- 6.3 The Council has the discretion to make a voluntary revenue contribution against the CFR if it decided that CFR was above a level considered prudent. Current financial plans do not include additional contributions.

7 Economic Background to Treasury Management Strategy

- 7.1 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), it appears likely that strong growth will continue through 2014 and into 2015. The Office of Budget Responsibility (OBR) also raised its forecast for economic growth this year from 2.7% to 3.0%, and from 2.3% to 2.4% next year.
- 7.2 However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing

market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

- 7.3 Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years.
- 7.4 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.2% in September, the lowest rate since 2009. The OBR expects inflation measured by the consumer prices index (CPI) of 1.5% this year, 1.2% next year and 1.7% the year after. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.
- 7.5 The return to strong growth has also helped lower forecasts for the increase in Government debt over the next five years. However, monthly public sector deficit figures have disappointed so far in 2014/15 and government is expected to borrow more money this year than had previously been predicted. The OBR has raised its borrowing forecast for the current financial year from £86.6bn to £91.3bn, which is still below last year's total of £97.5bn.
- 7.6 The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

7.7 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return.

7.8 In its report accompanying the Autumn Statement, the OBR warns that government's overall plan for spending on public services was to reduce it from £5,650 per head in 2009-10 to £3,880 per head in 2019-20. Total public spending is now projected to fall to 35.2% of GDP in 2019-20, taking it below the previous post-war lows reached in 1957-58 and 1999-00 to what would probably be its lowest level in 80 years. The OBR warns that only about 40% of this reduction will be made during the current Parliament, with the remaining 60% still to come in the next one.

7.9 Interest rate forecasts are set out in Table 3:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5 yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10 yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25 yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50 yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

8 Borrowing Strategy 2015/16 to 2017/18

8.1 Local Authorities undertake borrowing to:

- Finance capital expenditure not met from grants, capital receipts, development contributions etc;
- To replace maturing debt; and
- To finance cashflow in the short term.

8.2 Interest rate risk and a 'bunched' debt maturity portfolio are the key risks for the Council's borrowing strategy.

8.3 The Council can raise borrowing from a variety of sources. However, the Government's PWLB facility remains a low cost and flexible option for long term borrowing.

8.4 The strategy for the next 3 years is to finance capital expenditure and cashflows internally as set out in paragraph 4.6.

8.5 The Council's current debt portfolio comprises:

- £1.5 million of PWLB debt due to mature on 1st February 2055 at a fixed rate of 8.875%;

- £6 million loan with LGS Investment due to mature on 22 May 2020 at a fixed rate of 8.785%; and
- A finance lease with a financial value of £1.288 million as at 31st March 2014 for 10 Refuse Vehicles.

The Council's debt portfolio is not planned to change over the reporting period of this strategy.

8.6 Borrowing Prudential Indicators are included in Table 4: Prudential Indicators 5, 6, 7, 8, 9.

There are five debt related indicators:

- Limits for fixed interest rate exposure;
- Limits for variable rate exposure;
- Authorised Limit – which represents the total external debt and is the legal limit for external debt and long term credit arrangements;
- Operational Boundary – sets the annual external debt threshold. The indicator reflects the level of debt sustainable in the short term but not the long term;
- Limits for maturity structure of debt profile.

Table 4: Prudential Indicators 5,6,7,8,9			
Interest rates exposure	2015/16	2016/17	2017/18
Limits for fixed interest rate exposure on debt	100%	100%	100%
Limits for variable interest rate exposure on debt	50%	50%	50%
Authorised limit	£12.6m	£12.2m	£11.7m
Operational boundary	£8.4m	£8.1m	£7.8m
Limits for maturity structure of debt portfolio:	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	0%	25%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	50%	
10 years and above	0%	100%	

8.7 Policy on borrowing in advance of need:

The Council will not borrow more than or in advance of need purely in order to make a profit.

8.8 Debt Rescheduling

Due to high rates of interest on the outstanding £7.5 million of external debt and the expected low level of discount rates for maturities, any potential restructuring or premature repayment of

debt would be very expensive; as early repayment would attract premiums in excess of £1 million.

The situation will be kept under review in consultation with the Council's advisors and any changes or proposals will be reported to Council for consideration and approval.

8.9 Use of Financial Derivatives to manage interest rate risks

Under the General Power of Competence, the Localism Act 2011 granted local authorities, in theory, the power to use financial derivatives to manage interest rate risk. However, given that the power is not explicit and untested in the Courts; the Council does not intend to use these arrangements.

Should the situation change, the Council would be required to change the Strategy and develop a framework for the use of such instruments.

9 Investment Strategy 2015/16 to 2017/18

9.1 Primary Investment Principle

All external investments will be made in accordance with the Council's adopted investment policy, prevailing legislation and associated regulations.

9.2 In Line with CIPFA's Code of Practice and DCLG guidance, the Council's primary investment principle is to invest surplus funds giving priority to the security of the capital sum and liquidity; with the return on investment being commensurate to the security and liquidity required.

9.3 The council's investment portfolio as at 30 September 2014 is set out in Table 5 below.

Table 5	Balance as at 31 March 2014	Net Investments Made in Year	Balance as at 30 September 2014
Investment counterparties:			
Banks & building societies	£47.54m	6.87m	£54.41m
Money market funds	£9.96m	0m	£9.96m
Gilts and commercial paper	£6.79m	0.82m	£7.61m
Cash	£4.90m	(4.72m)	£0.18m
	<u>£69.19m</u>		<u>£72.16m</u>

9.4 Available Investment Vehicles

Under Statutory Regulations Local Authorities have a variety of treasury investment vehicles available to them to investment

surplus cash. The investment vehicles are split into 'Specified' investments and 'Non Specified' investments, the definition of each being:

- 'Specified' Investments are in Sterling, with a duration of no more than a year and meet the minimum 'high' quality criteria where applicable (Annex 1a);
- 'Non Specified' Investments are any other investments not meeting the specified criteria (Annex 1b).

