



Public Document Pack

Jeff Hughes
*Head of Democratic and Legal
Support Services*

MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 15 JULY 2015
TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor W Mortimer (Chairman)
Councillors J Cartwright, B Deering, I Devonshire, P Kenealy, P Phillips
and S Stainsby

CONTACT OFFICER: LORRAINE BLACKBURN
01279 502172
E-mail:
lorraine.blackburn@eastherts.gov.uk

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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 - Good Governance and the role of the Audit Committee
2. Appointment of Vice Chairman
3. Apologies

To receive apologies for absence.
4. Minutes (Pages 7 - 16)

To confirm the Minutes of the meeting held on 18 March 2015
5. Chairman's Announcements
6. Declarations of Interest

To receive any Member's Declarations of Interest.
7. External Audit - Audit Plan (Pages 17 - 30)
8. Draft Statement of Accounts 2014-2015 (Pages 31 - 102)
9. Shared Internal Audit Service Annual Assurance Statement and Annual Report 2014/15 (Pages 103 - 134)
10. Shared Internal Audit Service - Audit Plan Update Report (Pages 135 - 160)
11. Update on Implementation of the 2014-15 Annual Governance Statement Action Plan (Pages 161 - 174)
12. Draft 2014/15 Annual Governance Statement (Pages 175 - 204)
13. Risk Management Monitoring Report 1 January 2015 to 31 March 2015 (Pages 205 - 214)

14. Audit Committee work programme (Pages 215 - 220)

15. Urgent Business

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

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 18 MARCH
2015, AT 7.00 PM

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

ALSO PRESENT:

Councillors P Ruffles.

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Democratic Services Officer
Chris Gibson	- Head of Governance and Risk Management
Philip Gregory	- Head of Strategic Finance
Adele Taylor	- Director of Finance and Support Services

ALSO IN ATTENDANCE:

Terry Barnett	- Shared Internal Audit Service
Sarah Ironmonger	- Grant Thornton

593 APOLOGIES

An apology for absence was submitted from Councillor W Mortimer.

594 MINUTES

RESOLVED - that the Minutes of the meeting held on 21 January 2015 be confirmed as a correct record and

signed by the Chairman.

595 CHAIRMAN'S ANNOUNCEMENTS

The Chairman stated that this was the last meeting of the civic year and his last meeting as Chairman and Councillor having served for an enjoyable 42 years. He thanked both Members and Officers for their ongoing support and interest in the work of Audit Committee.

596 EXTERNAL AUDIT UPDATE REPORT

The External Auditor submitted a report setting out the progress made in delivering the External Auditor's responsibilities in terms of:

- relevant emerging national issues and developments;
- challenging questions in respect of emerging issues for Members' consideration; and
- Progress against actions agreed as part of last years account closure

Progress as at March 2015, was set out in the report now submitted. The External Auditor explained that the biggest area of progress was around de-cluttering of the Council's accounts, with a detailed review having been undertaken of the notes and disclosures and their presentation and results, which would be included as part of this year's closure process.

The Chairman stated that the report, as now submitted, referred to scrutiny and the way in which Councils should consider their approach following a national report on governance and scrutiny issues. The External Auditor added that they felt that although East Herts did not necessarily specifically scrutinise outside bodies or some shared services, it did take the issue of scrutiny seriously and that Members were highly effective at scrutiny.

The Chairman raised the issue of the Local Government Pension Scheme (LGPS) and what supervisory bodies had been set up. The External Auditor undertook to investigate

this and write to Members.

Councillor M Pope referred to the Local Government review in which areas of concern were mentioned, including dissatisfaction with scrutiny and partnership working. The External Auditor explained that an inspection of Rotherham Council had highlighted issues concerning scrutiny and partnership working. The Director of Finance and Support Services explained that she considered that East Herts had strong and effective scrutiny arrangements in place including a thorough understanding of governance arrangements. She stated that scrutiny at East Herts looked at performance measures generally and in relation to shared services, which all fed into at least one main scrutiny committee.

In response to a query from Councillor J Wing, the External Auditor explained the role and remit of Local Public Accounts Committees. The Director of Finance and Support Services explained that this followed on from an independent Local Government Finance review which had considered potential issues around future financing, but that no formal changes had arisen directly out of this review. As any changes arose, Officers would ensure that they kept themselves fully briefed. When available, this would be circulated via the Members' Information Bulletin.

Councillor D Andrews stated that Local Public Accounts Committees had a lot of potential and supported its introduction.

The Committee received the report.

RESOLVED – that the update be received.

597 SHARED INTERNAL AUDIT SERVICE - AUDIT PLAN
UPDATE REPORT

The Shared Internal Audit Service (SIAS) submitted a report setting out the progress made in delivering the Council's Annual Audit Plan 2014/15. The report set out proposed amendments to the Audit Plan and provided an update in relation to the status of previously agreed high priority audit

recommendations. The report now submitted also provided an update of performance management information as at 25 February 2015.

Members were advised that as at 27 February 2015, SIAS had delivered 86% Audit Plan days and that this was now currently 88%. Members noted the list of reports which had been finalised since the last meeting of Audit Committee.

The Chairman referred to a number of medium priority recommendations made in the Leisure Services - Third Party Inspections Review. SIAS advised that this matter had been addressed in the 2015/16 audit plan.

The Chairman stated that he was extremely impressed with the quality of the work and thanked the Shared Internal Audit Service for their ongoing good work.

The Committee noted the Internal Audit Progress Report and agreed to the removal of implemented, high priority recommendations.

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

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

598 SHARED INTERNAL AUDIT SERVICE - INTERNAL AUDIT PLAN 2015/16

The Shared Internal Audit Service submitted a report setting out a proposed Internal Audit Plan for 2015/16. Members were reminded that the SIAS Audit Charter, presented to an earlier meeting of Audit Committee, explained how the Council and SIAS should work together to provide a modern and effective internal audit service. It was noted that the Public Sector Internal Audit Standards (PSIAS) required that the audit plan be linked to a strategic or high-level statement which:

- outlined how the service would be developed in accordance with the internal audit charter;

- detailed how the internal audit plan would be delivered; and
- evidenced how the service linked to organisational objectives and priorities.

The Chairman referred to the inclusion of Cemeteries and how the Authority met its statutory obligations in this area. He stated that, as cemeteries were not within the Committee's remit it should be removed and that Parish Councils should be reminded of their role in this regard. This was supported.

In response to a query by Councillor D Andrews in relation to Members' Allowances, the Director of Finance and Support Services explained that the payroll processing of Members' Allowances had not been audited for some time, alongside staff expenses and these had been included in the Internal Audit Plan for 2015/16.

RESOLVED – that the Internal Audit Plan for 2015/16, as amended and as now submitted, be approved.

599 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Director of Finance and Support Services submitted a report setting out the progress made on the 2013/14 measures to enhance East Herts Council's internal control framework during 2014/15. Essential Reference Paper "B" provided a summary of the current position.

The Head of Governance and Risk Management advised that the IT Strategy was nearly in place and had already been considered at the Corporate Business Scrutiny Committee meeting of 17 March 2015, and that a draft report on Hertford Theatre was being considered by Officers.

The Committee noted the progress made against implementing the action plan contained in the 2013/14 Annual Governance Statement.

RESOLVED – that the progress made against implementing the action contained in the 2013/14 Annual

Governance Statement be noted.

600 ANNUAL REVIEW OF DATA QUALITY STRATEGY

The Director of Finance and Support Services submitted a report setting out revisions to the 2014/15 Data Quality Strategy. The strategy aimed to improve the provision of local government performance information and so provide improved supporting data on which the Council could make decisions. Essential Reference Paper “B” of the report now submitted highlighted tracked non material amendments to the Strategy.

The Director of Finance and Support Services advised Members that the report reflected changes to titles and minor changes to ensure that it was “fit for purpose”. In response to a query from Councillor M Pope, the Director of Finance and Support Services advised that performance information was tracked by Covalent . When asked if this was the best system available, it was stated that the new Head of Business Development would advise if there were better systems on which the Council could track its performance if there was an appropriate business case to do so.

Councillor J Wing stated that he felt the strapline “People, Places and Prosperity” to be a confusing classification and suggested that this be removed. The Director of Finance and Support Services advised that these were the Council’s 3 main priorities included in the Corporate Plan, as determined and agreed by Members. If Members’ wished to consider changes to those priorities then that should be considered during the annual refresh of the Corporate Plan.

In response to a query from Councillor J Wing, the Chairman reminded Members that the Council aimed to achieve 100% on the Personal Development Review (PDR) process. The Director of Finance and Support Services explained the process and timeframes and why some services were not achieving 100% returns on their PDRs.

In response to a query by Councillor D Andrews with regard to dealing with Data Quality issues and whether Officers felt they

were able to come forward to admit if a mistake had been made, the Director of Finance and Support Services advised that the Council did not have a blame culture and Officers were encouraged to come forward as soon as possible to fix the problem. If there was a repeated performance issue, then this would be picked up in the most appropriate way.

The Committee approved the recommendations now detailed.

RESOLVED – that (A) revisions to the Data Quality Strategy, as now submitted and the summary guide, be noted; and

(B) tracked changes updated in the Strategy as submitted, be approved.

601 RISK MANAGEMENT MONITORING REPORT 1 OCTOBER 2014 TO 31 DECEMBER 2014

The Leader of the Council submitted a report on the action taken to mitigate and control strategic risks during the period 1 October to 31 December 2014.

The Head of Governance and Risk Management provided a summary of the report, explaining that all information was available on Covalent.

In response to a query by Councillor M Pope on 14SR7 (IT Systems and Performance), the Director of Finance and Support Services stated that there might be a need for increased security systems. In response to a further question from Councillor Pope regarding the development of an Investment Strategy, the Director of Finance and Support Services stated that the Council hoped to invest in property funds in June and then September 2015.

The Committee approved the report, as now detailed.

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

602 RISK MANAGEMENT STRATEGY

The Leader of the Council submitted a report regarding proposed revisions to the Risk Management Strategy in order to reflect current best practice. It was noted that the Strategy was based on a toolkit prepared by the Association of Local Authority Risk Managers and as such, only minimal changes to the Strategy had been made. The Head of Governance and Risk Management provided a summary of the changes.

The Committee supported the recommendation as now detailed.

RESOLVED – that the Executive be advised that the Committee supports the Risk Management Strategy, as now submitted.

603 AUDIT COMMITTEE WORK PROGRAMME 2015/16 CIVIC YEAR

The Director of Finance and Support Services submitted a report detailing the proposed work programme for Audit Committee for the 2015/16 Civic Year.

The Head of Governance and Risk Management advised that the proposed work programme had been agreed with the External Auditor and the Shared Internal Audit Service. He stated that reports on progress made by the Shared Anti-Fraud Service would be submitted twice per year.

The Head of Governance and Risk Management advised that there would be new Members on Audit Committee following the election and that discussions were ongoing with the Director of Finance and Support Services on what training would be provided to support the audit process. A questionnaire would be sent to all Members on the new Committee to identify possible areas for training.

The Head of Governance and Risk Management also advised that the proposed future meeting date of 13 April

2016 would need to be brought forward into the 2015/16 financial year as certain agenda items had to be addressed before 2016/17.

Members approved the work programme as now detailed.

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

The meeting closed at 8.00 pm

Chairman
Date

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The Audit Plan for East Hertfordshire District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

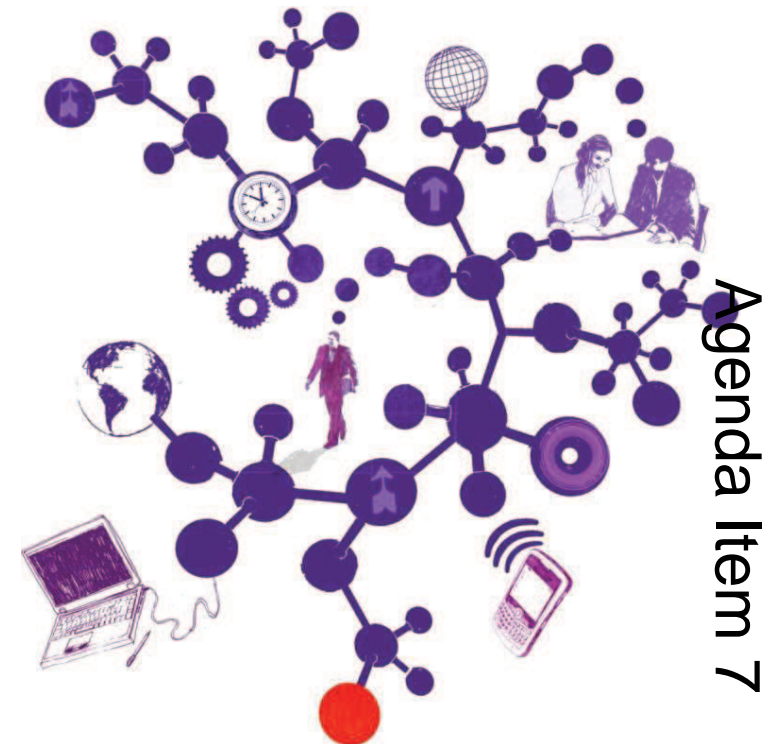
Year ended 31 March 2015

June 2015

Paul Grady
Director
T 020 7728 2301
E paul.d.grady@uk.gt.com

Sarah Ironmonger
Senior Manager
T 07880 456149
E sarah.i.ironmonger@uk.gt.com

William King
Executive
T 020 7728 2819
E will.d.king@uk.gt.com



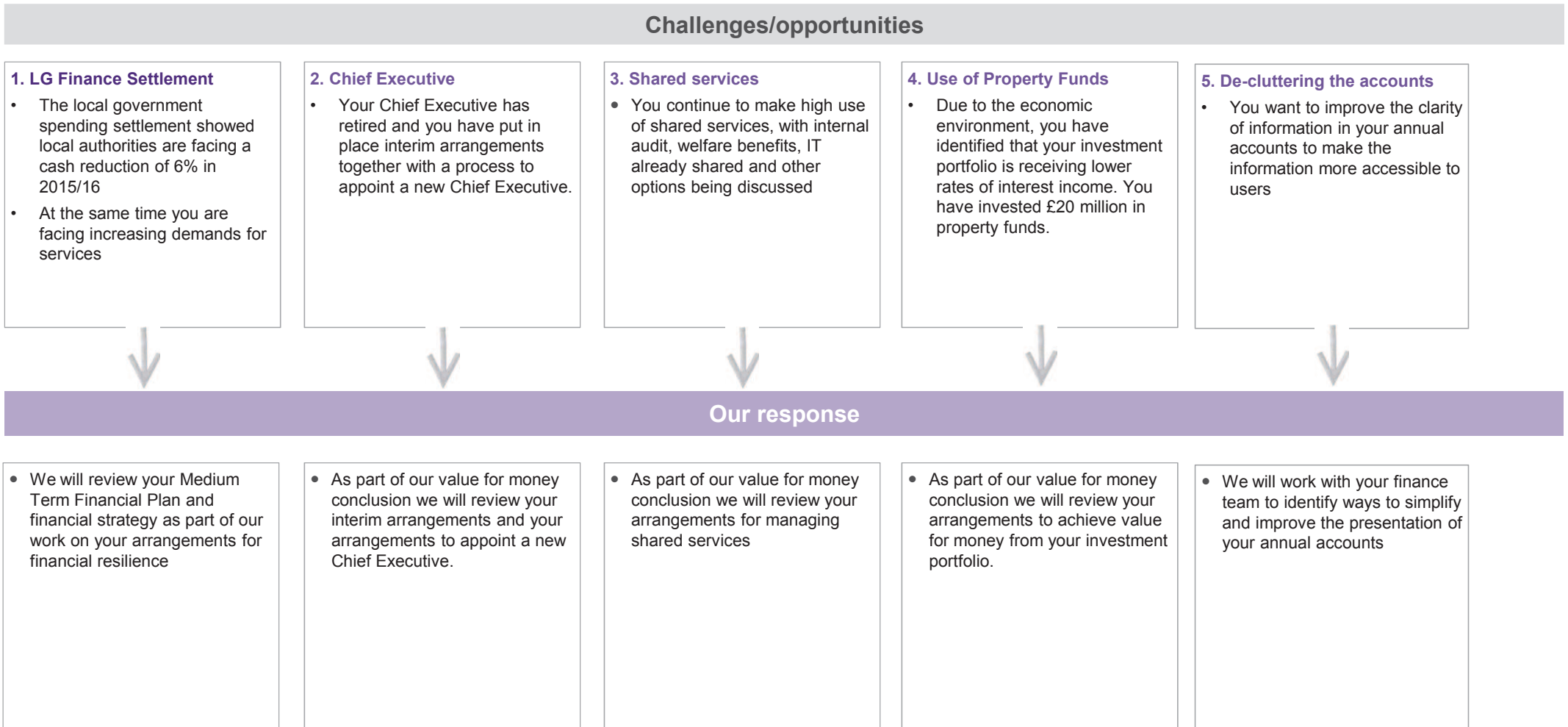
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Value for Money
7. Results of interim work
8. Key dates
9. Fees and independence
10. Communication of audit matters with those charged with governance

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)
- Future changes announced in relation to accounting for transport infrastructure assets.

Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

Financial Pressures

- Managing service provision with less resource within a changing environment
- Progress against savings plans

Other requirements

- You are required to submit a Whole of Government accounts pack on which we provide an audit opinion
- You complete grant claims and returns on which audit certification is required

Our response

We will review whether:

- you comply with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- your group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly
- appropriate processes are in place in preparation for the change in basis for valuation of infrastructure assets through discussions with management.

- We will review the arrangements you have in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge of your business

- We will review your performance against the 2014/15 budget, including consideration of your performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

* Understanding the environment and the entity

* Understanding the business

* Understanding management's focus

* Evaluating the year's results

Inherent risks

Significant risks

Other risks

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software

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

Devise audit strategy (planned control reliance?)

Yes

- Test controls
- Substantive analytical review
- Tests of detail

IDEA

Report output to teams

Analyse data using relevant parameters

No

- Test of detail
- Substantive analytical review

General audit procedures

Financial statements

Conclude and report

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Voyager



Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • your culture and ethical frameworks mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Initial testing of journal entries • Initial review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Consider the outcomes from accounting estimates, judgments and decisions made by management • Finalise testing of journal entries • Finalise review of unusual significant transactions

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Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of operating expenses system • Initial substantive testing of material expenditure streams <p>Further work planned:</p> <ul style="list-style-type: none"> • Complete substantive testing of material expenditure streams • Review post year end expenditure for unrecorded liabilities • Substantive testing of year end payable balances.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of employee remuneration system • Initial substantive testing of payroll payments. <p>Further work planned:</p> <ul style="list-style-type: none"> • Complete substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's terms of employment and deductions are correctly calculated. • Testing the year end reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems • Testing of senior officer remuneration and exit packages.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- an assessment of your financial performance during the year and its impact on your financial health
- a review of your medium term financial plans covering financial forecasting, planning assumptions and the robustness of future savings plans
- a review of your investment plans, specifically the use of property funds and reserves
- review of on-going arrangements to strengthen budget setting and monitoring
- follow up compliance with the Reserves Policy
- follow up on progress made on significant control gaps from prior year Annual Governance Statement
- review of your interim Chief Executive arrangements and your arrangements to appoint a new Chief Executive
- follow up on strategic initiatives in place such as shared services

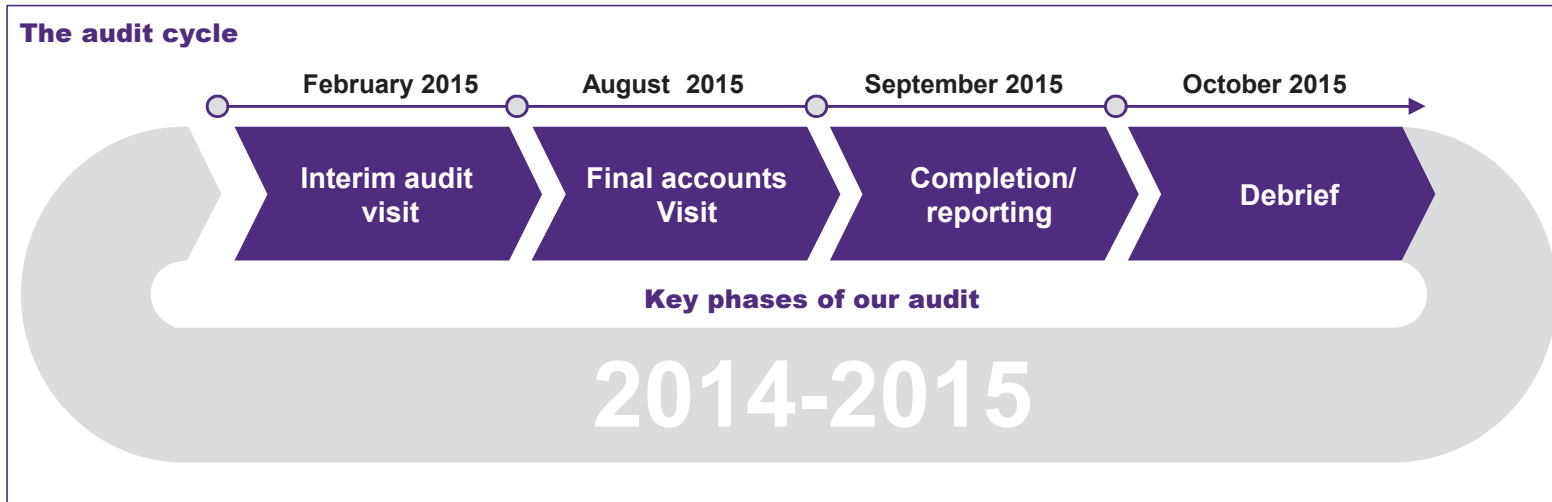
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on your key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, being employee remuneration and operating expenditure.</p> <p>Our work has identified a system weakness which allows one member of staff to self authorise purchase orders. This is a fraud risk and also enables fictitious creditors to be raised.</p> <p>We have undertaken additional procedures and we have</p> <ul style="list-style-type: none"> confirmed that the issue relates to systems access and we did not identify any further members of staff with access to self-authorise purchase orders. reviewed all purchase orders raised by the relevant member of staff. Only one purchase order had been raised and our review of that purchase order did not identify any issues. 	<p>Our work has not identified any weaknesses which impact on our audit approach except for:</p> <ul style="list-style-type: none"> Systems access enabling one member of staff to self authorise purchase orders.
Entity level controls	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>Our work to date has not identified material weaknesses which are likely to adversely impact on your financial statements</p>

Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
July 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to the Audit Committee
September 2015	Sign financial statements opinion

Fees

	£
Council audit	69,775
Grant certification	7,940
Total fees (excluding VAT)	77,715

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and your activities, have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

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

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

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

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

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



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STATEMENT OF ACCOUNTS

2014/15

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

STATEMENT OF ACCOUNTS 2014/15

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EXPLANATORY FOREWORD

1. Introduction

East Herts Council is the largest of the 10 districts in Hertfordshire, covering around a third of the County. The population of East Herts is approximately 141,000 the majority of whom live in one of the five towns; Bishops Stortford, Buntingford, Hertford, Sawbridgeworth and Ware with over 100 villages and hamlets.

East Herts Council is responsible for the administration of significant sums of public money which must be accounted for correctly in accordance with statutory legislation within the Statement of Accounts, presented in this document.

The Statement of Accounts is a complex and technical document and the aim of this foreword is to provide residents, Council Members and other stakeholders a straightforward explanation of the Council's financial performance for the 2014/15 financial year.