9.5 The Council's Counter Party Listing also includes criteria for investment in non-Treasury investment vehicles such as Pooled Property Funds (Annex 1c). Investment is limited to £20m split between a maximum of two funds. At December 2014 the Council is on the waiting list for two funds with a current expected commencement date for the investments of September 2015.

9.6 Council's Creditworthiness Policy - Background

The Council applies the credit rating model provided by Capita Asset Services to select investment counterparties. The ratings are based on information from three key rating agencies (Fitch, Moods and Standard & Poors). The model also builds in any ratings watch information and credit outlooks, Credit Default Swap spread are used as an early warning of likely changes to credit ratings and sovereign ratings.

The model produces a coded banding system of creditworthiness and maximum investment duration for the council to consider.

The Council then sets maximum investment limits for group counterparties.

9.7 Regulatory change for Financial Institutions – implied sovereignty support.

The main Rating agencies (Fitch, Moody's and Standard & Poor's) have historically provided some institutions with a rating uplift due to implied levels of sovereign support. This is one of the many factors which currently influence the setting of credit ratings. As the regulatory regime changes, these implied sovereign support levels are going to be removed. New regulations are expected to provide a 'Bail in' provision for funding institutions; which requires holders of debt (including fixed term deposits) to bear the costs associated with an institutions collapse. Since most local authorities investments tend to be in fixed term deposits this will introduce a significant new credit risk for the Council.

9.8 The Treasury Strategy 2014-15 was revised to mitigate this new risk. Annex 1a, Annex 1b and Annex 1c reflect changes which have been discussed with the Council's treasury management adviser: Capita.

9.9 Regulatory change for Financial Institutions – Money Market Funds (MMF's) Credit ratings.

Further regulatory changes are proposed which will stop Money Market Funds from obtaining a credit rating. Once regulatory changes are enacted the Council will take advice from the Councils' treasury management advisors in respect of any existing and proposed new investments in Money Market Funds. Current arrangements will also be reviewed and revisions made to the Treasury Management strategy where necessary. These changes are reflected in Annex 1.

9.10 Investments - Assessing performance and monitoring risk

The Council has set an upper limit on sums invested in 'Non Specified' treasury investment vehicles for periods of longer than 364 days including an upper limit of 20% of the total annual treasury investment portfolio.

The Council has assumed an investment return of 1.12% (2015-16 and 2016-17) and 1.47% (2017-18) in the Medium Term Financial Plan.

Any material variations for the council's revenue budget as a result of lower investment returns will be met from the Interest Equalisation Reserve as agreed by Council. The balance on the reserve was £2.257 million as at 31 March 2014.

10 Policy on use of External Advisors

10.1 The Council uses Capita Asset Services as its external treasury management advisors.

10.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that reliance is not placed upon external service providers. There is a benefit in employing specialist treasury management providers to access up to date skills and knowledge.

11 Corporate Governance

11.1 Reporting requirements

As a minimum those charged with governance will receive and consider the following reports:

- The treasury management strategy and annual investment strategy for the forthcoming financial year and the following two financial years which is compliant with the CIPFA Code of Practice and best practice guidance;
- A mid-year treasury management report on progress against the target and indicators set in the strategy;
- An outturn report, to be received no later than six months after the end of the financial year;
- Healthcheck monitoring reports to CMT, Executive and Full Council will include material changes to investment returns in year and the impact of any changes to the council's external funding costs;
- The Investment Board meets on a regular basis to consider current investment arrangements.

11.2 Role of the Section 151 Officer

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

This responsibility is incorporated into the Council's Financial Regulations.

11.3 The training needs for relevant officers involved in treasury operations will be regularly reviewed.

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Essential Reference Paper C

Prudential Indicators 2015/16

Table 1: Prudential Indicators 1 and 2	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000
Proposed Capital Programme	2,328	3,530	1,928
Financed by:			
Capital receipts	1,817	950	400
Capital grants	175	175	175
3rd party contributions	134	164	269
Revenue contributions	25	25	25
Net Financing Requirement in year	177	2,216	1,059
Capital financing requirement b/f	(41,343)	(41,166)	(41,330)
Capital financing requirement c/f	(41,166)	(38,950)	(40,271)

Table 2: Prudential Indicators 3 and 4	2015/16 estimate	2016/17 estimate	2017/18 estimate
Capital decisions affordability			
Ratio of finance costs to net revenue stream			
Incremental impact of financing decisions on band D council tax	£0.45	£0.54	£0.48

Table 4: Prudential Indicators 5,6,7,8,9	2015/16	2016/17	2017/18
Interest rates exposure			
Limits for fixed interest rate exposure on debt	100%	100%	100%
Limits for variable interest rate exposure on debt	50%	50%	50%
Authorised limit	£12.6m	£12.2m	£11.7m
Operational boundary	£8.4m	£8.1m	£7.8m
Limits for maturity structure of debt portfolio:	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	0%	25%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	50%	
10 years and above	0%	100%	