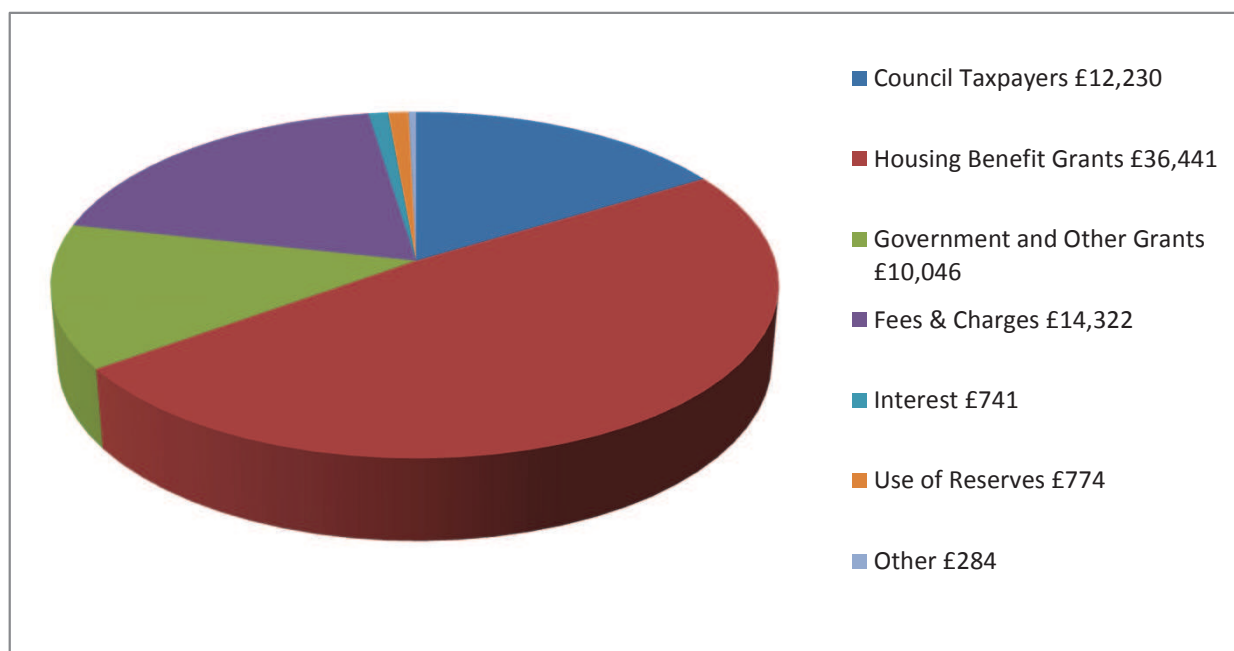
The foreword aims to help readers understand the key financial information contained within the financial statements. A glossary of terms can be found at the back of the Statement of Accounts to assist in understanding the various statements.

2. Overview of Council's Activities in 2014/15

An annual net budget of £16.7m was set by Council in February 2014 to deliver services in 2014/15.

The three charts which follow show in broad terms where the Council's money comes from, what it is spent on and what services are provided.

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

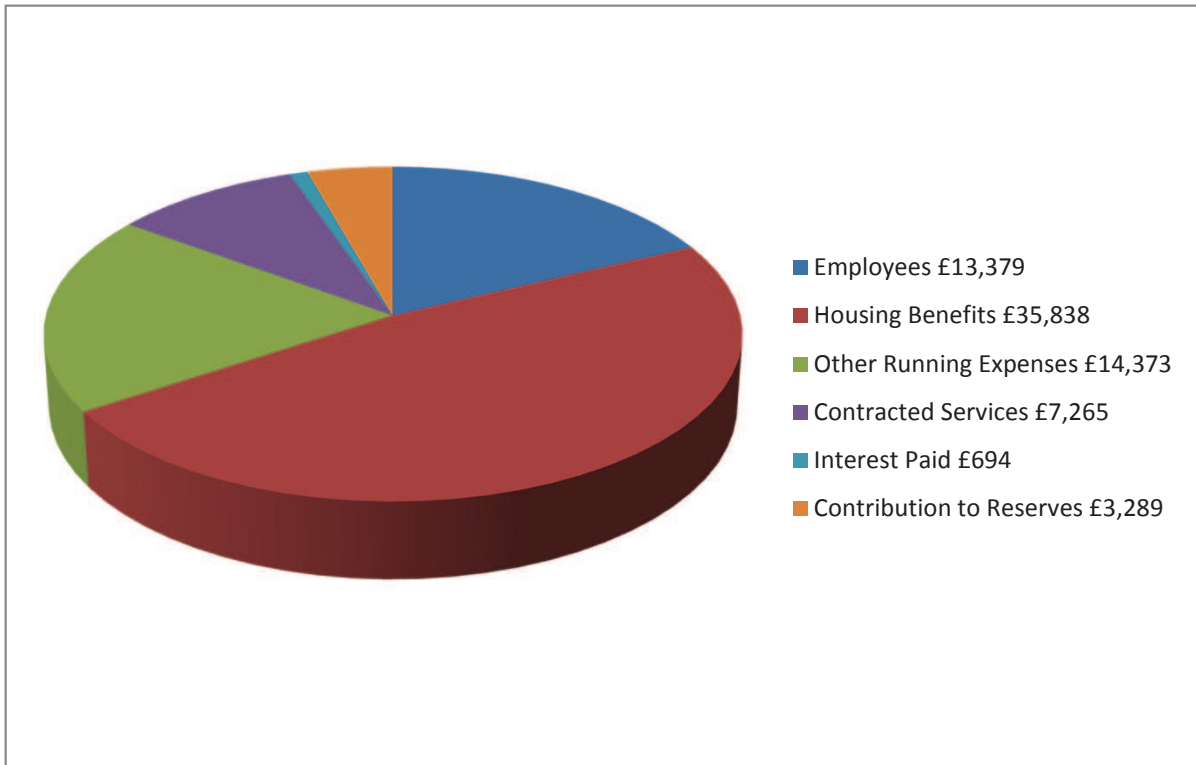


Almost half (48.7%) of the Council's income is from Housing Benefit Grants. Other Grants including those from Central Government contribute 19.1% of the Council's income. Council Tax income accounts for 16.3% of the Council's total income.

STATEMENT OF ACCOUNTS 2014/15

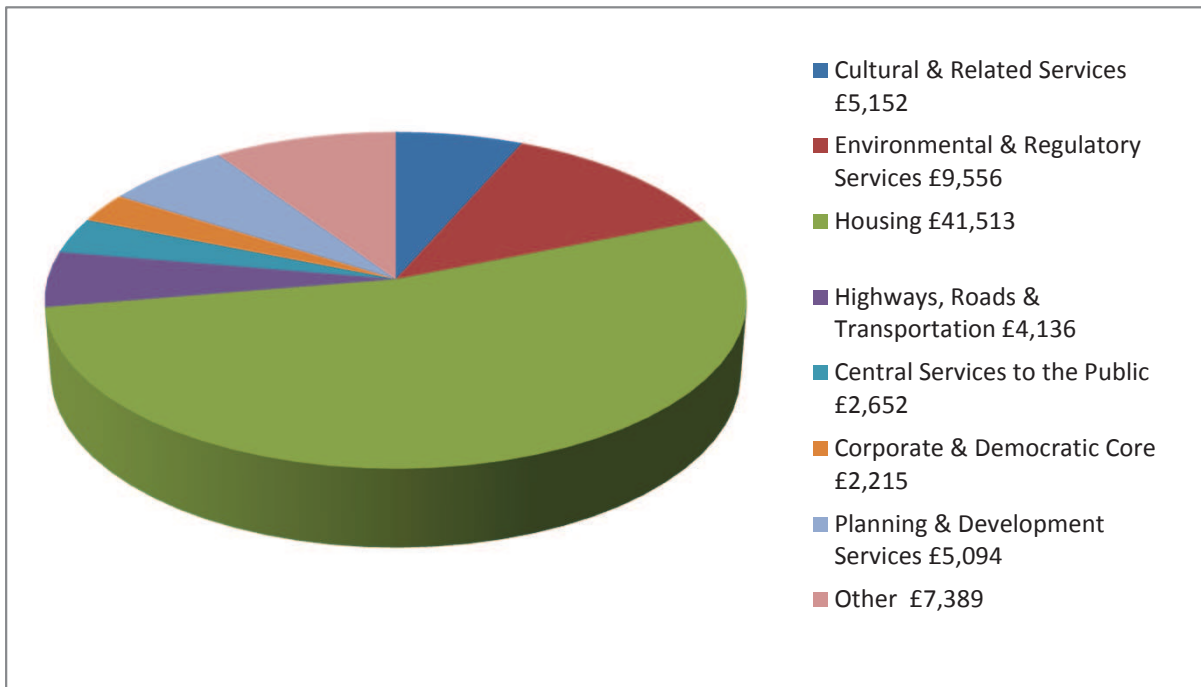
EXPLANATORY FOREWORD (continued)

HOW THE MONEY IS SPENT £000



The difference between the amount of Housing Benefits received and the amount of Housing Benefits paid is £603k, equivalent to 1.7% of the total Housing Benefits paid, as a result of timing differences between receiving the funding and paying recipients.

THE SERVICES PROVIDED £000



The cost of "The Services Provided" includes capital charges, revenue funded from capital under statute, capital government grants and other financing costs totalling £2,869k which have been excluded from the previous charts.

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EXPLANATORY FOREWORD (continued)

3. Revenue Expenditure and Income

Comparison of Actual Expenditure and Income against Budget:

The Council has modelled its Medium Term Financial Plan (MTFP) and set its annual revenue budget against a backdrop of continued austerity in public expenditure. Recent Government spending reviews have signalled a continuation of funding reductions in future years.

The Council has continued to plan to achieve ongoing efficiency savings in order to be able to set affordable and sustainable budgets in the medium term. Consideration is also being given to how we make our money and other assets work harder to generate additional income.

Through sound financial management the Council was able to freeze its proportion of Council Tax raised in 2014/15, having previously reduced it by 1% in 2013/14 and frozen it each year since 2010/11. A further 1% reduction is agreed for 2015/16 with a further freeze planned in 2016/17.

During 2014/15 the Council continued to work hard to drive down costs and was able to deliver over £585k of additional efficiency savings whilst still maintaining quality services in line with its priorities.

A comparison of the budget with actual income and expenditure for 2014/15 is shown below:

	Budget	Actual	Variance
	£000	£000	£000
Net Cost of Services	20,725	18,887	(1,838)
Investment Properties (net)	(66)	(66)	-
Planning Contingency	513	-	(513)
Finance Transactions	(3,077)	(2,176)	901
Interest Transactions	(233)	(47)	186
Movement on Pension Reserve (Deficit Contribution)	600	(88)	(688)
Appropriations - Financing Items	25	25	-
Appropriations - REFCUS (see Policy xix, page 22)	(1,843)	(694)	1,149
Net Expenditure	<u>16,644</u>	<u>15,841</u>	<u>(803)</u>
Collection Fund Contribution	-	(307)	(307)
Contribution from NNDR Pool	(2,423)	(2,864)	(441)
Revenue Support Grant	(2,816)	(2,816)	-
Council Tax Freeze Grant	(94)	(94)	-
Council Tax Raised	(8,738)	(8,738)	-
New Homes Bonus	(2,190)	(2,199)	(9)
General Revenue Grants	(16)	(1,339)	(1,323)
Balance to be appropriated to Reserves	<u>(367)</u>	<u>2,516</u>	<u>(2,883)</u>

The above variance is represented by:	£000
The impact of Non Domestic Rates Funding Regime	(441)
Collection Fund Surplus	(307)
Contingency budget not required	(169)
Priority Spend budget not required	(514)
An underlying underspend against the 2014/15 original budget	(1,214)
Brought Forward budgets from 2013/14	(238)
Total variance to 2014/15 Original budget.	<u><u>(2,883)</u></u>

Overall, this has resulted in £2,517k being added to the Council's Reserve balances (See Page 7).

STATEMENT OF ACCOUNTS 2014/15

EXPLANATORY FOREWORD (continued)

3. Revenue Expenditure and Income continued

In line with the Council's recommendations, and as a result of the review of Reserves in February 2014, the following contributions to key reserves have been made to support medium term financial risks to the Council:

- £307k reflecting the surplus on the Collection Fund received in 2014/15, transferred into the Collection Fund Reserve to mitigate NDR income volatility in future years.
- £2,767k was transferred into the New Homes Bonus Priority Fund to support future priority spending plans.
- £1,655k was transferred into the Transformation Reserve to fund service improvement initiatives.
- £1,000k was transferred to create the Insurance Fund to allow the Council to self-insure in future years.
- £1,000k was transferred to create the Pension Fund Additional Contribution Fund.
- £500k was transferred to create the Commercial Property Fund to support the development of commercial investment opportunities.

The reported revenue variance comprises:

Corporate Funding:

Non Domestic Rates Regime:

The Non Domestic Rate regime came into effect in April 2013. Numerous regulations updating the arrangements for the regime have been issued during the 2014/15 financial year. On closing the accounts, the Council has made use of the 'Safety Net' implications in place for the regime; resulting in £441k additional government funding than initially budgeted for. It is likely that this will be required in future years due to the fluctuations in income received from businesses. There are also a significant number of outstanding appeals yet to be heard by the Valuation Office Agency (VOA) that present a financial risk to East Herts.

Section 31 Grant Funding:

The government issued additional grant funding in the 2014 Autumn Statement to support Small Businesses through Non Domestic Rate Relief. The Council received full reimbursement for £1,317k of additional reliefs granted through the Non Domestic Rates collection process.

Service Outturn:

In closing the accounts, an underlying underspend of £1,214k has been identified and comprises the following:

- Investment Gain - £120k gain in investment received in 2014/15 in addition to forecast gains in the treasury management cash flow.
- An underspend of £514k in the Priority Spend budget funded from New Homes Bonus grant income. The Executive approved the balance to be transferred to the New Homes Bonus Priority Fund Reserve for use on future years priority projects.
- A net underspend in Parking Services of £64k as a result of contract savings and better than expected income. This was offset by an overspend in the costs of providing the RingGo service free of charge to residents.
- Additional income of £95k over budget due to the continued success of Hertford Theatre from increased ticket sales and private hire bookings.
- Increasing numbers of planning applications have resulted in a net Development Management and Land Charges underspend of £300k. This is a result of £430k additional income being received with £130k of corresponding additional costs.
- An overall salaries budget underspend of £25k across the whole organisation.
- An overspend in Environmental services of £163k. This is due to £93k reduced income received for recyclable materials, £35k in increased contract costs due to a high volume of fly tips occurring and £35k of reduced income from the Hertfordshire wide Alternative Funding Model scheme.

STATEMENT OF ACCOUNTS 2014/15

EXPLANATORY FOREWORD (continued)

3. Revenue Expenditure and Income continued

- An additional £20k contribution to the Citizens Advice Bureaux to fund additional support and advice during the economic downturn.
- A £95k reduction in utilities costs largely due to a new meter being installed in Charringtons House.
- Other minor variances across all budgets totalled a net underspend of £287k

During 2014/15 a series of budget challenge sessions were undertaken to assess prior years expenditure and in-year spending plans. The identification of savings across all budgets informed the MTFP for 2015/16 to 2018/19 and setting the 2015/16 budget. These savings show as underspends in 2014/15, but reduce the level of efficiencies that need to be found in future years.

Pension Lump sum

As part of the review of the Council's reserves position arrangements undertaken in February 2014, a decision was made to set aside a lump sum payment of £1,000k to contribute towards the deficit. This payment is expected to be made in 2015/16 and means the impact of year on year increases in the annual pension deficit payments are spread more evenly over the four year period.

Financial Position for 2015/16 Onwards

The on-going impact of the above revenue variances will inform the Council's MTFP, which will be revised from July 2015. A comprehensive review of budgets will support key services with on-going service pressures and provide financial flexibility to implement a structured response to changes in government funding and regulatory changes to services.

4. Capital Expenditure & Financing

During 2014/15 the Council incurred expenditure of £1.859m on capital projects compared with an original budget of £3.265m (see note 6, page 30 and note 10, page 33). This excludes budgeted slippage of £334k carried over from 2013/14.

The policy of giving capital grants towards community projects continued with almost £115k awarded in the year. Over £266k was given in grants to private sector owners for renovation and provision of disabled facilities and £223k awarded in flood prevention grants.

Just under £136k was spent on various replacement bins, including the completion of the refuse and recycling container replacement programme. £108k was spent on the upgrade of play equipment at play areas in Hertford and Watton-at-Stone who also received a new Multi Use Games Area at a cost of £78k. £97k was spent on the upgrade of the auditorium seating at the Hertford Theatre.

Details of the Council's financing arrangements for the year are set out on page 48.

No external borrowing was undertaken in 2014/15 and the Council's overall long term borrowing is £7.5m as at 31st March 2015. The balance sheet shows a liability of £7.71m, however, this includes accrued interest of £210k (see note 35, page 58).

5. Pensions Liabilities

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Under current accounting standards the impact of any pension liability must be shown in the balance sheet. The Council's liability at 31st March 2015 is £34.342m which is an increase of £3.498m compared to the position at 31st March 2014. This change is largely due to an increase in the present value of fund assets offset by an increase in the fair value of scheme liabilities. Further information is given on pages 50 - 55.

STATEMENT OF ACCOUNTS 2014/15

EXPLANATORY FOREWORD (continued)

6. Financial Reporting and the Euro

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

7. Further Information

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

Further information about the accounts can be obtained by contacting the Head of Strategic Finance, Wallfields, Pegs Lane, Hertford. SG13 8EQ. If you would like to receive this document in large print, Braille, audio, electronic format, or translation into another language, please contact communications at East Herts Council on 01992 531688 or email pr@eastherts.gov.uk

8. Summary of Contents of Statement of Accounts

The Council's accounts for the year ended 31 March 2015 are set out on pages 7 to 64. They consist of :-

Statement	Explanation	Page No
Movement in Reserves Statement	Shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves	7
Comprehensive Income & Expenditure Statement	A summary of the resources generated and consumed by the authority in the year.	8
Balance Sheet	Sets out the financial position of the Council on 31 March 2015	9
Cash Flow Statement	Summarises the Council's inflows and outflows of cash for the year 2014/15	10
Notes to the Accounts	Provide support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The Notes include a Statement of Accounting Policies which details the legislation and principles on which the Statement of Accounts has been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the accounts	11-60
Supplementary Financial Statements - The Collection Fund	Shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period	61-64
Glossary of Financial Terms	Explains some of the key terms used in the accounts	65-68
Statement of Responsibilities for the Statement of Accounts	Identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2015	69

STATEMENT OF ACCOUNTS 2014/15

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013	3,854	6,052	0	513	4,255	14,674	62,404	77,078
Movement in reserves during 2013/14								
Deficit on provision of services	(1,552)	-	-	-	-	(1,552)	-	(1,552)
Other Comprehensive Income and Expenditure	-	-	-	(90)	-	(90)	5,800	5,710
Total Comprehensive Income and Expenditure	(1,552)	-	-	(90)	-	(1,642)	5,800	4,158
Adjustments between accounting basis and funding basis under regulations <i>Note 4</i>	3,860	-	-	(3)	-	3,857	(3,857)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	2,308	-	0	(93)	-	2,215	1,943	4,158
Transfers to/(from) Earmarked Reserves <i>Note 5</i>	(2,308)	2,322	-	-	(14)	0	-	0
Increase/Decrease in Year	0	2,322	0	(93)	(14)	2,215	1,943	4,158
Balance as at 31 March 2014 carried forward	3,854	8,374	0	420	4,241	16,889	64,347	81,236

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014	3,854	8,374	0	420	4,241	16,889	64,347	81,236
Movement in reserves during 2014/15								
Deficit on provision of services	(2,022)	-	-	-	-	(2,022)	-	(2,022)
Other Comprehensive Income and Expenditure	-	-	-	-	-	0	(1,754)	(1,754)
Total Comprehensive Income and Expenditure	(2,022)	-	-	0	-	(2,022)	(1,754)	(3,776)
Adjustments between accounting basis and funding basis under regulations <i>Note 4</i>	4,539	-	1,275	(47)	-	5,767	(5,767)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	2,517	-	1,275	(47)	-	3,745	(7,521)	(3,776)
Transfers to/(from) Earmarked Reserves <i>Note 5</i>	(2,517)	5,445	-	-	(2,928)	0	-	0
Increase/Decrease in Year	0	5,445	1,275	(47)	(2,928)	3,745	(7,521)	(3,776)
Balance as at 31 March 2015 carried forward	3,854	13,819	1,275	373	1,313	20,634	56,826	77,460

STATEMENT OF ACCOUNTS 2014/15

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	2014/15		2013/14
	Gross Exp £000	Gross Income £000	Net Exp £000
Central Services to the Public	2,652	(1,291)	1,361
Cultural & Related Services	5,152	(1,485)	3,667
Environmental & Regulatory Services	9,556	(3,159)	6,397
Planning & Development Services	4,647	(2,130)	2,517
Highways and Transport Services	4,136	(4,449)	(313)
Other Housing Services	41,513	(38,455)	3,058
Corporate & Democratic Core	2,215	(15)	2,200
NET COST OF SERVICES			18,887
Payments of precepts to parishes			3,492
Payments of housing capital receipts to Government			2
Gain on disposal of non current (fixed) assets			(1,222)
OTHER OPERATING EXPENDITURE			2,272
Interest payable and similar charges			694
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			1,266
Interest receivable and similar income			(741)
Income from investment properties (Note 9)			(513)
Direct expenditure incurred on investment properties (Note 9)			447
Changes in Fair Value of Investment Properties			0
Gain on disposal of investment properties			0
FINANCING AND INVESTMENT EXPENDITURE			1,153
Recognised capital grants and contributions			(415)
Council tax income			(12,325)
Non domestic rates			(1,101)
Non service related government grants			(6,449)
TAXATION AND NON-SPECIFIC GRANT INCOME (Note 28)			(20,290)
DEFICIT ON PROVISION OF SERVICES			2,022
Revaluation Gains			(569)
Impairment losses (chargeable to Revaluation Reserve)			361
Reclassification of Grant			0
Remeasurements of the net defined benefit liability (Note 32)			2,143
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			1,935
(Surplus) / Deficit on revaluation of available for sale financial assets (Note 11)			(181)
ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			(181)
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			1,754
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			3,776
			(4,158)

All operations arise from continuing activities.