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ANNEX 1a

Treasury Management Counterparties

'Specified' Investments:				
Treasury Vehicle	*Minimum 'High' Credit Criteria	Use	*** Investment Limit	*** Duration
Debt Management Agency Deposit Facility	Not Applicable	In-house		
Term deposits - UK Government	Not Applicable	In-house		
Term deposits - other LA's (including police & fire authority's)	Not Applicable	In-house		
Term deposits - banks and building societies**	*Short-term F1 Long-term A, Individual_, Support 1,2,3	In-house and Fund Managers		
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	*Short-term F1 Long-term A, Individual_, Support 1	Fund Managers		
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	*Short-term F1, Long-term A, Individual_, Support 1,2,	Fund Managers		
1. Callable deposits	*Short-term F1, Long-term A, Individual_, Support 1,2,3	Fund Managers		
2. Range trade	*Short-term F1, Long-term AA, Individual_, Support 1,2,3	Fund Managers		
3. Snowballs	*Short-term F1, Long-term AA, Individual_, Support 1,2,3_	Fund Managers		
UK Government Gilts	AAA-AA	Fund Managers		
Bonds issued by multilateral development banks	AAA	Fund Managers		

ANNEX 1a				
Treasury Management Counterparties				
'Specified' Investments:				
Treasury Vehicle	*Minimum 'High' Credit Criteria	Use	*** Investment Limit	*** Duration
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):				
1. Money Market Funds	To be discussed with treasury management adviser prior to making any investment	Fund managers and In-house		
2. Enhanced cash funds	*Short-term F1, Long-term AAA, Individual _	Fund managers and in-house		
3. Short term funds	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund Managers		
4. Bond Funds	*AAA	Fund Managers		
5. Gilt Funds	*AAA-AA	Fund Managers		
Bonds issued by a financial institution which is guaranteed by the UK government	*AAA	In-house on a 'buy-and-hold basis. Also for use by fund managers		
Sovereign bond issues (i.e. other than the UK govt)	*AAA	Fund Managers		
Treasury Bills	AAA	Fund Managers. In-house on a buy and hold basis.		

Note: Counterparty limits for individual banking groups will not exceed £10 million, except for Lloyds and NatWest Groups which have been individually approved at £20 million respectively.

Annex 1b

Treasury Management Counterparties

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

Annex 1b				
Treasury Management Counterparties				
'Non-Specified' Investments:	* Minimum Credit Criteria	Use	**Max% of total investments	Maximum maturity period
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	5 years
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	2 years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund Managers	50%	5 years
UK Government Gilts with maturities in excess of 1 year	AAA-AA	Fund Managers	100%	10 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	Fund Managers	40%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA-AA	Fund Managers	40%	10 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	Fund Managers	50%	10 years

Annex 1b

Treasury Management Counterparties

'Non-Specified' Investments:	* Minimum Credit Criteria	Use	**Max% of total investments	Maximum maturity period
Corporate Bonds : the use of these investments would constitute capital expenditure (bonds other than government bonds)	*AAA	Fund Managers(subject to regulation changes)	10%	5 years
Floating Rate Notes : the use of these investments would constitute capital expenditure unless they are issued by a multi-lateral development bank (i.e. bonds with interest rate that varies in line with the market rate of interest, reset say every 3 months)	*AAA	Fund Managers but not permitted where the investment would constitute capital investment.	10%	5 years

Annex 1c				
Treasury Management Counterparties				
Non Treasury Vehicles	* Minimum Credit Criteria	Use	**Max% of total investments	Maximum maturity period
Property Funds	Based on external credit assessment from the Council's Treasury Management Advisors. UK asset investment.	Fund Manager	£20 million. Maximum of two Funds at any one time for viability.	Medium to Long Term

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

** These limits include both in-house and externally managed funds.

*** 'Specified' investments must be in sterling, must mature within one year and must be made in high credit-rated financial institutions. No investment limits have been set for 'specified' investments.



East Herts Council Audit Committee Progress Report 21 January 2015

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report;
- Approve amendments to the Audit Plan as at 5 January 2015; 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 2014/15 Audit Plan

- B Implementation Status of High Priority Recommendations

- C Audit Plan Items (April 2014 to March 2015) – Start Dates Agreed with Management

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 2014/15 as at 5 January 2015.
 - b) Proposed amendments to the approved 2014/15 Audit Plan.
 - c) Implementation status of previously agreed high priority audit recommendations.
 - d) An update on performance management information as at 5 January 2015.

Background

- 1.2 The 2014/15 Audit Plan was approved by Audit Committee on 19 March 2014.
- 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 24 September 2014.
- 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 5 January 2015, 65% of the 2014/15 Audit Plan days had been delivered. Appendix A provides a status update on each individual project within the audit plan.

2.2 The following 2014/15 reports have been finalised since 5 September 2014 (cut-off date for September 2014 Audit Committee):

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Section 106 Agreements	Oct '14	Moderate	One high Two medium One merits attention
Council Tax	Nov '14	Substantial	One medium
NDR	Nov '14	Substantial	Three medium One merits attention
Community Grants	Dec '14	Full	None
Parking Permits	Dec '14	Substantial	Two medium
District Plan (consultation process)	Dec '14	Full	None
Sundry Debtors (CRSA Year 2)	Dec '14	Full	None

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 the attention of Members 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 Since September Audit Committee, the following deletions from, and additions to the 2014/15 Audit Plan have been agreed with Officers of the Council. These are detailed below for Audit Committee approval:

Deletions (days returned to contingency):

- New Planning / Building Control system (8 days)
System already in use at Stevenage Borough Council and adopted by East Herts on the basis of existing procurement arrangements. Management do not have

concerns over this process. Project implementation in progress.

- Acquisition of Locata system for Housing (8 days)
Procurement process not sufficiently advanced for assurance provision in 2014/15. Audit to be considered for inclusion in the 2015/16 Audit Plan.
- Strategy element of Asset Management (4 days)
Audit coverage originally intended to include new investment strategy in property. This is not sufficiently advanced for assurance provision in 2014/15.