STATEMENT OF ACCOUNTS 2014/15

BALANCE SHEET

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

		31 March '15		31 March '14
		£000	£000	£000
Property, Plant & Equipment	<i>Note 6</i>			
- Other land and buildings		30,839		31,449
- Vehicles, plant, furniture and equipment		6,075		7,373
- Infrastructure assets		3,013		3,240
- Community assets		1,846	41,773	1,196
Investment Properties	<i>Note 9</i>	8,688		9,545
Intangible Assets	<i>Note 10</i>	510	9,198	448
			50,971	53,251
Long Term Investments	<i>Note 34</i>	7		10,080
Long Term Debtors	<i>Note 14</i>	1,156	1,163	1,161
TOTAL LONG TERM ASSETS			52,134	64,492
Assets Held for Sale	<i>Note 16</i>	330		520
Short Term Investments	<i>Note 34</i>	56,777		41,750
Short Term Debtors	<i>Note 14</i>	8,392		6,432
Cash and Cash Equivalents	<i>Note 15</i>	13,245		17,363
CURRENT ASSETS			78,744	66,065
Provisions - only and not subject to formal approval	<i>Note 18</i>	(2,641)		(1,311)
Bank Overdraft		-		(23)
Short Term Creditors	<i>Note 17</i>	(5,058)		(5,673)
CURRENT LIABILITIES			(7,699)	(7,007)
Provisions	<i>Note 18</i>	(36)		(61)
Long Term Borrowing	<i>Note 35</i>	(7,710)		(7,710)
Long Term Creditors	<i>Note 17</i>	(987)		(1,288)
Deferred credits	<i>Note 36</i>	(2)		(6)
Net Pension Liability	<i>Note 20</i>	(34,342)		(30,844)
Grant Receipts in Advance - Capital	<i>Note 28</i>	(1,869)		(1,753)
- Revenue		(773)		(652)
LONG TERM LIABILITIES			(45,719)	(42,314)
NET ASSETS			77,460	81,236
USABLE RESERVES				
- General Fund	<i>Note 19</i>	3,854		3,854
- General Reserve	<i>Note 19</i>	1,313		4,241
- Earmarked Reserves	<i>Note 5</i>	13,819		8,374
- Capital Receipts Reserve	<i>Note 19</i>	1,275		-
- Capital grants Unapplied	<i>Note 19</i>	373		420
			20,634	16,889
UNUSABLE RESERVES				
- Revaluation Reserve	<i>Note 20</i>	3,656		3,448
- Available-for-Sale Reserve	<i>Note 20</i>	107		(74)
- Pensions Reserve	<i>Note 20</i>	(34,342)		(30,844)
- Capital Adjustment Account	<i>Note 20</i>	90,727		93,125
- Deferred Capital Receipts	<i>Note 20</i>	155		156
- Collection Fund Adjustment Account	<i>Note 20</i>	(3,342)		(1,368)
- Short-term Accumulating				
Compensated Absences Account	<i>Note 20</i>	(135)		(96)
			56,826	64,347
TOTAL RESERVES			77,460	81,236

STATEMENT OF ACCOUNTS 2014/15

THE CASH FLOW STATEMENT

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

	2014/15		2013/14
	£000	£000	£000
OPERATING ACTIVITIES			
Cash Inflows			
Council Tax receipts	(9,226)		(9,125)
NNDR Receipts	(17,280)		(17,312)
Revenue Support Grant	(2,816)		(3,572)
DWP grants for benefits	(36,049)		(35,756)
Other Government grants	(3,853)		(2,828)
Cash received for goods and services	(12,160)		(14,499)
Interest received	(855)		(1,149)
Cash inflows generated from operating activities	(82,239)		(84,241)
Cash Out Flows			
Cash paid to and on behalf of employees	13,341		13,645
Housing Benefit paid out	34,840		34,082
Other operating cash payments	19,227		18,777
Precepts paid to other authorities	3,492		3,411
Interest paid	661		661
Cash outflows generated from operating activities	71,561		70,576
Net Cash Inflow from operating activities		(10,678)	(13,665)
INVESTING ACTIVITIES			
- Purchase of property plant and equipment, investment property and intangible assets	1,153		3,468
- Other payments for investing activities only and not subject to formal approval	2		2
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,409)		(1,740)
- Capital grants	(771)		(1,274)
- Proceeds from short-term and long-term investments	4,954		(4,238)
Net cash inflow from investing activities		2,929	(3,782)
FINANCING ACTIVITIES			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	279		272
- Other payments for financing activities	11,565		12,046
Net cash outflow from financing activities		11,844	12,318
Net (increase) or decrease in cash and cash equivalents		4,095	(5,129)
Cash and cash equivalents at the beginning of the reporting period		(17,340)	(12,211)
Cash and cash equivalents at the end of the reporting period		(13,245)	(17,340)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i. The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice (SeRCOP) 2014/15, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income & Expenditure

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

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

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

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

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

iii. Cash and cash equivalents

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

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

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

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

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

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

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

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

vi. **Employee Benefits**

Benefits Payable During Employment

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

Post Employment Benefits (Pensions)

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 4.5%. The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

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

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

and disclosed in line with the requirements of IAS19.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

vi. Employee Benefits - continued

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

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

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

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

The Hertfordshire Pension Fund revised the policy on the funding of early retirements from April 2013. Up to 31 March 2013 employers were permitted to spread the cost of early retirement strain costs over a period of up to 5 years. The Council had previously chosen to fund these costs over 3 years. From April 2013 employers pay the full amount of strain costs in one lump sum in the year of retirement. Following a recommendation to move to the new position early in order to save interest and improve the funding position the Council paid off all outstanding sums in 2012/13 funded from its earmarked reserve (see note 5, page 28).

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

vii. Events after the Balance Sheet Date

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

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

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

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

viii. Financial Instruments

Financial Liabilities

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

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

Financial Guarantees

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

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

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2015 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 5 to the Notes to the Core Statements.

No other financial guarantees were identified in 2014/15.

Soft Loans

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

viii. Financial Instruments - continued

Financial Assets

Financial assets are classified into two types:

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

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

Loans and receivables

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

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

Available-For-Sale Assets

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

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

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

ix. **Government grants and contributions - revenue and capital**

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

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

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

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

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

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

x. **Intangible Assets**

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

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

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xi. Investments

The majority of the Council's internally managed investments are money market deposits but investments placed with our External Fund Manager in money market instruments include Certificates of Deposit, Floating Rate Notes, Gilts and Commercial Paper which are valued at fair value. (See Note 34)

xii. Investment Property

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

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

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

xiii. Leases

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xiii. Leases - continued

Operating Leases

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

The Council as a Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

xiv. Minimum revenue provision

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The basis of allocation used for the main areas is outlined below:

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

xvi. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

the purchase price

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

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

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

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

Operational specialised property – depreciated replacement cost (DRC).

Community assets – nominal value or historical cost.

Infrastructure and all other assets – depreciated historical cost.

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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

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

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

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

The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS as at 31 March 2015. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

Impairment

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

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

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

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

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

Depreciation

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

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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

Componentisation

In line with accounting requirements the Council considers the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £50k for individual assets.

Disposals

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

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

xvii. Provision for bad debt

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

Trade Accounts Receivable	- Age and collectability
Housing Benefit Overpayments	- Age and collectability
National Non Domestic Rates	- 1.0% against the net debit due reviewed against sums written off and opening yearly balances and collectability.
Council Tax	- 0.3% against the net debit due reviewed against sums written off and opening yearly balances
N Domestic Rates costs	- 25% against arrears
Council Tax costs	- 20% against arrears

xviii. Reserves

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

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

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

xx. Capital receipts

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

xxi. VAT

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

xxii. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations. The Council's policy in holding these assets is in pursuit of its overall objectives in relation to the maintenance of heritage.

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

Accounting note 8 sets out details of the heritage assets held by the Council.

xxiii. Jointly Controlled Operations

The Council operates two services under a 'Jointly Controlled Operation' arrangement:

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011 and
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service. Both arrangements are governed by separate Joint Partnership Boards comprising of Council officers. Each authority has equal representation on both Boards. These Boards report to each Authority's Executive Committee. The Revenues and Benefits Shared Service also operates a joint Committee with equal numbers of Councillors from both Authorities to scrutinise the operational management of the service.

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

Note 22 (page 43) to the accounts sets out details of the income & expenditure of the joint arrangements and the apportionments between the two councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to these arrangements.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

xxiv. Tax Income (Council Tax, Non-Domestic Rates(NDR))

Non Domestic Rates(NDR)

The Council collects, administers and distributes Non Domestic Rates (NDR) for its area based on local rateable values based on the Valuation Office Agency (VOA). The tax liability is then calculated applying a business rate which is set and uniformly applied on a national basis. In 2013/14, the administration of NDR changed following the introduction of a Business Rates Retention Scheme which aims to give Councils greater incentive to grow businesses in their locality. The new regime also increased the financial risk and opportunities for local authorities, with income becoming more volatile and difficult to predict.

The new regime provides for local authorities to retain a proportion of the total collectable rates due in proportion of their relevant statutory share. For East Herts the proportion is 40%, the remainder being distributed to Hertfordshire County Council (10%) and Central Government (50%).

As part of the new regime the Government set up a system of 'Top ups', 'Tariffs' and 'Safety Nets' that were introduced to ensure that Councils were guaranteed a minimum level of retained NDR income, thus providing some financial certainty under the new scheme. In 2014/15 the Council qualified for a 'Safety Net' figure of £441k. In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and the financial impact of uncollected business rate income as at 31 March 2015. Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the new regime are summarised as follows:

- the Council's element of Retained Business Rate income, Tariffs, Top Up and Safety net is included in the CI&E Statement based on the relevant regulations.
- the NDR Collection Fund is prepared on an agency arrangement basis. Relevant proportions of the accounts Surplus/Deficit/taxpayer's Arrears and Provisions are allocated to the relevant Preceptors and Government and accounted for as Debtors/Creditors in the Billing Authority's Accounts
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

Council Tax

The Council as billing authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself, Hertfordshire County Council, Hertfordshire Police and various Town and Parish Councils. In line with these agency arrangements, and in order to reflect the risks and rewards within the Council's the following transactions are included:

- the Council's Comprehensive Income & Expenditure Statement includes only the statutory precept under regulation.
- a debtor/creditor to reflect the difference between the various preceptors share of cash collected in the year and cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the Council to disclose information relating to accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts.

IFRS 13 Fair Value Measurement - This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are no longer being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the Statement of Accounts, as the Council does not currently recognise any surplus assets.

IFRS 21 Levies - This standard provides guidance on the treatment of government imposed levies in the financial statements of the entity paying the levy. The obligating event is specified as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

Annual Improvements to IFRSs (2011 - 2013 cycle). These improvements are minor, principally providing clarification and will not have a material impact on the Statement of Accounts.

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

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

Items included within the Council's Balance Sheet at 31 March 2015 for which there is a risk of material adjustment in the forthcoming year are:

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

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

The accounts have been prepared on a "going concern basis"

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

2014/15	Usable Reserves			
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,389	-	-	(2,389)
Revaluation / Impairment on Property Plant and Equipment		-	-	0
Movements in the market value of Investment Properties		-	-	0
Amortisation of intangible assets	267	-	-	(267)
Capital grants and contributions applied	(420)	-	-	420
Revenue expenditure funded from capital under statute	694	-	-	(694)
Revenue grants written down to the Capital Adjustment Account	(236)	-	-	236
Disposal of non current assets	1,187	-	-	(1,187)
Disposal of investment Properties	0	-	-	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	(280)	-	-	280
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	4	(4)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(51)	51
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,409)	2,409	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(1,132)	-	1,132
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	3,443	-	-	(3,443)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,088)	-	-	2,088
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,975	-	-	(1,975)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	39	-	-	(39)
Total Adjustments	4,539	1,275	(47)	(5,767)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

4. Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves			Movement in Unusable Reserves
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
2013/14 Comparative Figures				
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation of non current assets	2,240	-	-	(2,240)
Revaluation / Impairment on Property Plant and Equipment	1,108	-	-	(1,108)
Movements in the market value of Investment Properties	(629)	-	-	629
Amortisation of intangible assets	293	-	-	(293)
Capital grants and contributions applied	(611)	-	-	611
Revenue expenditure funded from capital under statute	1,083	-	-	(1,083)
Revenue grants written down to the Capital Adjustment Account	(237)	-	-	237
Disposal of non current assets	53	-	-	(53)
Disposal of investment Properties	140	-	-	(140)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory adjustment relating to capital element of principal repayment for finance lease	(272)	-	-	272
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(3)	3
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,739)	1,739	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(1,737)	-	1,737
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	3,726	-	-	(3,726)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,788)	-	-	2,788
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,518	-	-	(1,518)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	-	-	3
Total Adjustments	3,860	0	(3)	(3,857)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide for future expenditure plans and the amounts posted back from earmarked reserves to meet Gene expenditure in 2014/15. It also includes the effects of the major review of the Council's Earmarked undertaken in 2014/15.

	Balance 1 April 2013 £000	Transfers Out/(In) 2013/14 £000	Balance 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance 31 March 2015 £000
Interest Equalisation Reserve	(1,683)	(574)	(2,257)	754	-	(1,503)
Insurance Fund	(10)	-	(10)	-	(1,000)	(1,010)
Emergency Planning Reserve	(37)	-	(37)	-	-	(37)
VAT Partial Exemption Reserve	(145)	-	(145)	145	-	-
Service Improvement Fund	(610)	-	(610)	610	-	-
LDF/Green Belt Reserve	(813)	80	(733)	214	-	(519)
Housing Condition Survey Reserve	(65)	(14)	(79)	-	(14)	(93)
Council Elections Reserve	(25)	(25)	(50)	-	(27)	(77)
LABGI Reserve	(99)	5	(94)	94	-	-
Sinking fund - Leisure Utilities / Pension Reserve	(240)	(42)	(282)	51	-	(231)
Restructure Fund	(33)	-	(33)	33	-	-
Performance Reward Grant Reserve	(62)	32	(30)	8	-	(22)
Waste Recycling Income Volatility Reserve	(275)	-	(275)	-	(25)	(300)
Footbridge Reserve	(150)	-	(150)	-	-	(150)
Transformation Reserve	(1,127)	-	(1,127)	-	(1,655)	(2,782)
DCLG Preventing Repossessions	(30)	-	(30)	-	-	(30)
Environmental Pollution	(54)	40	(14)	-	-	(14)
Waste & Recycling Reserve	(461)	461	-	-	-	-
New Homes Bonus Priority Spend	(133)	(916)	(1,049)	-	(2,767)	(3,816)
Collection Fund Reserve	-	(1,244)	(1,244)	-	(307)	(1,551)
DEFRA Flood Support	-	(125)	(125)	32	-	(93)
Commercial Property Fund	-	-	-	-	(500)	(500)
Pension Fund Additional Contribution Reserve	-	-	-	-	(1,000)	(1,000)
Single Person Homelessness	-	-	-	-	(12)	(12)
Neighbourhood Planning	-	-	-	-	(45)	(45)
IER	-	-	-	-	(34)	(34)
Total	(6,052)	(2,322)	(8,374)	1,941	(7,386)	(13,819)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

Interest Equalisation Reserve	This reserve was established to assist the Council in managing the financial implications of adverse interest rate fluctuations. It is anticipated the bank rates will increase in future, therefore as part of the review it was agreed to reduce the level of the reserve by £1.8m over 3 years. In addition £154k was utilised in 2014/15 to make up the shortfall on interest received against that anticipated.
Insurance Fund	Its purpose is to support the Council's insurance and risk management process. As part of the review of reserves this fund was increased by £1m in anticipation of setting up a self-insurance fund in some areas to reduce future insurance premiums
Emergency Planning Reserve	This reserve was set up to support the work of an Emergency Planning Officer Group that has been established within the Council. There was no call on it in 2014/15.
VAT Partial Exemption Reserve	To enable the Council to meet the additional cost of any unrecoverable VAT. The review of Reserves considered it unlikely this reserve would be called upon therefore the reserve was removed.
Service Improvement Fund	This reserve has been established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term. As a result of the review of reserves it has been amalgamated into the Transformation Reserve.
Local Development Framework / Green Belt Reserve	This reserve was established in 2008/09 to smooth expenditure over the Council's Medium Term Financial Plan (MTFP). Appropriations of £214k have been made in 2014/15 to match expenditure.
Housing Condition Survey Reserve	A contribution was made to the reserve to fund a future Housing Condition Survey.
Council Elections Reserve	Established to smooth expenditure over the MTFP. A contribution was made to the reserve in 2014/15.
Local Authority Business Growth Incentives (LABGI) Reserve	In line with the Council's MTFP appropriations have been made in 2014/15 to support the economic development service. As the majority of this reserve has been spent, as part of the reserve review the balance was transferred to the New homes Bonus Priority Spend Reserve.
Sinking Fund - Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009 the Council has provided guarantees in respect of utilities and employers pension costs. Appropriations were made from the reserve in 2014/15 relating to increases in utility expenditure in line with the contract.
Restructure Fund	A small reserve created to assist the Council in meeting any future requirements in support of organisational structural change. As part of the review of Reserves this has been amalgamated into a new Transformation Reserve.
Performance Reward Grant Reserve	The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. Appropriations have been made in line with expenditure.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income. As part of the Reserve Review this reserve was increased by £25k due to continuing reductions in both recycling volumes and prices.
Footbridge Reserve	The Council's MTFP included setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the river Stort. There was no call on the reserve in 2014/15.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

5. Transfers to/from Earmarked Reserves - continued

Transformation Reserve	The Cost of Change reserve was set up to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. This was amalgamated with the Service Improvement Fund and Restructure Fund to form a new Transformation Reserve. £157k was appropriated from it in 2014/15 to meet expenditure. £169k of the unspent 2014/15 contingency budget was also amalgamated into this reserve.
Environmental Pollution	Established from money received from DEFRA, there were no appropriations in 2014/15.
Waste & Recycling Reserve	Due to a change in the Council's Kerbside Recycling Scheme and the likely costs associated with the change, the Council agreed that any underspend on Refuse and Recycling as at 31.3.13 should be transferred to an earmarked reserve to meet these future costs. This reserve was fully utilised in 2013/14 meeting these costs.
New Homes Bonus Priority Spend	The Council received funding from the DCLG in the form of New Homes Bonus. As part of its financial planning strategy it agreed that any underspend on the Priority Spend element as at 31 March should be appropriated into the reserve for future spend on economic development initiatives. In addition, in line with a Council decision, the 2014/15 GF underspend was transferred to the reserve at 31.3.15.
Collection Fund Reserve	As a result of a Council decision in January 2014, a Government Funding Risk Reserve was established to smooth the effect on the Council of income volatility following the new NDR funding regime. This was subsequently renamed the Collection Fund reserve. Additional funding received in 2014/15 has been transferred to the reserve.
DEFRA Flood Support for Local Businesses	This reserve was established from the unspent element of a DEFRA grant received to enable the Council to support local businesses to repair damage following the flooding in 2013/14. Appropriations have been made in line with expenditure.
Commercial Property Fund	A new reserve established in February 2015 to support the development of investment opportunities in commercial property.
Pension Fund Additional Contribution Reserve	Established in February 2015 with a view of making an additional payment to the Pension Fund in 2015/16 to further reduce the past liability.
Single Person Homelessness	A new reserve established from grant received from DCLG to fund damage deposits and rent payments to assist single homelessness people get into private accommodation.
Neighbourhood Planning Grant	A new reserve created in 2014/15 from unspent Neighbourhood Planning grant received from DCLG to fund future spend.
IER Grant	Established from grant monies received from the Cabinet Office to fund the costs of additional work involved in the Individual Electoral Registration scheme.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

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

2014/15

Cost or Valuation	As at 01/04/2014	Additions	Disposals	Reclassifications	Revaluations	Total as at 31/03/2015
	£000	£000	£000	£000	£000	£000
Other Land & Buildings	31,449	186	(955)	473	208	31,361
Vehicles, Plant, Furniture & Equip.	7,373	296	(42)	(4)	-	7,623
Infrastructure	3,240	92	-	-	-	3,332
Community Assets	1,196	262	-	388	-	1,846
	<u>43,258</u>	<u>836</u>	<u>(997)</u>	<u>857</u>	<u>208</u>	<u>44,162</u>

Depreciation & Impairment	As at 01/04/2014	Charge for Year	Acc depreciation w/o on revaluation	Disposals	Impairment (reversal) recognised in the service	Revaluations	Total as at 31/03/2015	Balance Sheet as at 31/03/15
	£000	£000	£000	£000	£000	£000	£000	£000
Other Land & Buildings	17,969	522	-	-	-	-	18,491	30,839
Vehicles, Plant, Furniture & Equip.	11,305	1,548	-	-	-	-	12,853	6,075
Infrastructure	4,868	319	-	-	-	-	5,187	3,013
Community Assets	91	-	-	-	-	-	91	1,846
	<u>34,233</u>	<u>2,389</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>36,622</u>	<u>41,773</u>

In line with the rolling programme the remaining miscellaneous range of other Land and Buildings were revalued in 2014/15. This included Hertford Theatre and land previously held under investment property and re-classified.

Reconciliation of Additions in the year to Capital Spend

	2014/15 £000	2013/14 £000
Additions in the year (as above)	836	3,230
Intangible assets	329	187
	<u>1,165</u>	<u>3,417</u>
plus REFCUS (not included in note 6)	694	1,083
Total Capital Spend	<u>1,859</u>	<u>4,500</u>

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

6. Property, Plant & Equipment

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

2013/14

Cost or Valuation	As at 01/04/2013	Additions	Disposals	Reclassifications	Revaluations	Total as at 31/03/2014
	£000	£000	£000	£000	£000	£000
Other Land & Buildings	49,438	333	-	-	(353)	49,418
Vehicles, Plant, Furniture & Equip.	16,730	2,796	(848)	-	-	18,678
Infrastructure	8,020	88	-	-	-	8,108
Community Assets	1,273	14	-	-	-	1,287
	<u>75,461</u>	<u>3,231</u>	<u>(848)</u>	<u>0</u>	<u>(353)</u>	<u>77,491</u>

Depreciation & Impairment	As at 01/04/2013	Charge for Year	Acc depreciation w/o on revaluation	Disposals	Impairment (reversal) recognised in the service	Revaluations	Total as at 31/03/2014	Balance Sheet as at 31/03/14
	£000	£000	£000	£000	£000	£000	£000	£000
Other Land & Buildings	16,199	661	-	-	1,109	-	17,969	31,449
Vehicles, Plant, Furniture & Equip.	10,061	1,244	-	-	-	-	11,305	7,373
Infrastructure	4,555	313	-	-	-	-	4,868	3,240
Community Assets	69	22	-	-	-	-	91	1,196
	<u>30,884</u>	<u>2,240</u>	<u>0</u>	<u>0</u>	<u>1,109</u>	<u>0</u>	<u>34,233</u>	<u>43,258</u>

7. Analysis of Fixed Assets

	31 March '15 (Nos.)	31 March '14 (Nos.)
Council Dwellings - Hostels	1	1
- Houses	2	2
Council Offices - Freehold	1	1
- Leasehold	1	1
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks (incl. Leasehold)	27	28*
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	187 HA	187 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	45 Units	47 Units
Land Awaiting Development	3 Acres	3 Acres
Public Convenience	4	5

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

8. Heritage Assets

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

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

	Insurance Value	
	2014/15 £000	2013/14 £000
The Castle Wall (ancient flint), Hertford	1,147	1,114
Scott's Grotto, Ware	1,168	1,134
Monument, remains of Church of St Mary's, Old Cross	55	53
Community land B/S Obelisk	27	26*
Flowing River Sculpture B/S	10	10*
Evolution sculpture at Hartham Common	12	12*
Hertford Theatre Wall Bronze Resin Sculpture	10	0
Civic Regalia	12	8*
Oil Painting of Wallfields Hertford	3	3*
Chainsaw sculpture Pishiobury Park Sawbridgeworth	5	0

See also Accounting Policy xxii (page 22).

9. Investment Properties

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

	2014/15 £000	2013/14 £000
Rental income from investment property	(513)	(514)
Direct operating expenses arising from investment property	447	320
Net gain	<u>(66)</u>	<u>(194)</u>

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

Valuers were instructed to assess the movement in fair value of all investment property in 2014/15. The movement was found to be immaterial and therefore not included in the accounts.

The following table summarises the movement through re-classification of investment properties over the year:

	2014/15 £000	2013/14 £000
Balance at start of the year	9,545	9,435
Additions: Transferred through re-classification	-	-
Disposals : Transferred through re-classification	(857)	(519)
Net gains / (losses) from fair value adjustments	0	629
Balance at end of the year	<u>8,688</u>	<u>9,545</u>

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

10. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years. The movement on Intangible Asset balances during the year is as follows:

	Software £000	2014/15 Other Intangible Assets £000	Total £000	Software £000	2013/14 Other Intangible Assets £000	Total £000
Balance at start of year:						
Gross carrying amounts	3,243	21	3,264	3,055	21	3,076
Accumulated amortisation	(2,795)	(21)	(2,816)	(2,507)	(16)	(2,523)
Net carrying amount at start of year	448	0	448	548	5	553
Additions:						
Purchases	329	-	329	188	-	188
Amortisation for the period	(267)	-	(267)	(288)	(5)	(293)
Net carrying amount at end of year	510	0	510	448	0	448
Comprising:						
Gross carrying amounts	3,572	21	3,593	3,243	21	3,264
Accumulated amortisation	(3,062)	(21)	(3,083)	(2,795)	(21)	(2,816)
	510	0	510	448	0	448

11. Financial Instruments Balances

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

	Long Term		Current	
	31 March '15 £000	31 March '14 £000	31 March '15 £000	31 March '14 £000
Borrowing				
Financial Liabilities at amortised cost	8,699	8,998	4,767	5,405
Total Borrowing	8,699	8,998	4,767	5,405
Investments				
Loans and Receivables	1,163	11,241	52,889	52,237
Available for Sale Financial Assets	-	-	21,600	9,990
Total Investments	1,163	11,241	74,489	62,227

See also Notes 34 and 35 to the Core Statements. (Investments and Borrowings)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

11. Financial Instruments Balances - continued

Available for Sale Reserve

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

The table below sets out the transactions for the year:

	2014/15 £000	2013/14 £000
Balance at 1 April	(74)	-
Upward revaluation of investments	107	-
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	-	(74)
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	74	-
	107	(74)

See also Note 20, page 38.