Additions (days allocated from contingency):

- Data Protection (15 days)
Review compliance across service areas with the requirements of the Data Protection Act and related local policies.
- AGS Benchmarking – Joint Review (2 days)
Review of Annual Governance Statement processes and outputs across all SIAS clients, in order to share areas of good practice. Review delivered via a facilitated workshop attended by representatives from SIAS clients.

Performance Management

2.5 Annual performance indicators and associated targets were approved by the SIAS Board in 2011.

2.6 As at 5 January 2015 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 5 January 2015	Actual to 5 January 2015
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	68%	65%

2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	59% (17 of 29 projects to draft)	52% (15 of 29 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%
4. Number of High Priority Audit Recommendations agreed	95%	95%	100%

2.7 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2014/15 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 2014/15 AUDIT PLAN AS AT 5 JANUARY 2015

2014/15 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 (CRSA Year 1)					14	Yes	1	In planning
Benefits					15	Yes	13	In quality review
Council Tax	Substantial	0	1	0	12	Yes	12	Final report issued
Creditors (CRSA Year 2)					8	Yes	7	Draft report issued
Debtors (CRSA Year 2)	Full	0	0	0	8	Yes	8	Final report issued
Main Accounting (CRSA Year 1)					10	Yes	1	In planning
NDR	Substantial	0	3	1	12	Yes	12	Final report issued
Payroll (CRSA Year 1)					10	Yes	2	In planning
Payroll Certificate	Not Assessed	-	-	-	0.5	Yes	0.5	Complete
Treasury					10	Yes	9	Draft report issued
Operational Audits								
Enforcement					15	Yes	1	In planning
Parking Permits	Substantial	0	2	0	10	Yes	10	Final report issued
District Plan (consultation process)	Full	0	0	0	12	Yes	12	Final report issued
S106 Agreements	Moderate	1	2	1	13	Yes	13	Final report issued
Cash and Banking					12	Yes	0	Audit due to start January 2015

APPENDIX A PROGRESS AGAINST THE 2014/15 AUDIT PLAN AS AT 5 JANUARY 2015

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Fees and Charges					15	Yes	8	In fieldwork
Recruitment	Moderate	1	1	1	15	Yes	15	Final report issued
Community Grants	Full	0	0	0	15	Yes	15	Final report issued
Performance Framework					12	PwC	1	Terms of Reference issued
Shared Services Benefits Realisation					10	Yes	0.5	In planning
Hertford Theatre Governance Arrangements					30	PwC	25	In fieldwork
Facilities Management Compliance Project Plan					10	Yes	0	Audit due to start February 2015
Data Protection					15	Yes	0	Audit due to start January 2015
Procurement								
Procurement of Planning / Building Control System	N/A	-	-	-	0	N/A	0	Audit cancelled
Leisure Services – Third Party Inspections					10	Yes	9.5	Draft report issued
Acquisition of Choice-based lettings System	N/A	-	-	-	0	N/A	0	Audit cancelled
IT Audits								

APPENDIX A PROGRESS AGAINST THE 2014/15 AUDIT PLAN AS AT 5 JANUARY 2015

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Business Continuity Planning					12	PwC	11	Draft report issued
IT Help Desk Operations	N/A	-	-	-	0	N/A	0	Audit cancelled
IT Change Control					12	PwC	11	Draft report issued
IT Asset Management					12	Yes	1.5	In planning
Joint Reviews								
NDR Avoidance	Substantial	0	0	1	10	Yes	10	Final report issued
Benchmarking of AGS	N/A	-	-	-	2	Yes	1.5	In quality review
Strategic Support								
2015/16 Audit Planning	N/A	-	-	-	10	N/A	7	On-going
Audit Committee	N/A	-	-	-	15	N/A	11	On-going
Client Meetings	N/A	-	-	-	10	N/A	7.5	On-going
Liaison with External Audit	N/A	-	-	-	1	N/A	1	On-going
Head of Internal Audit Opinion 2013/14	N/A	-	-	-	5	N/A	5	Complete
Plan Monitoring	N/A	-	-	-	10	N/A	8	On-going
SIAS Development	N/A	-	-	-	5	N/A	5	Complete
Contingency								
Unused Contingency	N/A	-	-	-	24	N/A	N/A	On-going
Follow Ups								
Follow up of high priority recommendations	N/A				5	N/A	4	On-going

APPENDIX A PROGRESS AGAINST THE 2014/15 AUDIT PLAN AS AT 5 JANUARY 2015

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
2013/14 Projects requiring completion								
Various	N/A				8.5	N/A	8.5	Complete
EHC TOTAL					435		267.5	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
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 presented 09/02/09.	Head of Shared Service	Revised to December 2011 (no date set at final report stage)	<p><u>Dec 13</u> The ability to deliver core infrastructure services from the new data centre is now in place and the process of moving staff across to the new infrastructure is underway to a timetable agreed with Heads of Service which will be completed by March 2014.</p> <p><u>Feb 14</u> Due March 2014</p>	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 6

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			<p>Progress report is to be presented to Business Continuity Group in June.</p>			<p><u>Jun 14</u> Over 80% of staff now receive services via the new hosted desk top. The remaining staff will be transferred in June and July.</p> <p><u>Sep 14</u> The majority of core IT systems have now been migrated to the new data centre and now benefit from new, improved, business continuity arrangements.</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p><u>Dec 14</u> We have invoked our Disaster Recovery Solution in the current financial year. Records were kept and communicated to both partner organisations at IT Steering Group meetings and also to the Shared Services Partnership Board.</p> <p>The business continuity solution was made available to East Herts Council for the first</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						time this year upon successful migration of key systems to the Shared Services Environment. Having already tested the system, we then plan to have a further test of the system next year.	
2.	Follow-up of Various ICT reviews (IA Report 22/6/09)	A detailed timetable be prepared and issued to ensure that the Council's Business Continuity and Disaster Recovery Plan is completed and	There was no evidence to confirm that a timetable has been prepared. It was, however, confirmed that	Head of Shared Service	Mar 2012 (originally 31/03/10)	<u>Dec 13</u> IT BCP audit now scheduled for March 2014 in view of shared service developments.	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		tested.	a draft Business Continuity Plan had been produced but as this was still a work in progress, it had not yet been tested.			<p><u>Feb 14</u> No change</p> <p><u>Jun 14</u> A schedule has been prepared and data migration is underway. Some major systems have already transferred and the remainder will do so in June and July. An audit of these arrangements is scheduled for July 2014.</p> <p><u>Sep 14</u> The deferred BCP audit is expected to</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>commence this month. The status of relevant outstanding high priority recommendations will be considered as part of this review and an updated position brought to the next Audit Committee in January 2015.</p> <p><u>Dec 14</u> We have invoked our Disaster Recovery Solution in the current financial year. Records were kept</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>and communicated to both partner organisations at IT Steering Group meetings and also to the Shared Services Partnership Board.</p> <p>The business continuity solution was made available to East Herts Council for the first time this year upon successful migration of key systems to the Shared Services Environment. Having already</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						tested the system, we then plan to have a further test of the system next year.	
3.	Follow-up of Various ICT reviews (IA Report 22/6/09)	The Information Technology Team should approve and oversee the implementation of the Council's Information Systems Strategy.	Draft IT Strategy in programme to go to ITSG, CMT/ICT – C3W Board, Executive and full Council for approval on 3/9/09.	Head of Shared Service	Mar 2012 (originally 30/09/09) Now September 2014	<u>Dec 13</u> Plans for delivering a new IT Strategy have been deferred with the agreement of the Portfolio Holder. A new timetable is being discussed which will ensure that the strategy is delivered no later than March 2014.	Partially implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p><u>Feb 14</u> Due March 2014</p> <p><u>Jun 14</u> An outline strategy has been produced. The full document is being drafted for discussion with CMT, SMG and the portfolio holder for IT before then scheduling a date for Executive. The draft document will be available by the end of June 2014.</p> <p><u>Sep 14</u> The revised date for making the draft</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>IT Strategy available for discussion is the end of September 2014.</p> <p><u>Dec 14</u> The East Herts IT Strategy, effective April 2015, has now been drafted. Consultation with senior management is expected to commence in the next few weeks.</p>	
4.	Business Continuity (IA Report 7/6/11)	It is recommended that the Business Continuity Plan is reviewed annually.	The current East Herts Council Business	Director of Neighbourhood Services	Sep 2011	<p><u>Dec 13</u> Business continuity for infrastructure services will be</p>	Not implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		<p>It is further recommended that the Business Continuity Plan is communicated to staff and made available on the intranet.</p>	<p>Continuity Plan was sufficient, but it did not take into account C3W. Recognising this, we have engaged Zurich Ins Co. to conduct a scoping workshop 14th July.</p> <p>Zurich has already reviewed the Council's strategic risks. This work is being finalised</p>			<p>delivered as staff transfer across as noted above. Business continuity for applications will be delivered to the original timetable of March 2014. Documents will be updated and published once the full business continuity solution is in place.</p> <p><u>Feb 14</u> Due March 2014</p> <p><u>Jun 14</u> The Business Continuity Plan will</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 6