12. Financial Instruments Gains / Losses

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

2014/15	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and Receivables	Available for Sale Assets	
	£000	£000	£000	£000
Interest Expense	694	-	-	694
Interest Payable and Similar Charges	694	-	-	694
Interest Income	-	(741)	-	(741)
Realised Gains	-	-	-	-
Interest and Investment Income	-	(741)	-	(741)
Losses on revaluation	-	-	-	-
Loss arising on revaluation of financial assets	-	-	-	-
Net Gain / (Loss) for year	694	(741)	-	(47)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

12. Financial Instruments Gains / Losses - continued

2013/14	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available for Sale Assets £000	
Interest Expense	702	-	-	702
Interest Payable and Similar Charges	702	-	-	702
Interest Income	-	(955)	-	(955)
Realised Gains	-	-	-	-
Interest and Investment Income	-	(955)	-	(955)
Losses on revaluation	-	-	-	-
Loss arising on revaluation of financial assets	-	-	-	-
Net Gain / (Loss) for year	702	(955)	-	(253)

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

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

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

The fair values are calculated as follows:

	31st March 2015		31st March 2014	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	13,466	18,178	14,409	18,181

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

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

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

	31st March 2015		31st March 2014	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	44,036	44,364	42,038	42,421

* Excludes Fund Managers cash included within Note 11.

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

Also see notes 34 and 35 to the Core Statements. (Investments and Borrowings)

14. Debtors

Short Term Debtors	31 March '15 £000	31 March '14 £000
Central government bodies	3,734	2,229
Other local authorities	635	709
Bodies external to general government (ie all other bodies)	4,023	3,494
	8,392	6,432

Long Term Debtors	31 March '15 £000	31 March '14 £000
Bodies external to general government (ie all other bodies)	1,156	1,161
	1,156	1,161

15. Cash and Cash Equivalents

	31 March '15 £000	31 March '14 £000
Short-term deposits with banks	13,245	17,363
Total Cash and Cash Equivalents	13,245	17,363

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

16. Assets Held for Sale

	Current	
	2014/15 £000	2013/14 £000
Balance outstanding at start of year	519	252
Assets newly classified as held for sale:		
Investment Properties	-	520
Property, Plant and Equipment	-	-
Intangible Assets	-	-
Assets sold in year	(189)	(252)
Balance outstanding at year-end	330	520

17. Creditors

Short Term Creditors	31 March '15 £000	31 March '14 £000
Central government bodies	388	1,016
Other local authorities	610	261
Bodies external to general government (ie all other bodies)	4,060	4,396
	5,058	5,673
Long Term Creditors	31 March '15 £000	31 March '14 £000
Bodies external to general government (ie all other bodies)	987	1,288
	987	1,288

18. Provisions

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

Additions in the year relate to Planning Appeals and Non Domestic Rates Valuation Appeals.

	Short Term		Long Term	
	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000
Balance at 1 April	1,311	0	61	80
Additions	2,171	1,311	-	-
Amounts used	(841)	-	(25)	(19)
Balance at 31 March	2,641	1,311	36	61

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

19. Usable Reserves

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

20. Unusable Reserves

	31 March '15 £000	31 March '14 £000
Revaluation Reserve	3,656	3,448
Available for Sale Financial Instruments Reserve	107	(74)
Capital Adjustment Account	90,727	93,125
Deferred Capital Receipts Reserve	155	156
Pensions Reserve	(34,342)	(30,844)
Collection Fund Adjustment Account	(3,342)	(1,368)
Accumulated Absences Account	(135)	(96)
Total Unusable Reserves	56,826	64,347

Revaluation Reserve

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

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

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

	2014/15		2013/14
	£000	£000	£000
Balance at 1 April		3,448	3,874
Upward revaluation of assets	569		1,707
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(361)		(2,060)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		208	(353)
Difference between fair value depreciation and historical cost depreciation		-	(73)
Balance at 31 March		3,656	3,448

Available for Sale Financial Instruments Reserve

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

	2014/15		2013/14
	£000	£000	£000
Balance at 1 April		(74)	-
Upward revaluation of investments			-
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services			(74)
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		181	-
Balance at 31 March		107	(74)

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

20. Unusable Reserves - continued

Capital Adjustment Account

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

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

	2014/15		2013/14
	£000	£000	£000
Balance at 1 April		93,125	94,454
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(2,389)		(2,240)
· Charges for depreciation on revalued assets	-		73
· Revaluation/Impairment on Property, Plant and Equipment	-		(1,109)
· Amortisation of intangible assets	(267)		(293)
· Revenue expenditure funded from capital under statute	(694)		(1,083)
· Revenue grants written down to the Capital Adjustment Account	235		237
· Disposal of property, plant and equipment	(1,187)		(52)
· Disposal of investment properties	-		(140)
		(4,302)	(4,607)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	1,132		1,737
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	416		609
· Application of grants to capital financing from the Capital Grants Unapplied Account	51		6
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	280		272
· Capital expenditure charged against the General Fund	25		25
		1,904	2,649
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement			629
Balance at 31 March		90,727	93,125

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

20. Unusable Reserves - continued

Pensions Reserve (continued)

	2014/15 £000	2013/14 £000
Balance at 1 April	(30,844)	(36,133)
Actuarial gains or (losses) on pensions assets and liabilities	(2,143)	6,228
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,443)	(3,726)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,088	2,787
Balance at 31 March	<u>(34,342)</u>	<u>(30,844)</u>

Deferred Capital Receipts Reserve

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

	2014/15 £000	2013/14 £000
Balance at 1 April	156	157
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	<u>155</u>	<u>156</u>

Collection Fund Adjustment Account

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

	2014/15 £000	2013/14 £000
Balance at 1 April	(1,368)	151
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non Domestic Rate income calculated for the year in accordance with statutory requirements	(1,974)	(1,519)
Balance at 31 March	<u>(3,342)</u>	<u>(1,368)</u>

Accumulated Absences Account

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

	2014/15 £000	£000	2013/14 £000
Balance at 1 April		(96)	(99)
Settlement or cancellation of accrual made at the end of the preceding year	96		99
Amounts accrued at the end of the current year	(135)		(96)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(39)	3
Balance at 31 March		<u>(135)</u>	<u>(96)</u>

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

21. Amount reported for Resource Allocation Decisions

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

Services Income & Expenditure 2014/15	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Total £000
Fees, charges and other service income	(2,032)	(663)	(1,829)	(665)	(1,274)	(4,417)	(2,928)	(13,808)
Government grants	(36,752)	(61)	(50)	(271)	-	-	(42)	(37,176)
Total Income	(38,784)	(724)	(1,879)	(936)	(1,274)	(4,417)	(2,970)	(50,984)
Employee expenses	3,226	2,578	2,257	2,118	-	-	3,289	13,468
Other service expenses	36,238	4,067	611	883	2,290	2,559	6,663	53,311
Support service recharges	-	(246)	-	(26)	-	-	-	(272)
Depreciation, amortisation & Impairment	130	350	117	929	358	201	1,279	3,364
Total Expenditure	39,594	6,749	2,985	3,904	2,648	2,760	11,231	69,871
Net Expenditure	810	6,025	1,106	2,968	1,374	(1,657)	8,261	18,887

Services Income & Expenditure 2013/14	Revenues & Benefits £000	Other Internal Services £000	Planning & Building Control £000	Other Neighbourhood Services £000	Recycling £000	Car Parking £000	Other Customer & Community £000	Total £000
Fees, charges and other service income	(1,748)	(520)	(1,778)	(608)	(1,465)	(4,451)	(2,681)	(13,251)
Government grants	(36,570)	(16)	(5)	(293)	-	-	(570)	(37,454)
Total Income	(38,318)	(536)	(1,783)	(901)	(1,465)	(4,451)	(3,251)	(50,705)
Employee expenses	2,819	2,702	2,211	2,040	-	-	3,201	12,973
Other service expenses	35,255	3,735	756	859	2,212	2,365	7,545	52,727
Support service recharges	-	(342)	-	(26)	-	-	-	(368)
Depreciation, amortisation & Impairment	113	457	114	1,252	99	1,336	1,368	4,739
Total Expenditure	38,187	6,552	3,081	4,125	2,311	3,701	12,114	70,071
Net Expenditure	(131)	6,016	1,298	3,224	846	(750)	8,863	19,366

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

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

Net expenditure in the Service Analysis

Net expenditure of services and support services not included in the analysis

Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis

Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement

Cost of Services in Comprehensive Income and Expenditure Statement

2014/15 £000	2013/14 £000
18,887	19,366
-	-
-	-
-	-
18,887	19,366

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

21. Amount reported for Resource Allocation Decisions - continued

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

2014/15	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(13,809)	-	(13,809)	-	(13,809)
Interest and Investment income	-	-	-	(1,254)	(1,254)
Income from Council Tax	-	-	-	(12,325)	(12,325)
Government grants and contributions	(37,175)	-	(37,175)	(7,964)	(45,140)
Total Income	(50,984)	-	(50,984)	(21,543)	(72,528)
Employee expenses	13,468	-	13,468	1,266	14,734
Other service expenses	53,311	-	53,311	447	53,758
Support Service recharges	(272)	-	(272)	-	(272)
Depreciation, amortisation and impairment	3,364	-	3,364	-	3,364
Interest payments	-	-	-	694	694
Precepts and Levies	-	-	-	3,492	3,492
Payments to Housing Capital Receipts Pool	-	-	-	2	2
Changes in value of Investment Properties	-	-	-	-	-
Gain or loss on disposal of fixed assets	-	-	-	(1,222)	(1,222)
Total Expenditure	69,871	-	69,871	4,679	74,550
Surplus or deficit on the provision of services	18,887	-	18,887	(16,864)	2,022

2013/14 comparative figures	Service Analysis £000	Amounts not reported to Management £000	Net Cost of Services £000	Corporate amounts £000	Total £000
Fees, charges and other service income	(13,252)	-	(13,252)	-	(13,252)
Interest and Investment income	-	-	-	(1,469)	(1,469)
Income from Council Tax	-	-	-	(12,140)	(12,140)
Government grants and contributions	(37,453)	-	(37,453)	(8,076)	(45,529)
Total Income	(50,705)	-	(50,705)	(21,685)	(72,390)
Employee expenses	12,973	-	12,973	1,610	14,583
Other service expenses	52,728	-	52,728	320	53,048
Support Service recharges	(368)	-	(368)	-	(368)
Depreciation, amortisation and impairment	4,738	-	4,738	-	4,738
Interest payments	-	-	-	702	702
Precepts and Levies	-	-	-	3,411	3,411
Payments to Housing Capital Receipts Pool	-	-	-	3	3
Changes in value of Investment Properties	-	-	-	(753)	(753)
Gain or loss on disposal of fixed assets	-	-	-	(1,422)	(1,422)
Total Expenditure	70,071	-	70,071	3,871	73,942
Surplus or deficit on the provision of services	19,366	-	19,366	(17,814)	1,552

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

22. Jointly Controlled Operations

The Council is party to two jointly controlled operations to provide the following services:

- the Revenues and Benefits
- Business and Technology

The accounting and governance arrangements are detailed at page 22.

	2014/15		2013/14	
	Business & Technical Service	Revenues & Benefits Service	Business & Technical Service	Revenues & Benefits Service
	£000	£000	£000	£000
Expenditure				
Employees	1,222	2,829	808	2,404
Transport Related Expenses	25	23	18	32
Supplies and Services	881	241	581	267
Support Services	-	1,117	-	1,017
Total Expenditure	2,128	4,210	1,407	3,720
Income				
Stevenage Borough Council	1,171	1,635	652	1,341
East Herts District Council	957	2,575	755	2,379
Total Income	2,128	4,210	1,407	3,720
Net Expenditure	0	0	0	0

Note: The expenditure and income for the Business & Technology Services reflects the financial impact of the agreement from its formation on 1st August 2013.

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement in the Net Costs of Service.

23. Members Allowances

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

	2014/15	2013/14
	£000	£000
Basic Allowances	260	256
Special Responsibility Allowances	122	119
Travel and Subsistence expenses	7	8
Total	389	383

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

24. Officer Emoluments

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

Remuneration Band	Number of Employees	
	2014/15 Total	2013/14 Total
£50,000 to £54,999	4	1
£55,000 to £59,999	3	3
£60,000 to £64,999	4	6
£65,000 to £69,999	1	1
£70,000 to £74,999	-	-
£75,000 to £79,999	-	-
£80,000 to £84,999	1	-
£85,000 to £89,999	-	1
£90,000 to £94,999	2	1
£95,000 to £99,999	-	-
£100,000 to £104,999	-	-
£105,000 to £109,999	-	-
£110,000 to £114,999	-	-
£115,000 to £119,999	1	-
£120,000 to £124,999	-	-
£125,000 to £129,999	-	1
£130,000 to £134,999	-	-

The above table includes those members of staff who left the Council and received an exit package. See Note 25 below.

25. Exit Packages

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

Exit package cost band (including special payments)	Number of Redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15 £	2013/14 £
£								
0-20,000	-	-	-	-	-	-	-	-
20,001-40,000	-	1	-	-	-	1	-	25,043
40,001-60,000	-	-	-	-	-	-	-	-
60,001-80,000	1	-	-	-	1	-	63,954	-
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
Total	1	1	-	-	1	1	63,954	25,043

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

26. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 24, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance)	Benefits in Kind	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
2014/15						
Chief Executive & Director of Customer and Community Services	115,150	316	-	115,466	19,090	134,556
Director of Neighbourhood Services	84,733	38	-	84,771	14,034	98,805
Director of Finance & Support Services	92,035	172	-	92,207	15,006	107,213
2013/14						
Chief Executive & Director of Customer and Community Services	126,398	2,780	-	129,178	20,263	149,441
Director of Neighbourhood Services	87,711	1,975	-	89,686	14,034	103,720
Director of Finance & Support Services	90,240	-	-	90,240	14,940	105,180

27. External Audit Costs

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

In 2014/15 East Herts Council incurred the following fees relating to external audit and inspection:

	2014/15 £000	2013/14 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	69	69
Rebate from the Audit Commission in respect of audit fees	(7)	(9)
Fees payable to Grant Thornton for the certification of grant claims and returns	9	10
	71	70

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,325	12,140
Non-Domestic Rates	1,101	1,714
Revenue Support Grant	2,816	3,572
Council Tax Freeze Grant	94	93
New Homes Bonus	2,199	1,414
Small Business Rate Relief	-	484
Other Capital Grants	415	611
Sec 31 Business Rate Support	1,317	-
Other Revenue Grants	23	188
	20,290	20,216
Credited to Services		
<u>Grants</u>		
DWP	36,481	36,320
DCLG	563	492
Forestry Commission	37	-
LAA	28	26
Cabinet Office	61	15
DEFRA	5	39
EEDA	-	561
	37,175	37,453
<u>Other Contributions</u>		
Contributions from Other Authorities*	2,726	2,509
Income from Other Bodies	546	530
	3,272	3,039

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

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

	2014/15 £000	2013/14 £000
Grants Receipts in Advance		
Capital		
Other Capital Grants	62	31
Developer Contributions	1,807	1,722
	1,869	1,753
Revenue		
Developer Contributions	773	652
	773	652

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

29. Related Party Transactions

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

Related parties to this authority would include :

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

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement, page 8.

The spouse of a member of the Council held the positions of Chairman of CVS Broxbourne and East Herts which received £15k core funding from the Council, £6k for a community transport project and £3k in other grants and member of Ware Town Partnership which received £1k in grants for community use.

A member of the Council held the position of trustee of CVS Broxbourne and East Herts which received funding as detailed above. This member is also a trustee at Wodson Park which received funding of £60k during 2014/15.

A member of the Council is a member of the Ware Drill Hall Association which received funding from the Council of £1.4k during 2014/15.

A member of the Council held the position of trustee of the Hailey Centre, Sawbridgeworth, which received a £3k grant for kitchen equipment.

A member of the Council held the position of trustee of Cazfest, a music event in Bishop's Stortford, which received a £500 grant.

A member of the Council held the positions of trustee of Age Concern Bishop's Stortford, trustee of Birchanger Wood Trust and founder of Contexture Theatre each of which received £500 in grant funding for community projects

During the year a member sat on the Board of Riversmead Housing Association which received £10,687k from the Council in 2014/15, principally relating to the statutory payments of housing benefit to the housing association as landlord. The member was not in a position to influence individual housing benefit payments made.

A number of District Council members are also members of Town and Parish Councils that receive funding from this Council. Precept payments are disclosed in the Comprehensive Income and Expenditure Statement. Any grants made to these bodies were made with proper consideration of declarations of interest.

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

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown on pages 36 & 37 within Notes 14 & 17.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

30. Capital Expenditure and Capital Financing	2014/15	2013/14
	£000	£000
Opening Capital Financing Requirement	(41,895)	(43,510)
Capital investment		
Property, Plant & Equipment	836	3,230
Intangible Assets	329	187
Revenue Expenditure Funded from capital under Statute	694	1,083
Sources of finance		
Capital receipts	(1,132)	(1,737)
Government grants and other contributions	(702)	(851)
Sums set aside from Revenue:		
Direct revenue contributions	(25)	(25)
Loan/ finance lease principal repayments		(272)
Closing Capital Financing Requirement	(41,895)	(41,895)

Explanation of movements in year

Increase in underlying need to borrowing (unsupported by government financial assistance)	0	1,615
Decrease in Surplus in Capital Resource *	0	1,615

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

31. Leases

Council as a lessee

Finance leases

In April 2010, the Council identified an arrangement containing a lease relating to 27 vehicles used in the Refuse Collection and Recycling and Street Cleansing contract with Veolia Environmental Services. Under this arrangement, the Council was seen as effectively leasing 27 vehicles from Veolia. The lease term is for 7 years starting from May 2011. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease. The assets acquired under the lease were carried as Vehicles, Plant and Equipment in the Balance Sheet at £2,287k at 31 March 2013 after the two years depreciation.

Following changes to the Recycling operation, ten (10) of the existing vehicles were surrendered and replaced by 6 new vehicles purchased directly by the Council. The remaining 17 vehicles continue to accounted for as a finance lease.

The Council has a commitment to make four minimum payments under the lease as at 31 March 2015. The gross commitment is made up of the following amounts:

	2014/15	2013/14
	£000	£000
Finance lease Creditor as at 31 March	1,168	1,440
Finance expenditure	(280)	(272)
Gross commitment in lease as at 31 March	888	1,168

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

31. Leases - continued

Council as a lessee

Operating leases

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

Previously, the Council had leased the car park and accounted for it as an operating lease where the Council is a lessor. There was a pre-existing agreement between the lessee and the Council, and it was agreed that the lessee will continue to pay the Council the lease payments due, and the Council will forward the payment received to the new owners of the car park. The amounts due to the new owner have been accounted for as lease payments below. In 2014/15, the lease payments received from the lessee which was subsequently paid over to the new owners was £97,000

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

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

	31 March '15	31 March '14
	£000	£000
Not later than one year	444	444
Later than one year and not later than five years	1,775	1,775
Later than five years	4,185	4,629
	6,404	6,848

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

	2014/15	2013/14
	£000	£000
Minimum lease payments	449	444
Lease payments receivable	(139)	(139)
	310	305

Council as a lessor

Finance leases

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

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

	2014/15	2013/14
	£000	£000
Finance lease debtor as at 31 March	155	156
Unearned finance income	291	304
Gross investment in lease as at 31 March	446	460

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

31. Leases - continued

Finance leases - continued

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

	Gross investment in lease 31 March '15 £000	Gross investment in lease 31 March '14 £000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	377	391
	447	461

Operating Leases

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

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

	31 March '15 £000	31 March '14 £000
Not later than one year	532	411
Later than 1 year and not later than 5 years	2,026	1,452
Later than 5 years	31,022	25,734

32. Pension Scheme

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

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit final salary scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term. Under the Scheme members' retirement benefits are not affected by the Fund's performance.

Pension contributions are based on rates determined by the Fund's professionally qualified actuary based on triennial reviews. The most recent review was undertaken in January 2014.

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

The following transactions set out the position for the year:

	2014/15 £000	2013/14 £000
Comprehensive Income & Expenditure Statement:		
Net Cost of Services:		
Current service cost	2,176	2,116
Non Distributed Costs -		
Past Service Cost / (Gain)	1	-
Losses / (Gains) on Curtailments & Settlements	-	-
Net Operating Expenditure:		
Interest cost	4,442	4,770
Expected returns on assets in the scheme	(3,176)	(3,160)
Costs charged against CI&E	3,443	3,726
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	(1,355)	(939)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	2,088	2,787

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2015 is a loss of £33,285k

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2014/15 £000	2013/14 £000
1 April	109,176	106,901
Current Service Cost	2,177	2,116
Interest Cost	4,442	4,770
Contributions by scheme participants	605	546
Actuarial (gains) and losses	9,891	(839)
Benefits paid	(4,339)	(4,318)
Past service costs (Gains)	-	-
Losses on Curtailments	-	-
31 March	121,952	109,176

The liabilities detailed above represent the Council's underlying commitment to pay retirement benefits in the long term.

The total liability of £121,952k (£109,176k in 2013/14) has a substantial impact on the net worth of the Council as recorded on the balance sheet, resulting in a negative overall balance of £34,342k (£30,844k in 2013/14).

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2014/15 £000	2013/14 £000
1 April	78,332	70,769
Expected rate of return	3,176	3,160
Actuarial gains and losses	7,748	5,388
Employer contributions	2,088	2,787
Contributions by scheme participants	605	546
Benefits paid	(4,339)	(4,318)
31 March	87,610	78,332

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

The actual return on scheme assets in the year was £10,924k (2013/14 £8,548k).

Scheme history	31 March 2015 £000	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	31 March 2011 £000
Present value of liabilities	(121,952)	(109,176)	(106,901)	(93,394)	(85,316)
Fair value of assets	87,610	78,332	70,769	62,823	63,223
(Deficit) in the scheme	(34,342)	(30,844)	(36,132)	(30,571)	(22,093)

The net pension liability for the council of £34,342k (£30,844k in 2013/14) has a substantial impact on the net worth of the Council.

However, statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as:

- the deficit on the Local government scheme will be made good by increased contributions over the remaining working life of employees(i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the pension scheme by the Council in the year to 31 March 2016 is £2,156k (£1,923k to 31 March 2015).

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

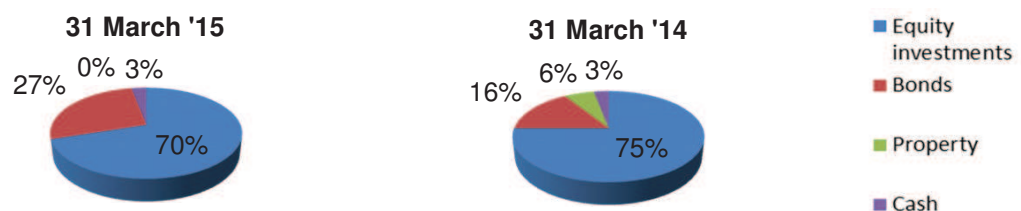
Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at January 2014.