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			before being put to CMT.			<p>be revised once the new IT infrastructure is in place to reflect significant improvements in IT resilience and recovery. CMT reviewed critical services and scenarios to plan recovery from were reviewed at CMT on 29 Oct 2013.</p> <p><u>Sep 14</u> See note at recommendation 2.</p> <p><u>Dec 14</u> Now that the IT</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>solution is nearing full implementation, the Council's Business Continuity Group is to reconvene in January 2015. Managers within critical services will be asked to develop continuity plans for their service in February 2015. In the meantime the core of the existing plan has been reviewed and updated.</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
5.	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 13</u> IT BCP audit now scheduled for March 2014 in view of shared service developments.</p> <p><u>Feb 14</u> No change</p> <p><u>Jun 14</u> The group last met on 19 November 2013. It will meet to consider a new Business Continuity Plan once the new IT infrastructure is in place.</p> <p><u>Sep 14</u></p>	Partially implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>See note at recommendation 2.</p> <p><u>Dec 14</u> Business Continuity Group to reconvene on 12th January 2015.</p>	
6.	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	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	Head of Shared Service	Not specified	<p><u>Dec 13</u> A separate audit of IT BCP is due to be completed by PWC in March 2014. This work will consider the status and relevance of this recommendation.</p>	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		<p>section on IT back-up. It is further recommended that the Disaster Recovery Plan is tested after it has been finalised.</p>	<p>by the end of Dec 11. The arrangements for data back up and recovery will 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</p>			<p><u>Feb 14</u> No change</p> <p><u>Jun 14</u> The audit is now scheduled for July 2014.</p> <p><u>Sep 14</u> See note at recommendation 2.</p> <p><u>Dec 14</u> We have invoked our Disaster Recovery Solution in the current financial year. Records were kept and communicated to both partner</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			<p>into the ICT infrastructure as part of C3W. Testing of the ICM business continuity contract is planned to take place in line with new business solutions by the end of March 2012.</p>			<p>organisations at IT Steering Group meetings and also to the Shared Services Partnership Board.</p> <p>The business continuity solution was made available to East Herts Council for the first time this year upon successful migration of key systems to the Shared Services Environment. Having already tested the system, we then plan to</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						have a further test of the system next year.	
7.	Business Continuity Planning (01/10/13)	All departmental business continuity plans and resource recovery questionnaires should be reviewed to ensure they are complete, contain a sufficient level of detail, and have been reviewed and approved by appropriate members of staff. In addition to this, a periodic rolling	Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time. Information captured by services in	Director of Neighbourhood Services	30 June 2014	<u>Feb 14</u> Not yet due <u>Jun 14</u> The plan will be reviewed extensively once the new IT infrastructure is in place to reflect significant changes in IT resilience and recovery. CMT reviewed critical services in October 2013. Live	Partially implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		programme of disaster recovery testing (at minimum requiring some downtime and recovery of IT services) should be performed and then reviewed to make relevant updates to the BCPs.	their Business Recovery Plans will be reviewed in line with the new ICT solution referred to in Recommendation 2. A provisional schedule for testing recovery plans will be established and reviewed annually. Testing will take place in line with the			<p>business continuity incident occurred in May 2014 when a cable was cut and restoration took place within stipulated four hour timeframe.</p> <p><u>Sep 14</u> See note at recommendation 2.</p> <p><u>Dec 14</u> See note at recommendation 4.</p> <p>A test will be conducted once the plan is complete.</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			established schedule.				
8.	Business Continuity Planning (01/10/13)	<p>Once the actions related to findings 1 and 2 have been completed, the Council needs to get the Business Continuity Plan formally approved and signed off, so that it can be distributed to the relevant members of staff.</p> <p>In addition to this, key stakeholders need to meet and agree on comprehensive</p>	Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time.	Director of Neighbourhood Services	31 March 2014	<p><u>Feb 14</u> Not yet due</p> <p><u>Jun 14</u> The Business Continuity Plan will be revised once the new IT infrastructure is in place to reflect significant changes in IT resilience and recovery.</p> <p>The revised plan will then proceed to formal approval and sign off. The plan will then be</p>	Partially implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		<p>roles and responsibilities with regard to business continuity planning, and these responsibilities should be documented within the plan.</p>				<p>distributed with appropriate training.</p> <p><u>Sep 14</u> See note at recommendation 2.</p> <p><u>Dec 14</u> The plan will be formally signed off and distributed once complete. Roles and responsibilities of senior management and other key staff have been agreed previously. Information cascades will be</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 7

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						reviewed in January / February 2015 and documented in the plan.	
9.	Hertford Theatre Payments (25/02/14)	Training around the application of Financial Regulations and Contract Procurement Rules should be delivered to all relevant staff to ensure that minimum records are maintained following procurement activities.	Agreed	Tracey Sargent (Procurement Officer)	31 August 2014 Now December 2014	<p><u>Feb 14</u> Not yet due</p> <p><u>Jun 14</u> Not yet due</p> <p><u>Sep 14</u> The Procurement Team have already started to provide training to Hertford Theatre staff and it is envisaged that this will encourage better business</p>	Partially implemented - continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						<p>practice. This is an on-going piece of work that will form part of general Procurement training throughout the Council now that a full-time Procurement Officer is in post. Revised target date December 2014.</p> <p><u>Dec 14</u> Hertford Theatre have been offered several training sessions but these have not been taken up. Further training</p>	

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 7

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
						opportunities will be offered during 2015. Staff are reminded by email if there are possible breaches of any regulations.	
10.	Facilities Management (27/03/14)	Management should ensure that existing contract information is collated as part of its review of long standing arrangements and that going forward records are kept in line with Procurement Regulations.	Facilities Manager to discuss with Procurement Officer how and what information is needed to establish a system of holding this information in an accurate	Head of People & Property Services (revised to Head of Governance & Risk Management) / Facilities Manager / Procurement Officer	To agree system by May 2014. Target date revised to September 2014.	<u>Jun 14</u> Discussions between the two officers are on-going but a system is not yet in place. <u>Sep 14</u> As above <u>Dec 14</u> Completed. Facilities	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			and efficient way.			Management now use the Contract Register template which enables Procurement to cut and paste new information onto the Procurement Contract Register. The new e-sourcing/contract management tool will improve the capture of their information in the future.	
11.	Section 106 Agreements (13/10/14)	The calculations made by the Section 106 Monitoring Officer	The spreadsheet approach referred to in	S106 Monitoring Officer	Completed	<u>Dec 14</u> Already implemented	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
		<p>should be checked by a second officer to ensure they are correct and the spreadsheet signed as evidence that this check has been undertaken.</p> <p>The calculations made by the planning officer shown in the full planning doc should be cross-checked by a second officer.</p>	<p>calculating contributions due through agreements signed at outline stage had been implemented immediately prior to the audit. The spreadsheet used contained an incorrect formula which resulted in incorrect calculations. The spreadsheet has now been</p>				

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			<p>checked and the correct formula is now being used.</p> <p>The second checking of calculations undertaken by the Monitoring Officer has already been introduced. Appropriate signed records to be maintained.</p> <p>Calculations made by Planning</p>		<p>Implemented</p> <p>Implemented</p>		

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jan 15)
			Officers will be checked at the time of formulating reports to the DM committee that contain these amounts. This will be checked through the process of sign off of the reports.				