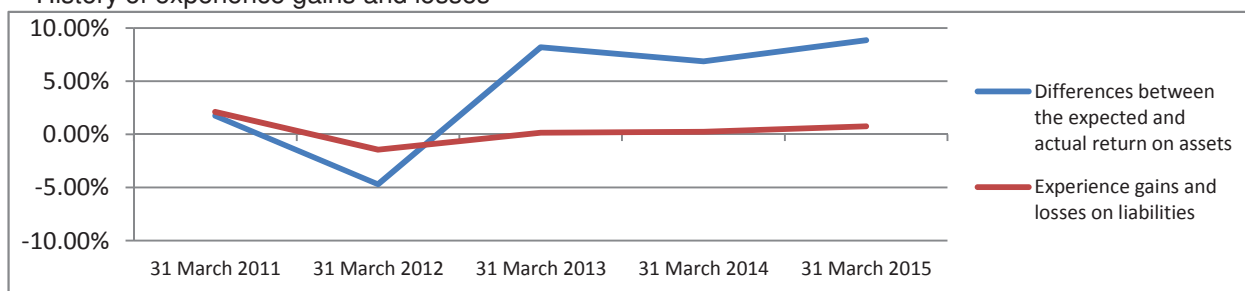
The principal assumptions used by the actuary have been:

	31 March '15		31 March '14	
Long-term expected rate of return on assets in the scheme:				
Equity investments	3.1%		4.1%	
Bonds	3.1%		4.1%	
Property	3.1%		4.1%	
Cash	3.1%		4.1%	
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.3	years	22.3	years
Women	24.5	years	24.5	years
Longevity at 65 for future pensioners:				
Men	24.3	years	24.3	years
Women	26.7	years	26.7	years
Rate of inflation/ Pension increase	2.1%		2.6%	
Rate of increase in salaries	3.5%		3.9%	
Expected Return on Assets	3.1%		4.1%	
Discount Rate	3.1%		4.1%	
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%		50%	
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%		75%	

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



History of experience gains and losses



STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

A full breakdown of the Fund's assets including the prior financial year comparator is detailed below:

Asset Category	Period Ended 31 March 2015				Period Ended 31 March 2014			
	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of Total Assets %	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of Total Assets %
Equity Securities								
Consumer	7,736	-	7,736	9	7,888	-	7,888	10
Manufacturing	9,164	-	9,164	10	9,025	-	9,025	12
Energy & Utilities	2,529	-	2,529	3	3,480	-	3,480	5
Financial Institutions	7,874	-	7,874	9	8,507	-	8,507	11
Health & Care	1,299	-	1,299	1	1,203	-	1,203	2
Information Technology	5,441	-	5,441	6	5,509	-	5,509	7
Other	646	-	646	1	893	-	893	1
Debt Securities								
Corporate Bonds (investment grade)	-	-	-	-	6,493	-	6,493	9
UK Government	-	-	-	-	4,825	-	4,825	6
Other	-	-	-	-	1,658	-	1,658	2
Private Equity	-	3,629	3,629	4	-	3,175	3,175	4
Real Estate								
UK Property	-	-	-	-	-	3,033	3,033	4
Overseas Property	-	-	-	-	-	1,721	1,721	2
Investment Funds and Unit Trusts:								
Equities	12,588	-	12,588	14	11,919	-	11,919	15
Bonds	23,369	-	23,369	27	1,910	-	1,910	2
Commodities	380	-	380	0.430	333	-	333	-
Infrastructure	-	78	78	0.110	-	-	-	-
Other	275	10,481	10,756	12	4,143	-	4,143	5
Derivatives								
Foreign Exchange	-	-	190	-	-	68	68	-
Cash and Cash Equivalents	2,310	-	2,310	3	2,549	-	2,549	3
TOTALS	73,611	13,998	87,609	100	70,335	7,997	78,332	100

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

32. Pension Scheme - continued

Nature and Extent of Risks arising

In general, participation in a defined benefit pension scheme means the council as an employer is exposed to a number of risks:

Investment risks - the Fund holds investments in asset classes such as equities, which have volatile market values. Whilst these assets are expected to provide a real return in the long term, their short term return is volatile and can result in the need for additional funding should a funding deficit emerge.

Interest Rate risk - Under the requirements of IAS 19, the Pension Fund's liabilities are discounted using market yields on high quality corporate bonds, with a similar duration of the funding needs of the Fund. The value of the Fund's real assets may not move in the same way.

Inflation Rate risk - the Fund's benefits are locked to inflation, however the Fund's assets are not. Deficits may arise as a result of asset performance being lower than inflation.

Longevity risk - inherent longevity and demographic disparity will exist between longer term assumptions and actual experience.

Since the estimation of the Council's defined benefit obligations is sensitive to the actuarial assumptions set, a sensitivity analysis has been included to demonstrate the impact of a change in assumption would have on the Council's deficit.

Change in assumptions as at 31 March 2015:	Approximate % increase to Employer Liability %	Approximate monetary amount £000
0.5% decrease in real discount rate	9	11,538
1 year increase in member life expectancy	3	3,659
0.5% increase in the salary increase rate	3	3,295
0.5% increase in the Pension increase rate	7	8,053

Impact on the Council's Cashflow

The objectives of the scheme is to keep employer contributions at as constant a rate as possible. The Council has agreed a strategy with the schemes actuary, Hymans Robertson LLP, to achieve a funding level of 100% over the next 25 years. The next triennial valuation will take place in January 2017

Governance Arrangements

Governance of the Pension Scheme is the responsibility of the full Council of Hertfordshire County Council, with delegated authority to the Council's Pension Committee. The governance arrangements are specified by a 'Governance Policy' and 'Compliance Policy' Statement. In addition fund investments are undertaken in line with the Fund's Investment Strategy which specifies the need for a diversified investment portfolio and that the investment structure reflects the liability duration of the Fund.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

33. Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect and maximise (given the identified level of risk) the financial resources available to fund services. The Council in the annual Treasury Management Strategy Statement specifies the counterparties to be used and the priority is the security of the capital. It also sets out the borrowing requirement, prospects on interest rates and exposure limits. (This document is available on our website www.eastherts.gov.uk). This was agreed on 19th February 2014 at the meeting of Full Council.

1 Credit Risk

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

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

	Long Term Rating as at 31 March 2015	Short Term Rating	Limits per category £000	Amounts as @ 31.3.15 £000	Historical Experience Default
UK Treasury	AAA		No limit	-	0
UK Banking Groups (Excl RBS & Lloyds Banking Group)	A	F1	10,000*	19,500	0
RBS & Lloyds Banking Group	A	F1	20,000*	27,934	0
UK Building Societies	A/A-	F1	10,000**	-	0
Investec Money Market Fund Manager	AAA		No limit	22,113	0
Other Money Market Funds	AAA		No limit	-	0
				<u>69,547</u>	

* per banking group

** per building Society

Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts. The past due amount can be analysed by age as follows: (see policy xvii, page 21)

	31 March '15 £000	31 March '14 £000
Less than three months	1,364	640
Three months to six months	310	317
Six months to one year	613	404
More than one year	1,380	929
	<u>3,667</u>	<u>2,290</u>

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

2 Liquidity Risk

The Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to raise finance to meet its commitments in the short or long term. The Council reviews its borrowing requirements as part of its annual Treasury Management strategy in order to optimise financial performance and reduce exposure to interest rate risk. This includes safeguards that if borrowing is undertaken then the maturity profile would be monitored to alleviate any future funding problems in any one year. As no new borrowings have been entered into in recent years this has not been relevant (see note 35, page 58).

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

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

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

3 Market Risk

Interest rate risk

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

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

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

The Council has a number of strategies for managing interest rate risk. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2014 was fixed rate. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

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

With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. The balance as at 31 March 2015 is £1.5m.

Based on the current Treasury Management position at 31 March 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	480
Increase in government grant receivable for financing costs	de minimus
Impact on Comprehensive I & E Statement	<u>480</u>

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

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

4 Price Risk / Foreign Exchange Risk

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

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

34. Investments

The Council's investments consists of:

	31 March 2015 £000	31 March 2014 £000
Long term investments	7	10,080
Temporary investments:	-	-
Money market fund	-	-
Building Society Deposits	-	-
Bank deposits	44,486	34,963
UK Treasury Securities	12,291	6,787
	56,784	51,830

35. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding	
		31 March 2015 £000	31 March 2014 £000
Public Works Loan Board	8.875	1,521	1,521
Bonds	8.785	6,189	6,189
		7,710	7,710

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	6,189	6,189
Maturing in 10-20 years	-	-
Maturing in 20-30 years	-	-
Maturing in 30-40 years	-	-
Maturing in 40-50 years	1,521	1,521
	7,710	7,710

Refer to notes 11 and 13 to the Core Statements.

36. Deferred Credits

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

	Mortgages	
	31 March 2015 £000	31 March 2014 £000
Balance as at 1 April	6	10
Movements in the year	(4)	(4)
Balance as at 31 March	2	6

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

37. Publicity

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

	2014/15 £000	2013/14 £000
Recruitment Advertising	57	31
Local Authority Periodical	32	34
Total	89	65

38. Building Regulations Charging Account

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

The following statement sets out the costs and income for 2014/15 divided between chargeable and non-chargeable activities.

	2014/15		Building Control Total £000
	Chargeable £000	Non Chargeable £000	
Expenditure			
Employee Expenses	437	196	633
Premises	25	11	36
Transport	21	9	30
Supplies and Services	22	10	32
Support Service Charges	131	59	190
Total Expenditure	636	285	921
Income			
Building Regulation Charges	574	-	574
Total Income	574		574
(Surplus) / Deficit	62	#VALUE!	347

	2013/14		Building Control Total £000
	Chargeable £000	Non Chargeable £000	
Expenditure			
Employee Expenses	445	104	549
Premises	24	6	30
Transport	28	7	35
Supplies and Services	24	6	30
Support Service Charges	123	29	152
Total Expenditure	644	152	796
Income			
Building Regulation Charges	555	-	555
Total Income	555	0	555
(Surplus) / Deficit	89	152	241

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE FINANCIAL STATEMENTS

39. Contingent Liability

The Council has identified two contingent liabilities which may give rise to future costs. The first relates to a possibility that current litigation may lead to a settlement whereby the Council would need to reimburse personal search agents / companies for Land Charge fees for certain services as the power to make these charges is being contested. A potential liability of circa £129k has been identified.

Following the Municipal Mutual Insurance Scheme Arrangement being "triggered" the Council made a provision of £19,443 (based on a 15% levy) within its accounts at 31 March 2013. This levy was paid in 2013/14. A contingent liability of around £125,000 remains in respect of potential further exposure against existing claims.

Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liabilities identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

40. Post Balance Sheet Event

CCTV Partnership - in 2013/14 the Council, along with its partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV Partnership. The incorporation of this new company took place on 1st April 2015. This change is not expected to impact on the 2014/15 Statement of Accounts.

STATEMENT OF ACCOUNTS 2014/15

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

	2014/15			2013/14		
	£000	£000	£000	£000	£000	£000
	Council			Council		
	Tax	NDR	Total	Tax	NDR	Total
Income collectable from Council Taxpayers Note 2	83,738	-	83,738	82,724	-	82,724
Transfers from General Fund						
- Council Tax Benefits (Refer to note below)	-	-	0	-	-	0
Income collectable from Business Ratepayers Note 3	-	43,433	43,433	-	43,995	43,995
Total Income	83,738	43,433	127,171	82,724	43,995	126,719

	2014/15			2013/14		
	£000	£000	£000	£000	£000	£000
	Council			Council		
	Tax	NDR	Total	Tax	NDR	Total
Council Tax Precepts and Demands Note 4	82,489	-	82,489	81,861	-	81,861
Business Rates Shares:						
Payments to Government	-	21,516	21,516	-	21,544	21,544
Payments to Hertfordshire County Council	-	4,303	4,303	-	4,309	4,309
Payment to East Herts District Council	-	17,213	17,213	-	17,235	17,235
Charges to Collection Fund						
Costs of Collection	-	197	197	-	196	196
Bad Debt Provision - Increase:						
Council Tax	384	-	384	412	-	412
Non Domestic Rates	-	601	601	-	1,177	1,177
Non Domestic Rates Appeals Provision Note 5	-	3,736	3,736	-	2,560	2,560
Transitional Protection Payment Note 6	-	275	275	-	506	506
Distribution of prior years Fund balance	(41)	780	739	1,060	-	1,060
Total Expenditure	82,832	48,621	131,453	83,333	47,527	130,860

	2014/15			2013/14		
	£000	£000	£000	£000	£000	£000
	Council			Council		
	Tax	NDR	Total	Tax	NDR	Total
In year Movement in Fund	(906)	5,188	4,282	608	3,532	4,140
Balance as at 1 April	(410)	3,532	3,122	(1,018)	-	(1,018)
Balance as at 31 March	(1,316)	8,720	7,404	(410)	3,532	3,122

	2014/15			2013/14		
	£000	£000	£000	£000	£000	£000
	Council			Council		
	Tax	NDR	Total	Tax	NDR	Total
East Herts District Council	(145)	3,488	3,343	(45)	1,413	1,368
Hertfordshire Police	(137)	-	(137)	(43)	-	(43)
Hertfordshire County Council	(1,034)	872	(162)	(322)	353	31
Government	-	4,360	4,360	-	1,766	1,766
Total	(1,316)	8,720	7,404	(410)	3,532	3,122

The Council Tax Benefit Scheme ended in 2012/13 and was replaced by 'Localised Council Tax Support' in 2013/14. The Retained Business Rates Regime was introduced in 2013/14 and resulted in the cessation of the national NNDR pool arrangements.

STATEMENT OF ACCOUNTS 2014/15

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1. General

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund.

The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic Rates.

There is no requirement for a separate Collection Fund Balance sheet, as the assets and liabilities of the fund belong to the various bodies and Government.

In 2013/14 the local government finance regime was revised with the introduction of the Retained Business Rates scheme. The main aim of the scheme is to give Council's a greater incentive to grow businesses in the district. It does, however, also increase the financial risk to the Council due to non collection and the volatility of the NDR tax base.

The retained income scheme allows the Council to retain a proportion of the total NDR income received. The Council's share is 40% with the remainder being split between Hertfordshire County Council (10%) and Government (50%).

2. Council Tax

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

Band	Estimated No. of Taxable Properties after effect of discounts	Ratio	Band D Equivalent Dwellings
A	513	6/9	342.00
B	3,721	7/9	2,894.11
C	11,324	8/9	10,065.78
D	12,760	9/9	12,760.00
E	9,556	11/9	11,679.56
F	6,636	13/9	9,585.33
G	4,960	15/9	8,266.67
H	706	18/9	1,412.00
	<u>50,176</u>	Council Tax Base for 2014/15	<u>57,005.45</u>
		2015/16 Estimated Council Tax Base	<u><u>46,425.00</u></u>
Tax Collection			£000
14/15 Tax Base of 57,006 x £1,508.04 (Average Band D Charge)			85,967 Estimated Tax Due
14/15 Council Tax Income (including Council Tax Benefits)			83,738 Actual Tax Income
			<u>2,229</u> Deficit

This deficit is explained by movements in the tax base.

STATEMENT OF ACCOUNTS 2014/15
NOTES TO THE COLLECTION FUND INCOME AND
EXPENDITURE ACCOUNT (continued)

3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate which for 2014/15 was 48.2p (2013/14 47.1p). The total amount, less certain reliefs and other deductions, is distributed in line with each organisations share as detailed at Note 1.

At the year end the total non-domestic rateable value was £111,711 million (£114,615 million for 2014/15).

The amounts included in the accounts for 2014/15 can be analysed as follows:

	2014/15	2013/14
	£000	£000
Gross rates payable	44,364	44,713
Less allowances and other adjustments	(931)	(718)
Income collectable from business ratepayers	<u>43,433</u>	<u>43,995</u>
Less Costs of Collection	(197)	(196)
Total Collectable NDR Income for Distribution	<u><u>43,236</u></u>	<u><u>43,799</u></u>

Note: The retained Business Rates Regime was introduced in 2013/14 and resulted in the cessation of the National Non Domestic Rates Pool.

4. Council Tax Precepts and Demands

	2014/15	2013/14
	£000	£000
East Hertfordshire District Council	12,230	12,089
Hertfordshire County Council	62,060	61,630
Police Authority	8,199	8,142
	<u><u>82,489</u></u>	<u><u>81,861</u></u>

5. Provisions

The Collection Fund account includes provisions for bad debts on arrears based on past years experience and the current years collection rate.

	2014/15			2013/14		
	£000	£000	£000	£000	£000	£000
	Council Tax	NDR	Total	Council Tax	NDR	Total
Balance at 1 April	(1,443)	(1,396)	(2,839)	(1,137)	(937)	(2,074)
Additional provisions made in 2014/15	(383)	(601)	(984)	(412)	(1,177)	(1,589)
Provision applied in 2014/15	132	917	1,049	106	718	824
Balance at 31 March	<u><u>(1,694)</u></u>	<u><u>(1,080)</u></u>	<u><u>(2,774)</u></u>	<u><u>(1,443)</u></u>	<u><u>(1,396)</u></u>	<u><u>(2,839)</u></u>

STATEMENT OF ACCOUNTS 2014/15

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

5. Provisions - continued

In addition, a provision has been made for NDR appeals against the rateable valuations assessed and determined by the Valuation Office Agency (VOA) which have not been settled by 31 March 2015.

	2014/15 £000 NDR	2013/14 £000 NDR
Balance at 1 April	(2,560)	0
Additional provisions made year	(5,302)	(2,560)
Provision applied in year	1,566	-
Balance at 31 March	<u>(6,296)</u>	<u>(2,560)</u>

6. Transitional Protection Payments

During the year the Council received £73,152 in Transitional Protection Payments to protect the NDR taxpayers and the Collection Fund against significant increase in their tax liability as a result of material revaluations (up or down). As at 31 March 2015 the Collection Fund is liable for repayment to Government of £455,667 as the rateable values on settlement by the VOA were lower than anticipated.

STATEMENT OF ACCOUNTS 2014/15

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

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

- Recognising
- Selecting measuring bases for
- Presenting

Accruals

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

Accumulated Absences

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

Actuarial Gains and Losses

Changes in the net pensions liability that arise because

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

Amortisation

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

Asset

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

Capital Expenditure

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

Capital Financing Requirement

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

Capital Receipts

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

CIPFA

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

Code of Practice on Local Authority Accounting (The Code)

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

STATEMENT OF ACCOUNTS 2014/15

GLOSSARY OF TERMS (continued)

Community Assets

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

Consistency

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

Contingent Asset

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

Contingent Liability

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

Creditor

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

Current Service Cost (Pensions)

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

Curtailment

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

Curtailments include:

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

Debtor

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

Deficit

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

Defined Benefit Scheme

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

Depreciation

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

STATEMENT OF ACCOUNTS 2014/15

GLOSSARY OF TERMS (continued)

DCLG

Department for Communities and Local Government

DEFRA

Department for Environment, Food and Rural Affairs

DWP

Department for Work & Pensions

EEDA

East of England Development Agency

Expected Rate of Return on Pensions Assets

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

Earmarked reserve

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

Financial Instruments

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

Finance Lease

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

Government Grants

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

International Financial Reporting Standards

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

Impairment

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

Infrastructure Assets

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

Intangible Asset

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

STATEMENT OF ACCOUNTS 2014/15

GLOSSARY OF TERMS (continued)

Interest Cost (pensions)

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

Investments (non-pensions fund)

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

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

Investment properties

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

LAA

Local Area Agreement

Liquid resources

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

MTFP

Medium Term Financial Plan

NDR

Non Domestic Rates

Operating Lease

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

Past Service Cost

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

Revenue Expenditure

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

REFCUS (Revenue Expenditure Funded from Capital Under Statute)

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

Surplus

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

ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):	<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:	Discussions have taken place with Directors, Heads of Service and external partners to ensure that our Statement of Accounts accurately reflects the financial position of the Council.
Legal:	There are no legal implications.
Financial:	There are no financial implications in this report as the report is stating the financial position of the Council at 31 March 2015.
Human Resource:	There are no Human Resources implications.
Risk Management:	The Statement of Accounts sets out the financial position of the Council and may be used to assess how well placed the Council is to mitigate future risks.
Health and wellbeing – issues and impacts:	There no Health and Wellbeing issues raised as part of this report.

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East Herts Council
2014/15 Annual Assurance Statement
and
Internal Audit Annual Report
15 July 2015

Recommendations

Members are recommended to:

Note the Annual Assurance Statement and Internal Audit Annual Report

Note the results of the self-assessment as required by both the Public Sector Internal Audit Standards and the Quality Assurance and Improvement Programme

Accept the SIAS Audit Charter

Seek assurance from management that the scope and resources for internal audit were subject to no inappropriate limitations in 2014/15

Contents

1. Purpose and Background
 - 1.1 Purpose
 - 1.2 Background
2. Annual Assurance Statement for 2014/15
 - 2.1 Context
 - 2.2 Annual Assurance Statement for 2014/15
3. Overview of Internal Audit Activity in 2014/15
4. Performance of the Internal Audit Service in 2014/15
5. Compliance with the Public Sector Internal Audit Standards and Quality Assurance Improvement Programme
6. Audit Charter

Appendices

- A Final position of the 2014/15 Audit Plan
- B Definitions of Assurance Levels and Priority of Recommendations
- C Progress against Public Sector Internal Audit Standards as at May 2015
- D Internal Audit Charter 2015/16

1. Purpose and Background

Purpose of Report

- 1.1 The purpose of this report is to:
- Document and communicate internal audit's overall opinion on the adequacy and effectiveness of the Council's control environment, commenting on significant matters and key themes
 - Summarise the audit work from which the opinion is derived
 - Summarise the performance of the Shared Internal Audit Service (SIAS) in respect of audit work delivered for the Council
 - Show the outcomes of the self-assessment against the Public Sector Internal Audit Standards (PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP)
 - Present the Audit Charter for 2015/16.

Background

- 1.2 The provision to the Council of an annual opinion on internal control is a key duty of the Head of Assurance. It is timed to support the production of the Council's Annual Governance Statement.
- 1.3 Reporting the work of SIAS to Audit Committee Members 'charged with governance' provides them with an opportunity to review and monitor the outputs of internal audit activity and gain assurance that the Council's internal audit function is fulfilling its statutory obligations. This process is an integral component of corporate governance.
- 1.4 The Head of Assurance's opinion is based on internal audit work undertaken during the 2014/15 financial year. SIAS is grateful for the co-operation and support it has received from all those who have engaged with the audit process during the period.

2. Annual Assurance Statement 2014/15

Context

2.1 *Scope of responsibility*

The management of the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The management of the Council is also responsible for ensuring that there is a sound system of internal control, which includes arrangements for managing risk.

2.2 *Control environment*

The Council's control environment comprises three key areas: internal control, governance, and risk management arrangements. Together these areas are designed to manage risk to a reasonable level rather than eliminate risk completely.

The purpose of these arrangements is to help ensure that the Council's policies, priorities and objectives are achieved.

2.3 *Review of effectiveness*

The Head of Assurance is required to confirm the fitness for purpose of internal audit to carry out work that informs the assurance opinion.

The Head of Assurance therefore commissioned a self-assessment exercise, thus satisfying PSIAS requirements 1311 and 1312 for periodic self-assessments as part of a Quality Assurance and Improvement Programme. The self-assessment exercise was conducted against the PSAIS requirements. Its results allow SIAS to evidence that effective arrangements are in place and internal audit standards are in line with good practice.

As a result, the Head of Assurance is able to report a substantial level of conformance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective.

The exercise did not identify any significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement. Appendix C of this report contains a table setting out areas where further action is needed in order to ensure conformance and discloses areas of intentional non-conformance.

2.4 *Confirmation of independence of internal audit and assurance on limitations*

The Head of Assurance confirms that during the year there have been no matters arising which have threatened the independence of the internal audit function. The Head of Assurance also confirms that there have been no inappropriate scope or resource limitations on the internal audit function during the year.

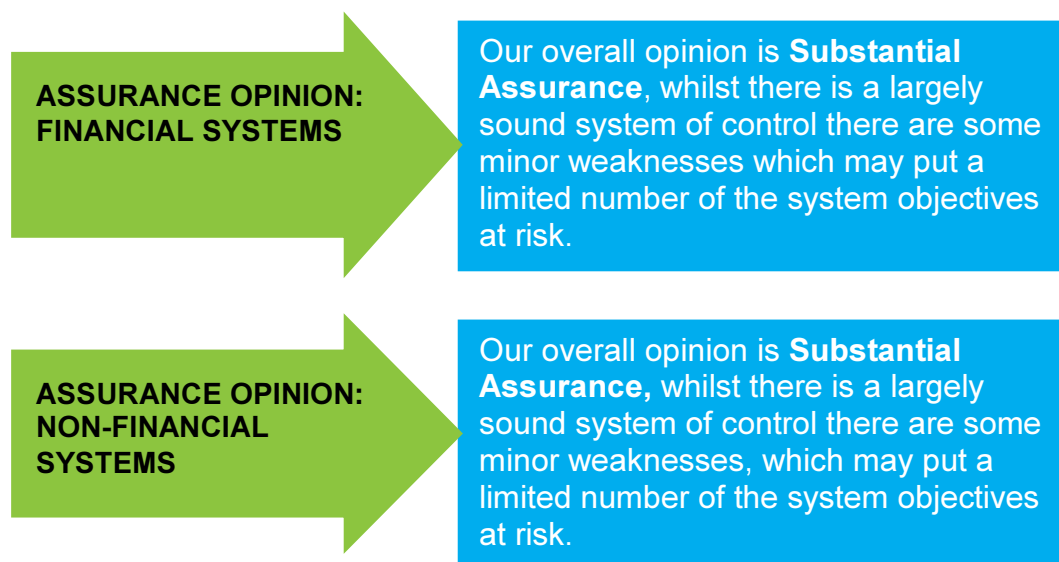
2.5 *Basis of assurance opinion*

Our assurance opinion is based on the work carried out by SIAS during 2014/15 which has been planned in order to give sufficient assurance on the management of key risks within the organisation.

Annual Assurance Statement for 2014/15

2.6 *Assurance opinion on internal control*

From the internal audit work undertaken in 2014/15 we can provide the following opinion on the adequacy and effectiveness of the Council's control environment, broken down between financial and non-financial systems. There are no qualifications to this assurance.



2.7 *Assurance opinion on Corporate Governance and Risk Management*

In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the work undertaken by the Council and reported in its Annual Governance Statement for 2014/15.

**Head of Assurance for the Shared Internal Audit Service
June 2015**

3. Overview of Internal Audit Activity in 2014/15

Annual Assurance Statement and Internal Audit Annual Report East Herts Council

- 3.1 This section of the report summarises the work of the audit service during the year, highlighting matters of significance in respect of the internal control environment and opportunities for improvement.
- 3.2 Appendix A lists the audit work that was completed in the year and the final position on the agreed audit plan, including the assurance level provided and number of recommendations made. The levels of assurance and priority of recommendations are summarised in the tables below, and include a comparison against 2014/15.

Assurance Level	Number of reports 2014/15 (2013/14 data in brackets)	Percentage of reports 2014/15 (2013/14 data in brackets)
Full	9 (4)	33% (12%)
Substantial	9 (16)	33% (49%)
Moderate	4 (5)	15% (15%)
Limited	0 (1)	0% (3%)
No	0 (0)	0% (0%)
Not Assessed	5 (7)	19% (21%)
Total	27 (33)	100% (100%)

Recommendation Priority Level	Number of recommendations 2014/15 (2013/14 data in brackets)	Percentage of recommendations made 2014/15 (2013/14 data in brackets)
High	3 (5)	7% (7%)
Medium	31 (36)	67% (49%)
Merits Attention	12 (32)	26% (44%)
Total	46 (73)	100% (100%)

- 3.3 The substantial assurance opinion overall on financial systems (same as 2013/14) has been concluded from the nine financial systems audits where an opinion has been given. Five received full assurance and four received substantial assurance. No high priority recommendations were made in these audits.
- 3.4 The substantial assurance opinion overall on non-financial systems has been concluded from the thirteen audits where an opinion has been given. Four received full assurance, five substantial assurance and four moderate assurance. Three high priority recommendations were made in these audits. The substantial assurance opinion overall on non-financial systems represents an improvement compared to the moderate assurance opinion overall given in 2013/14 when two audits received limited assurance and five high priority recommendations were made.

Annual Assurance Statement and Internal Audit Annual Report East Herts Council

Details of the moderate assurance audits and high priority recommendations for 2014/15 are as follows:

- Section 106 Agreements – Moderate assurance and one high priority recommendation relating to checking new contribution calculations by a second officer.
- Recruitment – Moderate assurance and one high priority recommendation relating to the retention of supporting documentation covering the recruitment process.
- IT Change Control – Moderate assurance and one high priority recommendation relating to restricting access for developers to the production environment.
- Leisure Services (Third party inspections) – Moderate assurance, no high priority recommendations.

Management assurance confirms that all three high priority recommendations are now implemented.

The Shared Service Benefits Realisation audit was not at final report stage at the time of writing this Annual Report. Detailed management responses and target implementation dates for the recommendations are awaited. The outcomes from this audit have not been taken into account when determining the overall assessment for the Council.

The Data Protection audit was deferred from Q4 of 2014/15 to Q1 of 2015/16. The audit was in fieldwork at the time of writing this Annual Report and therefore does not form part of the overall assurance opinion for the Council.

A verbal update on these audits will be given at the committee meeting.

4. Performance of the Internal Audit Service in 2014/15

Performance indicators

- 4.1 The table below compares the performance in 2014/15 of SIAS at East Herts District Council against targets set by the Board of the Shared Internal Audit Service.

Indicator	Target for 2014/15	Actual to 31 March 2015
1 SIAS Planned Days – percentage of actual billable days delivered against planned billable days	95%	98%*
2 SIAS Planned Projects – actual completed projects to draft report stage against planned completed projects	95%	100%
3 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	Formal Reliance	Achieved
4 SIAS Annual Plan – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year	Deadline met	Achieved
5 Client Satisfaction - client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	100%	100%
6 Head of Assurance's Annual Report – prepared in time to present to the first meeting of each Audit Committee in the financial year	Deadline met	Achieved

**Annual Assurance Statement and Internal Audit Annual Report
East Herts Council**

7 Number of High Priority Audit Recommendations agreed	95%	100%
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* This figure arrived at base on:

Original EHC plan days 14/15	435
Less unused contingency days	20

Total deliverable days available	415
Billed days for 14/15	407

Billed days as a percentage of total deliverable days available = $407 / 415 = 98\%$

The remaining 8 days (415 – 407) represents work to be completed in 2015/16.

Completion of 407 actual billable days in the year provides for an adequate level of assurance and is consistent with the 400 budgeted plan days for 2015/16.

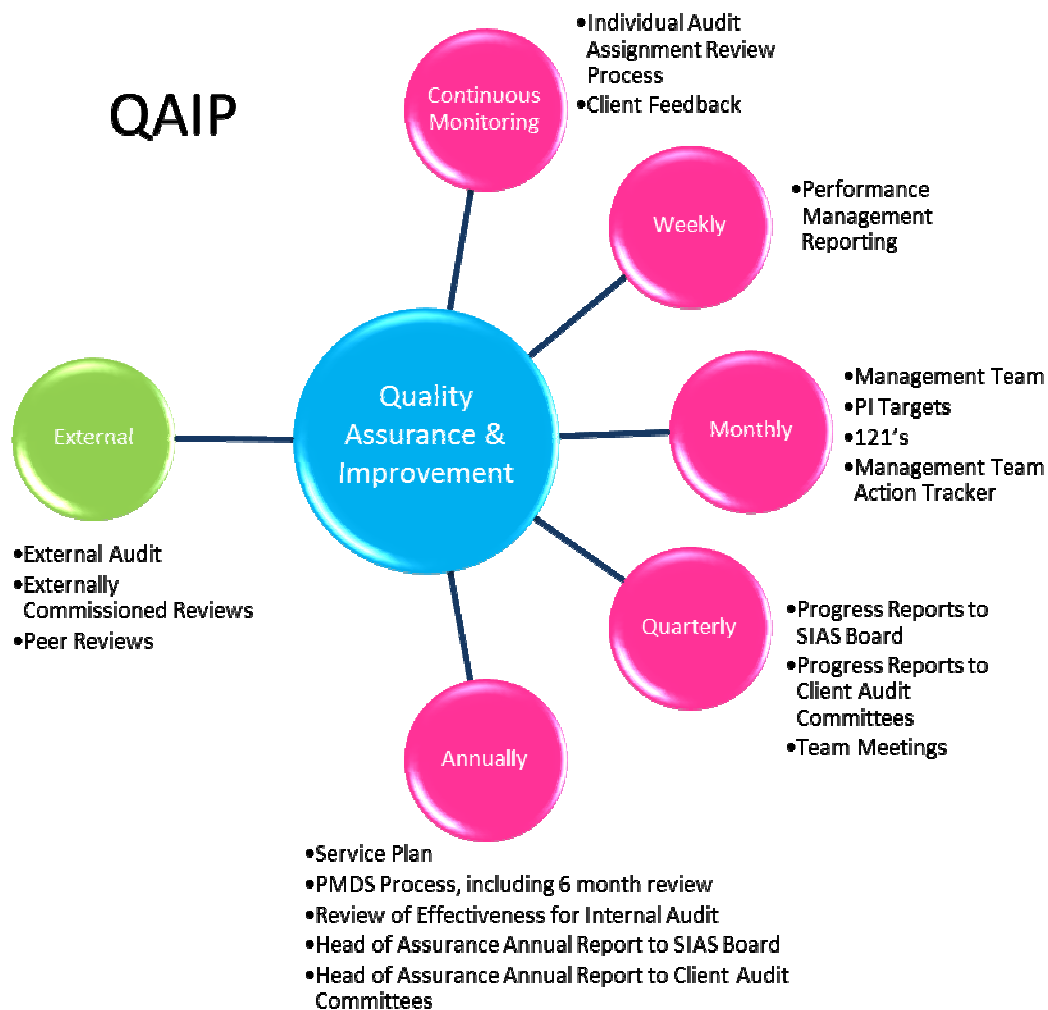
Developments in the year

4.2 During 2014/15 a number of service development activities took place within SIAS, designed to continually enhance the service offering:

- Audit Planning and Scheduling – agreeing with client the month in which an audit review would commence allowing management sufficient time to prepare for the audit to take place and allowing SIAS to better schedule its resources.
- Shared Learning – a joint review took place to compare Annual Governance Statement activity across the partnership; further, a review of the means by which SIAS currently shares learning across the partnership was carried out, with proposals for specific shared learning activity from 2015/16 onwards.
- Procurement of external partner – a procurement exercise took place to select an external partner to work with SIAS over the forthcoming three years. The selected partner is 'BDO' the fifth largest accountancy network in the world; a worldwide professional services network of public accountancy firms, serving national and international clients. BDO will begin working with SIAS from April 2015 replacing the current partner PriceWaterhouseCoopers.
- Methodology review – a project to review the means by which audit fieldwork is documented by SIAS auditors.

5. Compliance with the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme

- 5.1 The Public Sector Internal Audit Standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). They promote the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They highlight the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.
- 5.2 The Head of Assurance has reviewed the conformance of SIAS with the PSIAS standards using a checklist. The checklist detailing this exercise is available on request.
- 5.3 The self-assessment carried out in 2014/15 identified three areas of part-conformance. Progress against these areas is shown in detail in Appendix C, Section C.
- 5.4 In relation to intentional non-conforming areas these are set out in Appendix C, Section B and cover the requirement for the chief executive sign off for the Head of Assurance Appraisal. The Head of Assurance Appraisal includes an opportunity for Chief Financial Officers across the SIAS partnership to input views. It is considered that this is appropriate given the shared nature of the service and no further action is proposed currently.
- 5.5 One of the main elements of the PSIAS is the requirement to define a Quality Assurance and Improvement Programme (QAIP) for SIAS. This work has been duly undertaken.
- 5.6 The SIAS QAIP includes both internal and external monitoring and reporting to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The diagram below details the methods used to monitor and report on quality and performance. Detailed information outlining activity in each area is contained in the SIAS Audit Manual.



5.7 During the year SIAS has operated according to its QAIP. Evidence is available within the service to support the achievement of each of the QAIP elements.

5.8 An externally commissioned review of the service's conformance with PSIAS standards has to be undertaken at least once every five years. This has been scheduled for 2015/16.

6. Audit Charter

- 6.1 The Public Sector Internal Audit Standards require that a local authority formally adopts an Audit Charter covering the authority and responsibility for its internal audit function.
- 6.2 The SIAS Audit Charter sets out the framework within which it discharges its internal audit responsibilities to those charged with governance in the Council. It also details the permanent arrangements for the internal audit and key governance roles and responsibilities to ensure the effectiveness of internal audit provision.
- 6.3 An annual review of the Audit Charter is undertaken as part of the SIAS Service Plan activity. The review for 2015/16 did not result in any fundamental changes to the document, although a number of minor amendments have taken place. The Charter for 2015/16 is attached at Appendix D.

APPENDIX A - FINAL POSITION FOR THE 2014/15 AUDIT PLAN

2014/15 East Herts Council Audit Plan

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Key Financial Systems						
Asset Management	Substantial	0	0	0	14	Final report issued
Benefits	Substantial	0	0	0	15	Final report issued
Council Tax	Substantial	0	1	0	12	Final report issued
Creditors CRSA Yr2	Full	0	0	0	8	Final report issued
Debtors CRSA Yr2	Full	0	0	0	8	Final report issued
Main Accounting CRSA Yr1	Full	0	0	0	10	Final report issued
NDR	Substantial	0	3	1	12	Final report issued
Payroll CRSA Yr1	Full	0	0	0	10	Final report issued
Payroll Pension Certificate	N/A	-	-	-	0.5	Complete
Treasury Management	Full	0	4	0	10	Final report issued
Operational Audits						
Enforcement	N/A	-	-	-	6	Final report issued

APPENDIX A - FINAL POSITION FOR THE 2014/15 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Parking Permits	Substantial	0	2	0	10	Final report issued
Local Development Plan	Full	0	0	0	12	Final report issued
Section 106 Agreements	Moderate	1	2	1	13	Final report issued
Cash and Banking	Full	0	0	0	12	Final report issued
Fees and Charges	Full	0	0	0	15	Final report issued
Recruitment	Moderate	1	1	1	15	Final report issued
Data Protection	-	-	-	-	15	Deferred to 15/16
Community Grants	Full	0	0	0	15	Final report issued
Healthcheck / Performance Benchmarking	N/A	-	-	-	12	Final report issued
Shared Services Benefits Realisation					10	Draft report issued
Hertford Theatre Governance Arrangements	N/A	-	-	-	30	Final report issued
Compliance Project Plan	Moderate	0	3	5	10	Final report issued
Procurement						
New Planning / Building Control system	-	-	-	-	0	Audit cancelled

APPENDIX A - FINAL POSITION FOR THE 2014/15 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Leisure Services – Third party inspections	Moderate	0	10	2	10	Final report issued
Acquisition of Locata system for Housing	-	-	-	-	0	Audit cancelled
SIAS Joint Reviews						
NDR Anti-Avoidance Arrangements	Substantial	0	0	1	10	Final report issued
AGS Benchmarking Workshop	N/A	-	-	-	2	Final report issued
IT Audits						
Helpdesk	-	-	-	-	0	Audit cancelled
Change Control	Substantial	1	0	0	12	Final report issued
IT Business Continuity	Substantial	0	1	1	12	Final report issued
IT Asset Management	Substantial	0	4	0	12	Final report issued
Contingency						
Remaining Contingency	N/A	-	-	-	33	
Follow-Up Audits						
Follow up of outstanding high priority audit recommendations	N/A	-	-	-	5	Complete

APPENDIX A - FINAL POSITION FOR THE 2014/15 AUDIT PLAN

	Level of Assurance	Recommendations			Plan Days	Audit progress /Status
		H	M	MA		
Strategic Support						
2015/16 Audit Planning	N/A	-	-	-	10	Complete
Audit Committee	N/A	-	-	-	15	Complete
Client Meetings	N/A	-	-	-	10	Complete
Liaison with External Audit	N/A	-	-	-	1	Complete
Head of Internal Audit Opinion 2013/14	N/A	-	-	-	5	Complete
Plan Monitoring	N/A	-	-	-	10	Complete
SIAS Development	N/A	-	-	-	5	Complete
2013/14 Projects Requiring Completion						
2013/14 Projects Requiring Completion	N/A	-	-	-	8.5	Complete
Recommendations		3	31	12		
Plan Days					435	

APPENDIX A - FINAL POSITION FOR THE 2014/15 AUDIT PLAN

Notes

Key to Assurance Level and Recommendation Priority Levels:

N/A = Not Applicable

H = High priority recommendations; M = Medium priority recommendations; MA = Merits Attention priority recommendations

APPENDIX B - DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

Section A: Conformance

During 2014/15 all areas apart from those identified in Sections B and C below are conforming.

Section B: Intentional Non-Conformance

Ref	Area of Non-Conformance with the Standard	Commentary	
3.1a	<p>Purpose, Authority and Responsibility</p> <p>Does the board (defined as the Audit Committee) approve decisions relating to the appointment and removal of the Chief Audit Executive (CAE) (Head of Assurance)</p>	<p>The Deputy Chief Executive of Hertfordshire County Council, in consultation with the Board of the Shared Internal Audit Services approves decisions relating to the appointment and removal of the CAE.</p> <p>This is as provided for in the governance of the Shared Internal Audit Service.</p>	<p>Non-conformance</p> <p>No further action proposed. The current arrangements are considered effective given the shared nature of SIAS.</p>

APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2015 – ACTION PLAN

<p>3.1c</p>	<p>Purpose, Authority and Responsibility Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	<p>The performance appraisal is carried out by the Deputy Chief Executive of Hertfordshire County Council (HCC)</p>	<p>Non-conformance No further action proposed. The appraisal process was carried out by the HCC Deputy Chief Executive with input from all partner chief finance officers. The current arrangements are considered effective given the shared nature of SIAS.</p>
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APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2015 – ACTION PLAN
Section C: Part Conformance

Ref	Area of Non-Conformance with the Standard	Position as at May 2015
3.3	Proficiency and Due Professional Care Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	Part conformance Team members have appropriate knowledge but strategy for computer assisted audit techniques to be developed. December 2015
4.5	Communicating results Does the Annual Report incorporate the results of the QAIP and any associated improvement actions	Part Conformance QAIP in place and results reported annually. Process improvements planned in 2015/16 year. September 2015

APPENDIX C – PROGRESS AGAINST PUBLIC SECTOR INTERNAL AUDIT STANDARDS AT MAY 2015 – ACTION PLAN

4.5	Communicating results The results of the QAIP? Progress against any improvement plans resulting from the QAIP?	Part Conformance QAIP in place and results reported annually. A robust process for linking the QAIP and improvement plans to be introduced. September 2015
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Internal Audit Charter

1. Introduction and Purpose

- 1.1. Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Council. It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness and efficiency of the Council's risk management, control, and governance processes.

2. Scope

- 2.1. This Internal Audit Charter is applicable to all clients of Hertfordshire's Shared Internal Audit Service (SIAS) during 2015/16. These clients are:

- East Hertfordshire Council
- Hertfordshire County Council
- Hertsmere Borough Council
- North Hertfordshire District Council
- Stevenage Borough Council
- Three Rivers District Council
- Watford Borough Council
- Welwyn Hatfield Borough Council
- Welwyn Hatfield Community Housing Trust

3. Statutory Basis of Internal Audit

- 3.1. Within local government there is a statutory requirement for an internal audit function. The 2003 Accounts and Audit Regulations (as amended by the 2006, 2009 and 2011 Regulations) require that a local authority 'must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

- 3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

4. Role

- 4.1. Internal audit activity provided by SIAS is established by the Audit Committee. The responsibilities of SIAS are defined by the Audit Committee, via this Charter, as part of its oversight role.
- 4.2. SIAS may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this. Such activity will be determined by the Head of Assurance on a case by case basis and significant additional consulting activities will not be carried out without prior consultation of the SIAS Board.

5. Professionalism

- 5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These mandatory public sector specific standards were introduced on 1 April 2013, through a joint venture between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).
- 5.2. This mandatory guidance includes the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing ("the Standards") and sets out the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of an internal audit function's performance.
- 5.3. The IIA's Practice Advisories, Practice Guides, and Position Papers are adhered to as applicable to guide operations. In addition, SIAS adheres to the council's relevant policies and procedures, including compliance with the Bribery Act 2010 and other relevant legislation. These are included in SIAS's standard operating procedures manual, which is subject to regular review.
- 5.4. In the event of non-conformance with the Standards, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it, and, if applicable, the impact on any specific engagement or engagement result.

6. Authority and Confidentiality

- 6.1. With strict accountability for confidentiality and safeguarding records and information, SIAS is authorised full, free, and unrestricted access to any and all of

a client's records, physical properties, and personnel pertinent to carrying out an engagement.

- 6.2. Internal Auditors must use this information for carrying out the audit, and must ensure that it is not used in any manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). However, disclosure must be made of all material facts known to Internal Auditors which, if not disclosed, could distort their reports or conceal unlawful practice.
- 6.3. All employees are requested to assist SIAS in fulfilling its roles and responsibilities. SIAS also has free and unrestricted access to the Audit Committee and Senior Management.

7. Organisation

- 7.1. SIAS has direct access to Senior Management, the Audit Committee, the Chief Executive and the Chair of the Audit Committee. The Section 151 Officer and the Audit Committee will jointly agree the level of internal audit resource to be deployed. The Head of Assurance will communicate and interact directly with Senior Management, the Audit Committee, and the nominated external audit representative in executive sessions and between meetings as appropriate. Outside formal Senior Management and Audit Committee meetings, the Head of Assurance will have unrestricted access to the Chief Executive and the Chair of the Audit Committee.
- 7.2. For line management purposes, the Head of Assurance reports to the post of Deputy Chief Executive and Chief Financial Officer at Hertfordshire County Council (HCC). The Deputy Chief Executive of HCC approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Feedback is also sought from the Audit Committee chairs of the SIAS partners.

8. Stakeholders

- 8.1. The following groups are defined as stakeholders of SIAS:
- 8.2. The Head of Assurance, who must be suitably experienced and qualified (CCAB and / or CMIIA), is responsible for hiring, appraising and developing appropriate Internal Audit staff in accordance with the HR guidance of the hosting Authority and the job descriptions which are kept up-to-date and reflect the roles, responsibilities, skills, qualifications, and attributes required of Internal Auditors. Together, the Internal Audit staff will possess or obtain the skills, knowledge and other competencies (including ethical practice) required to perform SIAS engagements.
- 8.3. The Audit Committee fulfils the role of 'board' in the majority of instances, and is responsible for overseeing the effectiveness of SIAS and holding the Head of

Assurance to account for delivery, through the setting of performance targets and receipt of regular updates and reports. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery. The Chair of the Audit Committee will also be asked to contribute to the annual appraisal of the Head of Assurance.

- 8.4. Senior Management, defined as the Head of Paid Service, Chief Officers, and their direct reports, are responsible for helping shape the programme of assurance work through an analysis and review of key risks to achieving the Council's objectives and priorities. Senior management provides leadership and direction for the Council.
- 8.5. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS, including:
 - resourcing and financial performance,
 - performance indicators measuring operational effectiveness, and
 - the overall strategic direction of the shared service.

9. Independence and Objectivity

- 9.1. SIAS will remain free from interference by any element in the organisation in matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 9.2. As well as having an impartial, unbiased attitude, Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment.
- 9.3. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

10. Conflicts of Interest

- 10.1. Internal auditors must exhibit the highest level of professional objectivity when gathering, evaluating, and communicating information about the activity or process being examined.
- 10.2. In addition to ensuring that any information accessed as part of the audit process is not used for personal gain, Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 10.3. Each auditor is required, in addition to the ethical requirements of the various professional bodies, to proactively declare any potential conflict of interest, whether actual or apparent, prior to the commencement of each audit assignment.

- 10.4. All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.
- 10.5. SIAS has procured an arrangement with an external audit partner to provide additional internal audit days on request. The external partner will be used for the internal audit of any functions directed by the Head of Assurance and to provide competent advice and assistance to the Head of Assurance in the event that the skills, knowledge, and other competencies are lacked by SIAS staff.
- 10.6. In the event of a real or apparent impairment of independence or objectivity, including acceptance of gifts, hospitality, inducements or other benefits, investigation and declaration, in advance if possible, to appropriate parties will be carried out by the Head of Assurance.

11. Responsibility and Scope

- 11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control and risk management objectives considered by internal audit extend to the entire control and risk management environment of the organisation and include:
- consistency of operations or programs with established objectives and goals, and effective performance;
 - effectiveness and efficiency of governance, operations and employment of resources;
 - compliance with significant policies, plans, procedures, laws, and regulations;
 - design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
 - safeguarding of assets.
- 11.2. SIAS is responsible for evaluating all processes ('audit universe') of the organisation including governance processes and risk management processes and promoting appropriate ethics and values within the organisation. It also assists the Audit Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination is maintained.
- 11.3. Due to its detailed knowledge and understanding of risks and controls, SIAS is well placed to provide advice and support on emerging risks and issues. As a result, it may perform consulting and advisory services as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee and senior management, as appropriate.

11.4. Based on its activity, SIAS is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures SIAS plays a key role in providing assurance to the Audit Committee and senior management on the effectiveness of the entire control environment.