APPENDIX C AUDIT PLAN ITEMS (APRIL 2014 TO MARCH 2015) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	NDR Avoidance	Recruitment		Leisure Services Third Party Inspections	Fees & Charges		Main Financial Systems (9 Reviews)	AGS Benchmarking (Joint Review)	Performance Framework	Facilities Management Compliance Project Plan	
	Section 106 Agreements			Community Grants	Hertford Theatre		Parking Permits	Enforcement	IT Asset Management	Cash & Banking	
	Payroll Certificate				District Plan (Consultation Process)				Data Protection		
					IT Change Control				Shared Services Benefits Realisation		
					Business Continuity						

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 21 JANUARY 2015

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

UPDATE ON IMPLEMENTATION OF 2014/2015 ANNUAL GOVERNANCE STATEMENT ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The 2013/14 Annual Governance Statement includes eleven measures to enhance East Herts Council's internal control framework during 2014/15. The Audit Committee is requested to consider the content of **Essential Reference Paper 'B'** that provides details of proposed actions that need to take place prior to confirmation being given that adequate and effective controls are fully in place.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>	
That:	
(A)	The Committee reviews the progress made against implementing the action plan contained in the 2013/14 Annual Governance Statement and advises of any concerns.

1.0 Background

1.1 The Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to this Committee. Actions needed to address issues have been identified and are monitored on a R(ed), A(mber) and G(reen) basis.

2.0 Report

2.1 For the purposes of the Annual Governance Statement, internal

control is being interpreted in its broadest sense covering both financial and managerial controls that ensure that the implementation of East Herts Council's vision and priorities is being managed effectively.

- 2.2 Position statements are reflected in **Essential Reference Paper 'B'** following consultation with key responsible officers. The position statement contains a traffic light system whereby:
- "Green" indicates that the planned action has been achieved,
 - "Amber" indicates that satisfactory progress is being made towards achieving the planned action, and
 - "Red" is where a planned action has not been achieved or that progress is unsatisfactory.
- 2.3 The Annual Governance Statement Action Plan was approved by the Audit Committee on 24 September 2014. Current positions have been reflected in **Essential Reference Paper 'B'**.
- 2.4 One specific area is highlighted:
- The status against the long standing risk of failure to deliver an effective, efficient and economic IT service is now shown as "Green". This is as a result of works undertaken by SIAS, reported elsewhere on the Agenda. All outstanding high risk IT audit recommendations have been implemented and SIAS are satisfied that resilient IT business continuity arrangements are now in place.
- 2.5 There have been insufficient movements to change the RAG status of any other actions. The updated positions were considered by Corporate Management Team on 16 December 2014. Minor revisions have been made to some of the target dates to reflect expected delivery of reports from SIAS that will have a direct bearing on several of the RAG assessments.
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Update on Implementation of 2014/2015 Annual Governance Statement
Action Plan – Audit Committee 26 November 2014.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	<p>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</p> <p>This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.</p> <p>Place – Safe and Clean</p> <p>This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean.</p> <p>Prosperity – Improving the economic and social opportunities available to our communities</p> <p>This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.</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 resources implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing implications to those already contained in this report.

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ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2014/15

Issue	Resp. Off.	Target Date	Actions needed to achieve milestone	Current position	RAG status
<p>Risk of failure to deliver an effective, efficient and economic IT service.</p> <p>(From 2010/11 Action Plan)</p>	<p>Director of Finance and Support Services/ Head of Business & Techn'y Services</p>	<p>January 2015 revised from October 2014</p>	<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"> • The Shared Internal Audit Service (SIAS), through PwC, have cleared outstanding high risk recommendations in their IT review. • SIAS have indicated that they are satisfied that resilient business continuity arrangements are now in place. Management have successfully tested the system this year and will test again next financial year. 	<p>GREEN</p>

Essential Reference Paper 'B'

IT Risk Diagnostic (Highlighted by SIAS during 2012/13)	CMT	March 2015 revised from October 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. 	<ul style="list-style-type: none"> An IT Strategy, effective April 2015, has been drafted and consultation with senior management is expected to commence shortly. 	AMBER
Hertford Theatre future governance arrangements (From 2011/12 Action Plan)	CMT	Feb 2015 revised from October 2014	<ul style="list-style-type: none"> Review to identify options for alternative governance models and the financial implications of adopting any of those models. 	<ul style="list-style-type: none"> SIAS, through PwC, are currently undertaking a review of governance arrangements as part of the 2014/15 Audit Plan. 	AMBER
Asset Management Plan (From 2012/13 Action Plan)	CMT	March 2015 revised from Dec 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. The Executive on 7 October 2014 approved future investment of £10m in 	AMBER

Essential Reference Paper 'B'

				<p>each of two selected property funds which will impact on the Asset Management Plan.</p> <ul style="list-style-type: none"> • An audit of Council land is currently underway to ultimately gain assurance that all sites and assets are managed and that appropriate standards are reflected in corporate policy. • SIAS will be reviewing Asset Management arrangements this financial year. 	
Impact of Welfare Reform changes	CMT	March 2015	<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 	<ul style="list-style-type: none"> • The Council has responded well to changes in Welfare reform although this has resulted in an 	AMBER

Essential Reference Paper 'B'

(Identified as a strategic risk in 2013/14)			across the Council to staffing levels, manage the budget and the public expectations. Implement Council policies effectively.	increased number of contacts from affected residents. The impact of this increased contact is monitored through appropriate management teams and partnership boards. The timetable for implementation of Universal Credit remains uncertain.	
Operating effectively in Shared Services (Taken forward from 2012/13 Action Plan)	CMT	Feb 2015 revised from Dec 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"> The Shared Internal Audit Service are currently undertaking a review of Shared Services Benefits Realisation as part of the 2014/15 Audit Plan. 	AMBER

Essential Reference Paper 'B'