11.5. Each engagement will be allocated to (an) Internal Auditor(s) with the appropriate skills, experience and competence, who is then responsible for carrying out the work in accordance with the SIAS Audit Manual, and considering, as well as the relevant elements of internal control outlined above, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

12. Role in Anti-Fraud

12.1. The work programme of SIAS is designed, in part, to help deter fraud and corruption. With this in view, SIAS bases its planning on regular risk assessment, and works with Chief Financial Officers, the Shared Anti-Fraud Service, other senior managers and the Audit Committee in determining its programme of work.

12.2. SIAS also shares information with relevant partners, including with government via the National Fraud Initiative and the Shared Anti-Fraud Service, to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.

12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

13. Internal Audit Plan

13.1. At least annually, the Head of Assurance will submit to the Audit Committee for review and approval a risk-based plan which sets out in priority order the audit and other work to be carried out and demonstrates SIAS' priorities (e.g. the need to produce an annual internal audit opinion) and those of the organisation and sector, including any relevant declarations of interest.

13.2. The plan will include the risk assessment approach used and reference to the organisation's assurance framework, as well as timing, budget and resource requirements (including specialist input) for the next financial year. These requirements will include a contingency for new or changed risks, time for planning and reporting, and a contribution to the development of SIAS. The Head of Assurance will communicate the impact of resource limitations and significant interim changes of senior management to the Audit Committee, who should seek similar reassurance from management.

13.3. Prior to submission to the Audit Committee for approval, the plan is discussed with appropriate senior management. The plan will be subject to regular review in

year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. However, any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

14. Reporting and Monitoring

- 14.1. The Head of Assurance will, following discussion if necessary, arrange for a written Terms of Reference to be prepared and issued to appropriate personnel at the start of the engagement, outlining the intended objectives, scope, and reporting. This may be subject to review in consultation with the client during the course of the engagement.
- 14.2. At the conclusion of an engagement, an internal audit report will be issued, including a reasoned opinion, along with the framework, time period and scope within which it was prepared and management's response and corrective action taken or to be taken in response to the specific risk prioritised findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 14.3. SIAS will be responsible for appropriate follow-up on findings and recommendations and will use this work to inform the risk-based planning of future audit work. SIAS will also report to the Audit Committee on the results of this activity, and may, if necessary, consider revising the internal audit opinion on the basis of this follow-up. Should follow-up bring to light any significant error or omission, the Head of Assurance will ensure that it is communicated to all relevant parties.
- 14.4. The Head of Assurance will consider on a risk-basis any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management
- 14.5. The Head of Assurance will arrange for quarterly update reports to the Audit Committee to advise on the results of each engagement, including significant risk exposures and control issues, and provide an annual report to the Audit Committee. The annual report will include an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement), and a summary of the work that supports the opinion including a comparison with the plan, a statement of conformance with PSIAS, and the nature and reasons for any impairments, qualifications or restrictions in scope.

15. Periodic Assessment

- 15.1. In accordance with Section 6 of the Accounts and Audit (England) Regulations 2011, the Head of Assurance and the SIAS Board will make arrangements for the conduct by a suitably knowledgeable, qualified and competent individual or organisation of an independent review of the effectiveness of internal audit. The

review is designed to ensure that the opinion given in the Annual Report of the Head of Assurance may be relied upon as a key source of evidence in the Annual Governance Statement.

15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. This will be carried out formally through the Quality Assurance and Improvement Programme, client feedback, appraisals, and shared learning with the external audit partner, and informally through coaching, supervision, and documented review.

15.3. The work will be conducted on the basis of one review of SIAS providing assurance for all SIAS partner members. The results of the review will be included in the Annual Report.

16. Review of the Audit Charter

16.1. This charter will be subject to annual review by the Head of Assurance and any changes presented to Audit Committee for approval at the first audit committee meeting in each financial year.

16.2. The Audit Charter was last reviewed by Helen Maneuf CPFA, Head of Assurance in May 2015. The date of the next review will be May 2016.

Note:

For readability, in this Charter the term 'internal audit activity' as used in the PSIAS guidance has been replaced with 'SIAS'.

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East Herts Council Audit Committee Progress Report 15 July 2015

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report;
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 2015/16 Audit Plan
- B Implementation Status of High Priority Recommendations
- C Audit Plan Items (April 2015 to March 2016) – 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 2015/16 as at 19 June 2015.
 - b) Proposed amendments to the approved 2015/16 Audit Plan.
 - c) Implementation status of previously agreed high priority audit recommendations.
 - d) An update on performance management information as at 19 June 2015.

Background

- 1.2 The 2015/16 Audit Plan was approved by Audit Committee on 18 March 2015.
- 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 18 March 2015.
- 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 19 June 2015, 14% of the 2015/16 Audit Plan days had been delivered. Appendix A provides a status update on each individual project within the audit plan.

2.2 Eight audits providing assurance to the Audit Committee have been finalised since the March 2015 meeting of this Committee.

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Asset Management (CRSA Year 1)	Mar '15	Substantial	None
Payroll (CRSA Year 1)	Mar '15	Full	None
Cash and Banking	Mar '15	Full	None
Performance Framework / Healthcheck Benchmarking	Mar '15	N/A	N/A – benchmarking review
Hertford Theatre Governance Arrangements	Mar '15	N/A	N/A – consultancy review
FM Compliance Project Plan	Apr '15	Moderate	Three medium Five merits attention
Enforcement	Apr '15	N/A	N/A – consultancy review
IT Asset Management	May '15	Substantial	Four medium

All of the above are 2014/15 reports. No 2015/16 reports have yet been finalised.

High Priority Recommendations

2.3 A Final Audit Report is issued when agreed by management; this includes an agreement to implement 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 There are no changes to the 2015/16 Audit Plan for the Committee to consider.

Performance Management

- 2.5 Annual performance indicators and associated targets were approved by the SIAS Board in 2011 and are reviewed annually by the Board.
- 2.6 As at 19 June 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 19 June 2015	Actual to 19 June 2015
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	15%	14%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	7% (2 of 29 projects to draft)	3% (1 of 29 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	No reports yet finalised
4. Number of High Priority Audit Recommendations agreed	95%	95%	No reports yet finalised

2.7 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2015/16 Head of Assurance's Annual Report:

- **5. External Auditor's 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 2015/16 AUDIT PLAN AS AT 19 JUNE 2015

2015/16 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 2) / Strategy					15	Yes	0	Planned for Q4
Benefits					15	Yes	0	Planned for Q3
Council Tax					12	Yes	0.5	Early Planning
Creditors					12	Yes	0	Planned for Q3
Debtors					12	Yes	0	Planned for Q4
Main Accounting (CRSA Year 2)					8	Yes	0	Planned for Q4
NDR					12	Yes	0.5	Early Planning
Payroll (CRSA Year 2)					8	Yes	0.5	Early Planning
Payroll Certificate	N/A	-	-	-	1	Yes	1	Complete
Treasury					8	Yes	0	Planned for Q3
Operational Audits								
FM Compliance Plan					15	Yes	0	Planned for Q3
Homelessness					15	Yes	10	In fieldwork
Policy Review					15	Yes	5.5	In fieldwork
Insurance					12	Yes	5	In fieldwork
Members Allowances & Expenses					10	Yes	1	In planning
Public Health Burials					10	Yes	0.5	In planning

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 19 JUNE 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				
Section 106 Agreements					15	Yes	0	Planned for Q3
Street Markets					15	Yes	0	Planned for Q3
Development Management					15	Yes	0	Planned for Q3
Operational Risk Management					12	Yes	7	In fieldwork
Procurement								
Procurement and Contract Management					25	Yes	0	Planned for Q2
Veolia Waste Contract					15	Yes	0	Planned for Q3
Follow Up of Leisure Services Contractor Compliance					6	Yes	0	Planned for Q4
Procurement of Locata system (Housing)					10	Yes	0	Planned for Q4
Land Drainage Contract					10	Yes	0	Planned for Q3
IT Audits								
Software Licensing					8	Yes	0	
IT Helpdesk					8	Yes	0	Planned for Q2
Shared Learning								
Shared Learning Newsletters and Summary Themed Reports					2	No	0.5	On-going
Audit Committee Workshop					1	No	0	Planned for Q3

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 19 JUNE 2015

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Joint Review – Risk Management Benchmarking Workshop					2	Yes	0	Planned for Q3
Strategic Support								
2016/17 Audit Planning					10	N/A	0	Planned for Q3/4
Audit Committee					15	N/A	3	On-going
Client Meetings					10	N/A	2	On-going
Liaison with External Audit					1	N/A	0.5	On-going
Head of Internal Audit Opinion 2014/15					5	N/A	5	Complete
Plan Monitoring					10	N/A	2	On-going
SIAS Development					5	N/A	5	Complete
Contingency								
Unused Contingency					0	N/A	0	N/A
Follow Ups								
Follow up of high priority recommendations					5	N/A	1	On-going
2014/15 Projects requiring completion								
Various					15	Yes	6	On-going

APPENDIX A PROGRESS AGAINST THE 2015/16 AUDIT PLAN AS AT 19 JUNE 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				
EHC TOTAL					400		56.5	

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 (Jun 15)
1.	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	<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 IT Strategy available for discussion is the</p>	Implemented – remove from list

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

Page 1 of 5

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jun 15)
						<p>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> <p><u>Feb 15</u> The ICT Strategy has been drafted. It was submitted to ITSG in January and SMG earlier this month. It was</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 (Jun 15)
						<p>due to go to CMT on 24 February and it will then be submitted to Corporate Business Scrutiny Committee in March 2015.</p> <p><u>Jun15</u> The strategy was submitted to CBS in March as planned and was approved by Executive in June. The strategy is now live.</p>	
2.	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>Jun 14</u> The Business Continuity Plan will be revised once the</p>	Not implemented – continue to monitor

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

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No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Target Date	History of Management Comments (Last 12 months only)	SIAS Comment (Jun 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>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 solution is nearing</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 (Jun 15)
			before being put to CMT.			<p>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> <p><u>Feb 15</u> Business Continuity Group met in</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 (Jun 15)
						<p>January 2015. Meetings have subsequently taken place with every critical service and questionnaires / business continuity planning templates issued for return by 1st April 2015.</p> <p><u>Jun 15</u> Critical service questionnaires returned and plan updated. Test will take place shortly to identify strengths and weaknesses of plan.</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 (Jun 15)
3.	Business Continuity (IA Report 7/6/11)	It is recommended that the Business Continuity Corporate Group (BCG) meet on a regular basis until the Business Continuity Plan is approved, and thereafter on a six monthly basis to review the plan.	The outcome from the Zurich workshop will trigger this group.	Director of Neighbourhood Services	Sep 2011	<p><u>Jun 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> See note at recommendation 2.</p> <p><u>Dec 14</u> Business Continuity Group to reconvene on 12th January 2015.</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 (Jun 15)
						<p><u>Feb 15</u> Business Continuity Group met in January 2015. To meet again in April 2015 when questionnaires and plans are received from services.</p> <p><u>Jun 15</u> See note at recommendation 2.</p>	
4.	Business Continuity Planning (01/10/13)	All departmental business continuity plans and resource recovery questionnaires should be reviewed	Now that the Shared ICT service is in place and IT business continuity	Director of Neighbourhood Services	30 June 2014	<p><u>Jun 14</u> The plan will be reviewed extensively once the new IT infrastructure is in</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 (Jun 15)
		<p>to ensure they are complete, contain a sufficient level of detail, and have been reviewed and approved by appropriate members of staff.</p> <p>In addition to this, a periodic rolling 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</p>	<p>arrangements are being taken forward then this action will also move forward at the same time.</p> <p>Information captured by services in their Business Recovery Plans will be reviewed in line with the new ICT solution referred to in Recommendation 2. A</p>			<p>place to reflect significant changes in IT resilience and recovery.</p> <p>CMT reviewed critical services in October 2013. Live 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>	

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 (Jun 15)
		the BCPs.	provisional schedule for testing recovery plans will be established and reviewed annually. Testing will take place in line with the established schedule.			<p><u>Dec 14</u> See note at recommendation 4.</p> <p>A test will be conducted once the plan is complete.</p> <p><u>Feb 15</u> See item 2.</p> <p><u>Jun15</u> See note at recommendation 2.</p>	
5.	Business Continuity Planning (01/10/13)	Once the actions related to findings 1 and 2 have been completed, the Council needs to get the Business	Now that the Shared ICT service is in place and IT business continuity	Director of Neighbourhood Services	31 March 2014	<p><u>Jun 14</u> The Business Continuity Plan will be revised once the new IT infrastructure is in</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 (Jun 15)
		<p>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 roles and responsibilities with regard to business continuity planning, and these responsibilities should be documented within</p>	<p>arrangements are being taken forward then this action will also move forward at the same time.</p>			<p>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 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</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 (Jun 15)
		the plan.				<p>and distributed once complete. Roles and responsibilities of senior management and other key staff have been agreed previously. Information cascades will be reviewed in January / February 2015 and documented in the plan.</p> <p><u>Feb 15</u> As per December 2014 comment.</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 (Jun 15)
						<p><u>Jun15</u> Statement of intent from Directors included in Plan. Contact list / information cascade close to completion.</p>	
6.	IT Change Control (17/02/15)	<p>Developers' access to the production environment should be restricted. Where this may not be possible due to the number of staff, detective monitoring controls should be implemented such as independent</p>	<p>As it not practical to restrict developers' access to the production environment for the reasons noted by the auditor, detective monitoring</p>	Information Systems Manager	April 2015	<p><u>Feb 15</u> Not yet due.</p> <p><u>Jun 15</u> I can confirm that we have identified a process for checking a random sample of standard changes on a quarterly basis. These will be</p>	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 (Jun 15)
		periodic review of a sample of changes implemented.	controls will be implemented as proposed, on a sample basis.			evidenced in writing and the process will begin at the end of the first quarter of 2015/16, in June.	

APPENDIX C AUDIT PLAN ITEMS (APRIL 2015 TO MARCH 2016) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Certificate	Homelessness	Operational Risk Management	Members Allowances & Expenses	Procurement & Contract Management	Main Financial Systems (9 Reviews)	FM Planned Maintenance Programme	Section 106 Agreements	Veolia Waste Contract	Follow Up Leisure Services Contractor Compliance	Acquisition of Locata System	Software Licensing
Policy Review		Insurance			Public Health Burials	Development Management	Street Markets	Land Drainage Contract			
					IT Helpdesk			Risk Mgmt – Joint Review			

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 15 JULY 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. Audit Committee is requested to consider the content of **Essential Reference Paper 'B'** that provides details of the latest positions measured against the actions that need to take place prior to confirmation being given that adequate and effective controls are fully in place.

RECOMMENDATION FOR AUDIT COMMITTEE:

That:

(A)	the report now submitted, detailing progress made to implement the action plan contained in the 2013/14 Annual Governance Statement, be received; and
(B)	revised target dates for actions be agreed; and
(C)	consideration be given as to which of the "Amber" rated issues remain significant enough for carrying forward to the 2015/2016 Action Plan.

1.0 Background

- 1.1 The Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to CMT and Audit 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 The current 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 Since the last Audit Committee meeting seven actions are considered to have been achieved and have therefore moved the RAG status from "Amber" to "Green":

- The IT Strategy is now in place.
- A review of governance arrangements at Hertford Theatre has been completed.
- Property fund proposals have been approved.
- The Here to Help programme is now considered to be well-embedded.
- The Here to Help programme is providing a strong programme for organisational development to manage increased levels of demand for services.
- SIAS have completed a review of the operation of shared service partnership arrangements.
- The process for monitoring Section 106 Monies is now considered to be embedded.

2.4 Revised target dates have been put against the other three outstanding issues:

- The completion of the review of assets has a revised target date of December 2015.
- The development of a District Plan has a revised target date of October 2016.

- The impact of welfare reform changes are considered to be an on-going risk and March 2016 has been shown as the revised target date.

2.5 The three outstanding “Amber” issues are all considered to remain significant during 2014/15 and the proposal is therefore to carry them forward as part of this year’s Annual Governance Statement. This was confirmed by Corporate Management Team on 30 June 2015.

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 18 March 2015.

Contact Member: Councillor Linda Haysey
Leader of the Council
Ext 1642
linda.haysey@eastherts.gov.uk

Contact Officer: Adele Taylor
Director of Finance and Support Services
Ext 1406
adele.taylor@eastherts.gov.uk

Report Author: Chris Gibson
Head of Governance and Risk Management
Ext 2073
chris.gibson@eastherts.gov.uk

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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:	Heads of Service and appropriate responsible managers have been consulted during the compilation of this report.
Legal:	There are no additional legal implications to those already contained in this report. The Legal Services Manager has been given the opportunity to comment.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing issues and impacts 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"> The IT Strategy, effective from April 2015 was approved by the Executive on 8 June 2015. 	GREEN from 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, have undertaken a review of governance arrangements as part of the 2014/15 Audit Plan. Report issued in March 2015. 	GREEN from AMBER
Asset Management Plan (From 2012/13 Action Plan)	CMT	Dec 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 (AMP) 2013-17 approved by CMT but presentation to Members has been put on hold. The AMP will be revised to reflect the updated priorities of the new 	AMBER

Essential Reference Paper 'B'

				<p>administration and any subsequent changes in Asset Management policy.</p> <ul style="list-style-type: none">• The Executive on 7 October 2014 approved future investment of £10m in each of two selected property funds which will impact on the AMP.• 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 completed an audit resulting in a	
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Essential Reference Paper 'B'

				substantial assurance opinion.	
Impact of Welfare Reform changes (Identified as a strategic risk in 2013/14)	CMT	March 2016 revised from 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 across the Council to staffing levels, manage the budget and the public expectations. Implement Council policies effectively. 	<ul style="list-style-type: none"> The Council has responded well to changes in Welfare reform although this has resulted in an increased number of contacts from affected residents. The impact of this increased contact is monitored through appropriate management teams and partnership boards. 	AMBER
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"> SIAS have undertaken a review of Shared Services Benefits Realisation. Draft report to be discussed by Partnership Board on 29 June 2015. 	GREEN from 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"> • Regular reports are made to CMT identifying projects and tracking outstanding payments. • Process is considered to be embedded. 	<p>GREEN from AMBER</p>
<p>Implementat'n of the Investment Strategy with sufficient levels of governance and due diligence (Identified as a new 2014/15 strategic risk)</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 property funds. • Property fund proposals approved by the Executive on 7 October 2014. • The first property fund investment of £10m has taken place. The second investment of 	<p>GREEN from AMBER</p>

Essential Reference Paper 'B'

				a further £10m is due to take place in December 2015.	
Development of a District Plan that is approved by the planning inspectorate. (Identified as a new 2014/15 strategic risk)	CMT	October 2016 Revised from March 2015	<ul style="list-style-type: none"> Plan to be agreed within required timeframe. 	<ul style="list-style-type: none"> The Council intends to publish the next stage of the draft Plan for a final round of public consultation in the first part of 2016. This will be followed by an Examination in Public. Whilst good progress has been made on key parts of the evidence base, there remains a number of critical pieces of information which still need to be obtained before a final draft of the District Plan can be agreed. In particular Hertfordshire County Council has been 	AMBER

Essential Reference Paper 'B'

				<p>assessing the capacity of the A414 to accommodate additional traffic.</p> <ul style="list-style-type: none">• The Planning Policy Team is working hard to investigate any reasonable means by which the overall process can be expedited in order to bring forward the District Plan as soon as possible without jeopardising the prospects for planned development accompanied by the necessary supporting infrastructure.	
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Essential Reference Paper 'B'

The effectiveness of the delivery of the Here to Help programme (Identified as a new 2014/15 strategic risk)	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"> • A full-time Here to Help Project Officer is in post and staff engagement has been excellent. • Regular reporting arrangements are in place. 	GREEN from AMBER
Increased levels of demand for our services. (Identified as a new 2014/15 strategic risk)	CMT	March 2015	<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 strong platform for organisational development. 	GREEN from AMBER

EAST HERTS COUNCIL

AUDIT COMMITTEE – 15 JULY 2015

REPORT BY THE LEADER OF THE COUNCIL

DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report details proposals for taking forward the 2014/15 Annual Governance Statement.

RECOMMENDATION FOR AUDIT COMMITTEE:

That:

(A)	Audit Committee considers the Annual Governance Statement as part of the wider consultation process;
(B)	Audit Committee takes an initial view on the relevance of issues already raised to date for further consideration as detailed in Paragraph 2.9 of the report; and
(C)	The proposed process for taking forward the 2014/15 Annual Governance Statement be approved.

1.0 Background

1.1 The Annual Governance Statement is necessary to meet the requirements set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.

2.0 Report

2.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and

that public money is safeguarded, properly accounted for, used economically, efficiently and effectively.

- 2.2 The Council should undertake regular, at least annual, reviews of its governance arrangements by means of an Annual Governance Statement, to ensure continuing compliance with best practice. It is important that such reviews are reported both within the Council, to the Audit Committee and externally with the published accounts, to provide assurance that:
- governance arrangements are adequate and operating effectively in practice, or
 - where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in the future.
- 2.3 The process of preparing the governance statement should itself add value to the corporate governance and internal controls framework of the Council.
- 2.4 A governance statement should include the following information:
- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
 - an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide
 - a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
 - a brief description of the process that had been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - ◇ the Council
 - ◇ the Executive
 - ◇ the Audit Committee/ overview and scrutiny function/ Standards Committee
 - ◇ Internal Audit
 - ◇ other explicit review/ assurance mechanisms.
 - an outline of the actions taken, or proposed, to deal with significant governance issues.
- 2.5 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls,

spanning the whole range of the Council's activities, including in particular those designed to ensure that:

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

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

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

2.7 Those areas of the Annual Governance Statement that are considered to be static have been added to the Constitution as Part 8. The Statement and Action Plan is attached to this report as **Essential Reference Paper 'B'**. The Annual Governance Statement Action Plan has been monitored through Corporate Management Team (CMT) and at each meeting of the Audit Committee and the latest position is reported in a separate report to this CMT.

2.8 In order to add real value to the Annual Governance Statement the intention is for officers to consider the Annual Governance Statement and current Action Plan, External and Internal Audit reports, Risk registers, Ombudsman reports, 3 C's reports, National Fraud Initiative reports and the Annual Report.

- 2.9 Consultation documents have been sent to the Leader and Executive Members, Chairmen of Committees, Directors and senior managers, Internal Audit and External Audit. To date, matters identified for amendments and/or further consideration include:
- Customer Services Strategy and the changing service interface for the future e.g. channel shift and becoming more customer led in service design.
 - Health and Wellbeing Scrutiny Panel as a Scrutiny Committee from 2015/16.
 - Reference to the Local Government Transparency Code requirements.
 - Development of joint working on waste and street cleansing with North Herts Council.
 - Organisational Development Strategy.
 - Rules and processes around the Standards Committee.
 - The new Shared Anti-Fraud Service.
 - Recruitment of a new Chief Executive.
 - Section 106 administration.
 - Strategic risks identified for 2015/16.
 - Statistics relevant to 2013/14 need to be updated to reflect 2014/15 positions.
 - Information in respect of SIAS needs to be updated.
 - 2014/15 Action Plan needs to be replaced by 2015/16 Action Plan.
 - Possible carry forward of actions outstanding from 2014/15 Action Plan.
 - Sign-offs by new Leader and Chief Executive.
 - Management assurance statements returned in June 2015.
- 2.10 Any items raised that are considered to be significant governance issues will be discussed by the Acting Chief Executive, the Acting Monitoring Officer, the Chief Finance Officer and the Head of Governance and Risk Management and a Draft Annual Governance Statement and Action Plan that identifies required enhancements to internal control arrangements will be drawn up.
- 2.11 The subsequent intended timeline will be for consideration of the Draft Annual Governance Statement and Action Plan at:
- Corporate Management Team - 11 August 2015.
 - Corporate Business Scrutiny Committee - 25 August 2015.
 - Executive - 1 September 2015.
 - Audit Committee - 23 September 2015- for approval.

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'**. Proposed consultation timelines are outlined above.

Background Papers

Annual Governance Statement 2013/14- Audit Committee 24 September 2014.

Contact Member: Councillor Linda Haysey
Leader of the Council
Ext 1642
linda.haysey@eastherts.gov.uk

Contact Officers: Adele Taylor
Director of Finance and Support Services
Ext 1406
adele.taylor@eastherts.gov.uk

Simon Drinkwater
Director of Neighbourhood Services
Ext 1405
simon.drinkwater@eastherts.gov.uk

Report Author: Chris Gibson
Head of Governance and Risk Management
Ext 2073
chris.gibson@eastherts.gov.uk

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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:	Heads of Service and appropriate responsible managers have been consulted during the compilation of this report.
Legal:	There are no additional legal implications to those already contained in this report. The Legal Services Manager has been given the opportunity to comment.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing issues and impacts to those already contained in this report.