<p>Risk that S106 Monies remain unspent</p> <p>(Highlighted by SIAS during 2012/13)</p>	<p>Head of Comms, Engagement and Cultural Services/ Head of Planning and Building Control</p>	<p>Dec 2014</p>	<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"> • Reports are made to CMT identifying projects and tracking outstanding payments. • SIAS reviewed this area and reported Moderate assurance in October 2014. Four recommendations made of which one high priority recommendation has been actioned. • Process continues to be monitored. 	<p>AMBER</p>
<p>Implementat'n of the Investment Strategy with sufficient levels of governance and due</p>	<p>CMT</p>	<p>March 2015</p>	<ul style="list-style-type: none"> • Find the optimum position of balancing risk and return and having financial strength to contribute to the local economy. 	<ul style="list-style-type: none"> • Audit Committee in July 2014 agreed a refreshed Treasury Management Strategy allowing investment in to property funds. 	<p>AMBER</p>

Essential Reference Paper 'B'

diligence (Identified as a new 2014/15 strategic risk)				<ul style="list-style-type: none"> Report on new Property fund proposals approved by the Executive on 7 October 2014. 	
Development of a District Plan that is approved by the planning inspectorate. (Identified as a new 2014/15 strategic risk)	CMT	March 2015	<ul style="list-style-type: none"> Plan to be agreed within required timeframe. 	<ul style="list-style-type: none"> Progress continues to be made on the production of the District Plan. It is clear that detailed scrutiny of the infrastructure that can be provided to support delivery is necessary. Consultants appointed by the Council have undertaken significant work to review the evidence and identify gaps which will need to be filled before the District Plan can move forward to an amendments consultation version. 	AMBER

Essential Reference Paper 'B'

				<p>The result of this work will have an impact on the timetable.</p> <ul style="list-style-type: none"> • In December 2014 SIAS reviewed the District Plan Consultation Process and reported full assurance. 	
<p>The effectiveness of the delivery of the Here to Help programme (Identified as a new 2014/15 strategic risk)</p>	CMT	March 2015	<ul style="list-style-type: none"> • Ensuring challenges are met, particularly staff engagement, communications and adequate resources. 	<ul style="list-style-type: none"> • The Here to Help quarterly update report and recommendations were approved by CMT on 11 November 2014. 	AMBER

Essential Reference Paper 'B'

<p>Increased levels of demand for our services. (Identified as a new 2014/15 strategic risk)</p>	<p>CMT</p>	<p>March 2015</p>	<ul style="list-style-type: none"> • Demonstrate ability to adequately manage increased volume of contact from the public. • Demonstrate improvements, removal of barriers and increased capacity. 	<ul style="list-style-type: none"> • The Here to Help activities are providing a platform for organisational development while the development of a more focused Customer Services Strategy will develop capacity in the medium term. 	<p>AMBER</p>
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EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 JANUARY 2015

REPORT BY DIRECTOR OF FINANCE & SUPPORT SERVICES

AUDIT COMMITTEE WORK PROGRAMME 2014/15

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides the Audit Committee work programme for the 2014/15 civic year for consideration and approval.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>

That:

(A)	The work programme for the Audit Committee be approved.
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1.0 Background

1.1 The Audit Committee's work programme was approved by the Audit Committee on 19 March 2014.

2.0 Report

2.1 The Audit Committee work programme for the 2014/2015 civic year is given at **Essential Reference Paper 'B'**.

2.2 There have been no amendments made to the previously agreed programme.

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 2014/15 Audit Committee
26 November 2014.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	<i>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</i> This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.
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 resources implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing implications to those already contained in this report.

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ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2014/15 Civic Year

Committee Date	Agenda Items
16 July 2014	<ul style="list-style-type: none"> • External Audit- Audit Plan • Draft Statement of Accounts 2013-2014. • Shared Internal Audit Service Annual Assurance Statement and Annual Report 2013/14. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2013/14 Annual Governance Statement. • Revision to Treasury Management arrangements • Risk Management monitoring report 1 January 2014 to 31 March 2014. • Audit Committee Work Programme.
24 Sept 2014	<ul style="list-style-type: none"> • External Audit report- Audit Findings Report. • Treasury Management Strategy – 2013/14 Outturn • Treasury Management Strategy- 2014/15 Mid-year Review. • Statement of Accounts 2013/14. • 2013/14 Annual Governance Statement. • Annual Shared Internal Audit Service Board Report 2013/14. • Shared Internal Audit Service- Audit Plan Update Report. • Risk Management monitoring report 1 April 2014 to 30 June 2014. • Audit Committee Work Programme.
26 Nov 2014	<ul style="list-style-type: none"> • Training item- Grant Thornton- "De-cluttering the Accounts". • External Audit report- 2013/14 Annual Audit Letter. • Council response to 2013/14 Annual Audit Letter. • External Audit report- Planned Audit Fees for 2014/15. • Treasury Management Strategy- 2014/15 Mid-year Review. • Update on Implementation of Annual Governance

ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2014/15 Civic Year

	<p>Statement Action Plan.</p> <ul style="list-style-type: none"> • Risk Management monitoring report 1 July 2014 to 30 September 2014. • Audit Committee Work Programme.
<p>21 Jan 2015</p>	<ul style="list-style-type: none"> • Training item- Grant Thornton's National Financial Resilience Report. • External Audit- Grants Claim Certification Work 2013/14. • Treasury Management Strategy Statement 2015/16. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Audit Committee Work Programme.
<p>18 March 2015</p>	<ul style="list-style-type: none"> • External Audit Update report. • Shared Internal Audit Service- Audit Plan Update Report. • Internal Audit Plan 2015/16. • Update on Implementation of Annual Governance Statement Action Plan. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 October 2014 to 31 December 2014. • Risk Management Strategy. • Audit Committee Work Programme 2015/16 Civic Year.