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EAST HERTS COUNCIL ANNUAL GOVERNANCE STATEMENT
2013/2014 AND ACTION PLAN 2014/2015

Scope of responsibility

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

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

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

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

This statement explains how the Council has complied with the code and also how it meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 that requires authorities to carry out an annual review of the effectiveness of its system of internal control.

The purpose of the governance framework

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

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

The Governance Framework

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

The six core principles are:

- a. focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
- b. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- c. promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

- d. taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- e. developing the capacity and capability of Members and officers to be effective; and
- f. engaging with local people and other stakeholders to ensure robust public accountability.

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

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

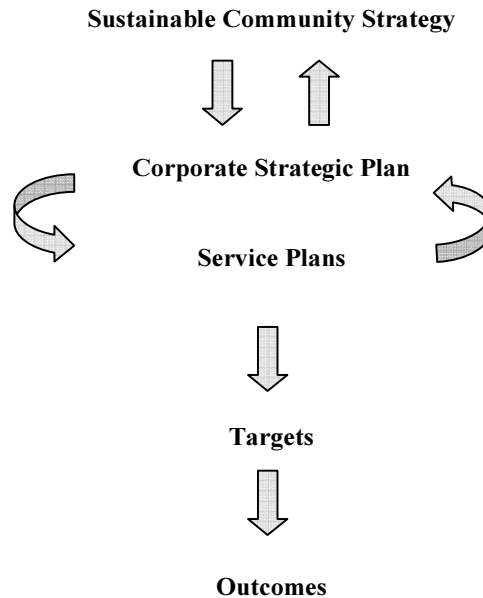
The Sustainable Community Strategy outlines the vision, aims and priority themes for the district. It was produced in conjunction with the East Hertfordshire Local Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.

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

The Executive receives the Medium Term Financial Strategy covering a four-year period, which is used to set initial parameters for the coming budget process to ensure that spending proposals are affordable and sustainable over the medium term.

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

individual employees via specific areas of responsibility allocated to them.



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

This process monitors how the Council is meeting its performance targets and triggers corrective actions where targets are proving challenging, through the Corporate Healthcheck report and Service Plan monitoring reports.

The Council's Executive and its Scrutiny Committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary. For ease of interpretation performance graphs are reported. There are reports which include the results of monthly and quarterly budget monitoring reports covering the revenue expenditure, capital projects, key performance indicators and absence monitoring.

The monitoring process has enabled the Council to concentrate on areas which require particular attention.

The Council is therefore able to monitor all key measures on a monthly basis and respond quickly and effectively to changes at an early stage.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies, the Shared Internal Audit Service (SIAS) and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the use of resources. The Council has regularly reviewed Financial Regulations and has adopted Procurement Regulations to ensure proper arrangements are in place for procurement of goods and services.

All budget cost centres are allocated to a named post holder, who is responsible for controlling spend against those budgets, and who is also responsible for maximising the benefits from assets used in the provision of their service.

b) Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council has adopted a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people.

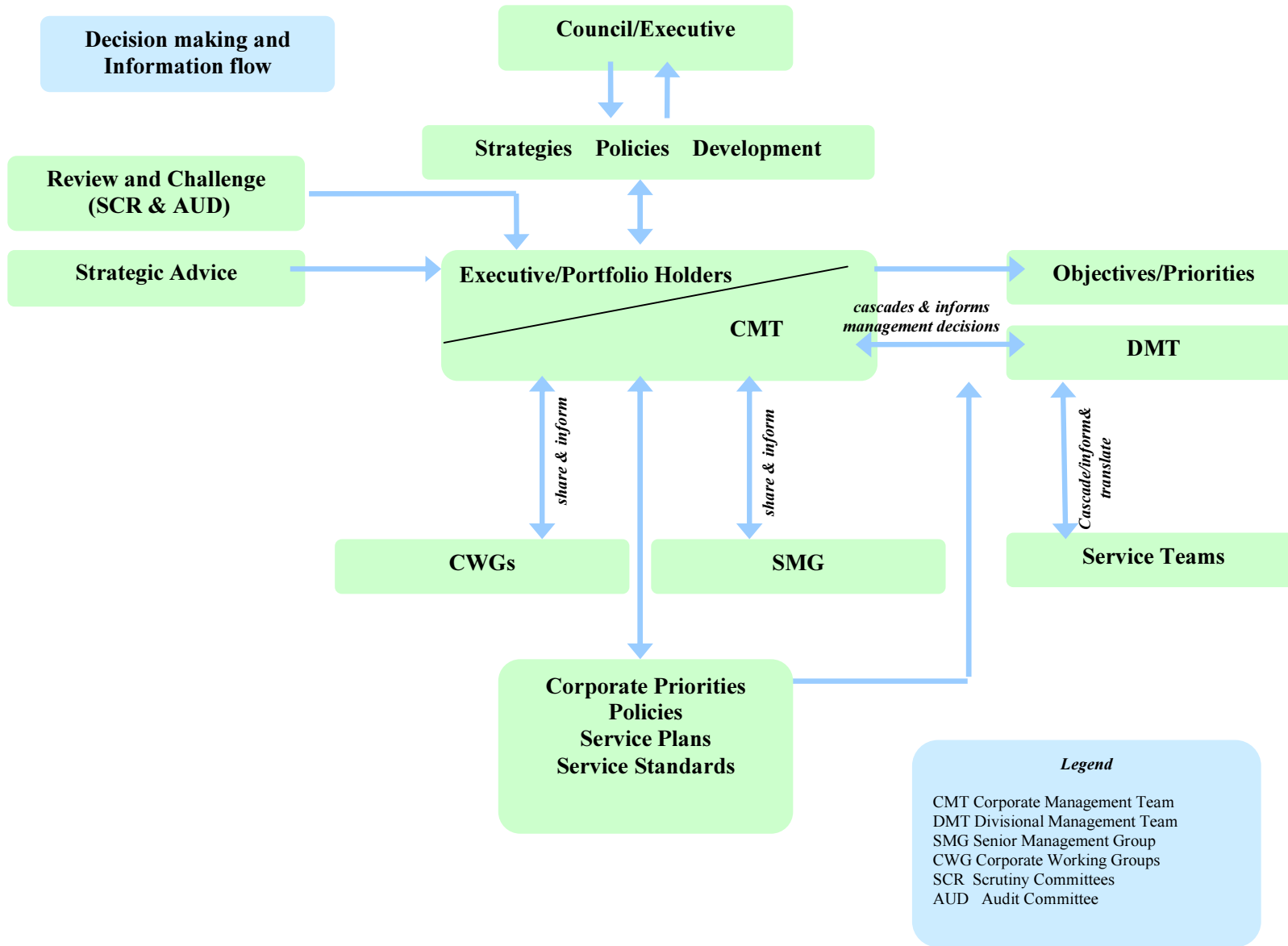
The Council adopted the Leader and Cabinet Executive model. The main features are:

- The Council's Executive consists of a Leader and between two and nine other Councillors.

- The Leader is elected by full Council and will hold office in accordance with the Local Government and Public Involvement in Health Act 2007.
- The other Executive Members will be appointed by the Leader who will decide their portfolios and also which executive functions will be discharged by full Executive, any of its Committees or any individual Executive Member or officers.
- There are currently seven Councillors on the Executive.

The Council's Corporate Management Team (CMT) consisting of the Chief Executive and Director of Customer and Community Services, Directors and the Head of People and Property Services meets on a fortnightly basis to develop policy issues commensurate with the Council's aims, objectives and priorities. CMT also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of CMT meet with Portfolio Holders on a monthly basis to review progress in achieving the Council's ambitions, priorities for action, budget monitoring, performance management and forward planning for major issues. CMT has a corporate responsibility for the messages that the Council produces, both internally and externally.

Below CMT the management structure is well defined. The chart below indicates how decisions are implemented and cascaded:



The Council has adopted a number of codes and protocols that will govern both Member and officer activities. These are:

- Members' Code of Conduct
- Officers' Code of Conduct
- Members' Planning Code of Good Practice
- Member/Officer Relations Protocol

c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive and Section 151 Officer he will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Under Section 5 of the Local Government and Housing Act 1989 it is the duty of the Council's Monitoring Officer to report to Council if it appears that the Authority, a Committee or Officer of the Authority has made a decision which is contrary to law.

The Council has responsibility for responding to Freedom of Information Requests (FOI) promptly and within 20 working days.

The Council has taken action to improve its speed of response to FOI's. An important element of that plan is to shift the Council from waiting for FOI requests to proactively reducing the need for individuals to request information by making a wider range of information more easily available through the Council's website.

The Council recognises that expenses of politicians have come under serious scrutiny. The current Members Allowances scheme is published in the Constitution.

All Council services are delivered by trained and experienced people. All posts have a detailed post profile and person specification. Training needs are identified through the Personal Development Review Scheme and addressed via the Human Resources service and/or individual services as appropriate.

The Council achieved re-accreditation for a further three years from April 2012 under the Investors in People Standard, which is a

quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

The financial management of the Council is conducted in accordance with the Constitution and with Financial Regulations. The Director of Finance and Support Services is the statutory Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council has a Treasury Management Strategy Statement and Annual Investment Strategy in place. Investments are made in accordance with the Council's approved policy. All investment transactions and transfers undertaken in house are supported by appropriate documentation and are properly authorised. External fund managers are subject to strict regulation by the FCA. The Portfolio holder and the Leader of the Council receive regular updates from the Director of Finance and Support Services. The Chairman of the Audit Committee is invited to participate in review meetings with Fund Managers.

The Council utilises an Internal Audit Service delivered under a shared partnership with seven other Councils. This service operates to the standards set out in the CIPFA Public Sector Internal Audit Standards which came into effect on 1 April 2013. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility operates and has been well publicised. Each year all staff are required to complete Annual Declaration forms. The Council has adopted a policy on bribery. The Council does not tolerate bribery committed by Council employees or its contractors or partners and will take consistent and swift action against those persons committing bribery.

Individual services have produced Service Plans that are updated each year so that services know what they are required to do to achieve the Council's priorities and ambitions.

At individual employee level the Council has established a Personal Development Review Scheme so as to jointly agree individual employee objectives and identify training and development needs. The Scheme provides for a mid-year review as well as an annual appraisal at which past performance is reviewed.

d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

The Council has several committees which carry out regulatory or scrutiny functions. These are:

- Overview and Scrutiny committees (Corporate Business Scrutiny, Community Scrutiny and Environment Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions, developing the capacity and capability of members and officers to be effective.
- Audit Committee provides assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management is in place. Its work is intended to enhance public trust in the corporate and financial governance of the Council;
- Development Management Committee determines planning applications and related matters;
- Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures;
- The Human Resources Committee's functions relate to all aspects of the Council's role as an employer. This includes the monitoring and strategic overview of Human Resources activities.
- Standards Committee promotes and maintains high standards of conduct for the Council's Members, and advises and assists Parish Councils and Councillors to maintain high standards of conduct;

The Council has data protection policies, a Data Protection Action Plan and a data sharing protocol in place to ensure that personal data is maintained securely and used correctly. There is a Data Protection Compliance Governance Framework which involves the Corporate Business Scrutiny Committee in the governance structure. The Committee will take a strategic oversight of the completion of the Data Protection Action Plan and Data Protection compliance through a formal annual report. Data Protection risk assessment is also part of the service planning process.

The Risk Management Strategy defines risk management, explains the benefits of a strategic approach, outlines how it will be implemented, identifies roles and responsibilities and formalises the process. The Strategy sets out the links between risk management, emergency planning and business continuity. It

recognises that risk management is a key part of the management of projects and partnerships.

The Strategy highlights how risk management supports strategic planning, financial planning, policy making and review and performance management.

The Corporate Management Team is responsible for ensuring that the key risks on the strategic risk register are managed. Strategic and service risk registers are reviewed quarterly. Risks will be amended so that they reflect the current situation, obsolete risks deleted and new risks added. This will ensure that the risk register and the resulting risk mitigation measures are appropriate for corporate objectives and services.

Members have received risk management training.

The Council also has a Partnership Protocol in place.

The Council is represented on the Joint Committee and the Joint Management Board following the introduction of a shared Revenues and Benefits service with Stevenage Borough Council.

A shared service partnership with Stevenage Borough Council to deliver ICT, Business Improvement, Print and Design services came into operation on 1 August 2013. A Partnership Board with Director representation is responsible for making the key decisions about the way that the partnership operates.

The Shared Internal Audit Service (SIAS) is a partnership of eight Hertfordshire Authorities. The Council is represented on the Board that provides strategic direction and oversight for the partnership. The Manager of Corporate Risk is the Audit Champion for the Council and has monitoring meetings every two months with the Director of Finance and Support Services and SIAS managers. Progress reports are submitted to four Audit Committee meetings per year.

The Council is one of four partners in the Hertfordshire CCTV Partnership. A new company to conduct the commercial trading affairs of the Hertfordshire CCTV Partnership has been created.

e) Developing the capacity and capability of Members and officers to be effective

The Council plans and provides training for members in carrying out their roles effectively including their responsibilities for governance, challenge, scrutiny and review. The Council holds accreditation for the Charter for Member Development.

The Council's vision is to empower Members to be more self sufficient, confident in their community leadership roles and responsive to local issues, problems and challenges in a variety of ways by drawing on existing skills, knowledge, strength, resources and expertise from within. This vision is being taken forward through a comprehensive Member Development programme overseen by a Members' Development Charter Group. A key aspect of peer- peer support for local problem solving is the use of Action Learning Sets.

The Council is taking forward the concept of 'Here to Help' which is an organisational development activity which has been developed in-house to allow Councillors, managers and staff to contribute to the development of the Council's performance, values and behaviours. The purpose of 'Here to Help' is celebrating what is good, sharing good practice, making things better and unlocking barriers to better working. It is about giving employees greater opportunity to think about improvements to their ways of working together to deliver a high quality customer experience every time.

The Council has an infrastructure in place to support members' needs in respect of ICT requirements and the Council's Democratic Services team provide advice and assistance.

Protocols have been adopted to ensure clarity of the respective roles of officers and members.

The Council's recruitment process is designed to ensure only well qualified applicants are employed and the subsequent induction process is robust so that employees are effective. The Performance Development Review process ensures individual contributions are effective in meeting corporate priorities and capability issues addressed by training. Internal communications methods and processes are reviewed to ensure staff remain well informed and their feed back is responded to. A biennial staff survey leads to action plans to improve effectiveness.

The Council reviews its organisation and capacity as part of its annual service planning to ensure its staffing is commensurate in both quantitative and qualitative terms with its business plans. The Council is committed to taking forward the shared services agenda

which will ensure more effective use of scarce skills by sharing across boundaries.

The Council's HR People Strategy seeks to ensure its pay and terms and conditions are appropriate to attract and retain sufficient staff and to encourage staff to invest in their own development.

The Council seeks to maintain effective employee relations to enable a high standard of service to the public to be maintained. Staff are fully consulted on proposed changes to terms and conditions. The Council engages with the trade union and staff to manage issues arising from pay settlements and changes to the organisation including the Local Joint Panel and the Human Resources Committee. The Council also utilises Staff Surveys.

Use is made of the Intranet to provide staff with ready access to learning material and best practice via a series of tool kits.

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council encourages all members of the local communities to contribute to, and participate in, the work of the Council. The Council achieves this through Residents' Surveys and follow-up focus groups. Engagement events around specific issues will be considered where they provide a proportionate and cost effective model for engagement.

The Council's Communications Strategy has identified a need to engage more through social media and reconfirmed the use of the LINK magazine quarterly as a communications and engagement tool.

Individual members are active in their localities and with local groups and serve on a number of external bodies.

The Hertfordshire County LSP and the East Herts District LSP are forums for active engagement with wider stakeholders and a mutual holding to account in delivering the Community Strategies.

The Council publishes an Annual Report setting out progress on its priorities in the prior year. An Annual Report on Overview and Scrutiny is also presented to Council and published every year.

There is a strategic approach to consultation to ensure the information returned is reliable – the Council has adopted a Consultation Toolkit setting out best practice.

The Council's web site is under constant review to ensure it is of a good standard and that information is easily accessed. A consultation section has been introduced so members of the public can easily access open consultations and information on past consultations.

The Council manages freedom of information requests effectively to ensure transparency including the corporate governance arrangements. Information is made available on the website to reduce the need for requests. The Council has procedures in place to engage with members of the public to receive Comments, Compliments and Complaints. The Local Government Ombudsman reported on complaints made about the authority for the year ended 31 March 2014 that there were no concerns about response times and no issues arising from complaints.

As part of the Council's drive to increase the transparency of its spending, the Council publishes all payments on a weekly basis as opposed to the Government's expectation that spend over £500 is detailed.

The Council has approved a Pay Policy Statement as required under section 38 of the Localism Act. The statement follows three principles when publishing data; responding to public demand; releasing data in open formats available for re-use: and releasing data in a timely way.

Review of Effectiveness

This statement explains the Council's overall governance arrangements. Each year, the Council reviews its governance framework including the system of internal control. The Council produces and monitors an Action Plan each year. The process is detailed below:

- All Directors, Heads of Service, Members of the Executive and Chairmen of Committees given the opportunity to make contributions.
- Consideration by the Audit Committee.
- Production of a draft Annual Governance Statement.
- Consideration by Corporate Management Team

- Consideration by the Executive
- Approval by the Audit Committee.

The review of effectiveness is informed by the work of the Directors within the Council who have responsibility for the development and maintenance of the governance environment, the reports by the SIAS and also by comments made by the Council's External Auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution annually to incorporate any necessary changes.

The Council has three overview and scrutiny committees. The committees can establish 'task and finish' groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to their 'parent' Scrutiny Committee and on to the Executive. Four Members can "call-in" a decision which has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. In addition the Corporate Business Scrutiny Committee can exercise its scrutiny role in respect of Executive functions, Scrutiny Committees will conduct regular performance monitoring of all services, with particular attention to areas identified as under-performing.

The Council complies with the Regulation of Investigatory Powers Act (RIPA) 2000:

The Audit Committee

Seven Councillors sit on the Audit Committee. The Committee's terms of reference are detailed below:

Audit Activity

1. To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

2. To consider summaries of specific Internal Audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of Internal Audit services.
4. To consider reports from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
6. To consider specific reports as agreed with the External Auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's External Auditor.
9. To commission work from internal and external audit.

Regulatory Framework

10. To maintain an overview of the Council's Constitution in respect of rules of procedure relating to contracts, financial regulations and financial procedures and codes of conduct and behaviour.
11. To review any issue referred to it by the Chief Executive or a Director or any Council body.
12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on "Confidential Reporting" and the anti-fraud and anti-corruption strategy and the Council's complaints process.
14. To oversee the production of the Authority's Annual Governance Statement and to recommend its adoption.
15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

16. To consider the Council's compliance with its own and other published standards and controls.
17. To review arrangements for delivering value for money.
18. To review the Council's finances including borrowing, loans, debts investments and banking arrangements.

Accounts

- To approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the External Auditors' report to those charged with governance on issues arising from the audit of the accounts.

The Audit Committee's work programme and the minutes of its meetings are public documents and are published on the Council's web site.

The Shared Internal Audit Service (SIAS) has responsibility for delivery of the Internal Audit Plan at the Council. The SIAS also delivers a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council, Welwyn Hatfield Borough Council, Welwyn Hatfield Community Housing Trust, Watford Borough Council and Three Rivers District Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.

The SIAS is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate an annual audit plan. A model for assessing risk against desirability of audit work is used across SIAS and allows for the prioritisation of potential audit projects. Future risks are identified as appropriate and a forward plan for future audit work is in operation.

The reporting process for SIAS requires a report of each audit to be submitted to the relevant chief officer and service manager. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or merits attention). This requires agreement or rejection by relevant

chief officer and/or service manager. The process includes follow-up reviews of high priority recommendations by SIAS and reports to the Audit Committee as part of the SIAS update report. The Audit Champion monitors all other recommendations and reports progress to Corporate Management Team on a quarterly basis. All SIAS reports include an opinion on the quality and effectiveness of internal control within the Council's systems, and an assurance assessment.

All final versions of SIAS reports are circulated to members of the Audit Committee. All reports for the key financial systems audits are also sent to the Council's External Auditors who place reliance on the work carried out by SIAS. In order to comply with the requirements of the Public Sector Internal Audit Standards, SIAS will be required to have an independent external review of performance at least every five years.

For performance management, a traffic light monitoring and reporting system is in place. Performance data is reported to the Scrutiny committees on a frequent basis, with corrective action plans put in place for any under-performing areas.

Significant governance issues are reviewed each year and required enhancements to internal control arrangements are identified. These required enhancements form an Action Plan that is monitored through the Audit Committee.

The Annual Governance Statement is certificated by the Council Leader and the Head of Paid Service.

Further copies of this Statement and the Action Plan are available within the Annual Statement of Accounts on the Council's website www.eastherts.gov.uk; alternatively paper copies can be obtained from:

East Hertfordshire District Council
Manager of Corporate Risk
Wallfields
Pegs Lane,
Hertford
SG13 8EQ

ACTION PLAN 2014/15

Significant governance issues

The following required enhancements to internal control arrangements were identified during 2013/14 as a result of the review of arrangements and by the work of external and internal audit:

Required enhancements to internal control arrangements:

Issue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone
Risk of failure to deliver an effective, efficient and economic IT service (from 2010/11 Action Plan)	Director of Finance and Support Services/ Head of Business and Technology Services	October 2014	<ul style="list-style-type: none"> • All outstanding high risk IT audit recommendations implemented. • Resilient IT business continuity arrangements in place.
IT Risk Diagnostic (Highlighted by SIAS during 2012/13)	CMT	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.
Hertford Theatre future governance arrangements (from 2011/12 Action Plan)	CMT	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.
Asset Management Plan {formerly- Pro-actively seek	CMT	Dec 2014	<ul style="list-style-type: none"> • Review assets held by the Council.

opportunities to improve performance Plan} (from 2012/13 Action Plan)			
Impact of Welfare Reform changes (2013/14 strategic risk)	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 across the Council to staffing levels, manage the budget and the public expectations. Implement Council policies effectively.
Operating effectively in Revenues and Benefits and Business and Technology Shared Services (taken forward from 2012/13 Action Plan)	CMT	Dec 2014	<ul style="list-style-type: none"> Complete a review of the operation of all shared service partnership arrangements
Risk that S106 Monies remain unspent (Highlighted by SIAS during 2012/13)	Head of Comms, Engagement and Cultural Services/ Head of Planning and Building Control	Dec 2014	<ul style="list-style-type: none"> Ensure that funds are spent on appropriate schemes in accordance with the terms of the Section 106 agreement which provide value for money for the community.

Implementat'n of the Investment Strategy with sufficient levels of governance and due diligence (Identified as a new strategic risk)	CMT	March 2015	<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.
Development of a District Plan that is approved by the planning inspectorate. (Identified as a new strategic risk)	CMT	March 2015	<ul style="list-style-type: none"> • Plan to be agreed within required timeframe.
The effectiveness of the delivery of the Here to Help programme (Identified as a new strategic risk)	CMT	March 2015	<ul style="list-style-type: none"> • Ensuring challenges are met, particularly staff engagement, communications and adequate resources.
Increased levels of demand for our services. (Identified as a new strategic risk)	CMT	March 2015	<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.

We propose to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Certification by the Leader of the Council and the Head of Paid Service:

Signed.....Dated.....

**Councillor A P Jackson
Leader of the Council**

Signed.....Dated.....

**George A Robertson
Chief Executive and Director of Customer and Community Services**

EAST HERTS COUNCIL

AUDIT COMMITTEE–15 JULY 2015

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

RISK MANAGEMENT MONITORING REPORT (JANUARY TO MARCH 2015)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report relates to action taken to mitigate and control strategic risks in the period January to March 2015.

RECOMMENDATION FOR AUDIT COMMITTEE:

That:

(A)	the action taken to mitigate and control strategic risks be approved.
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1.0 Background

The Strategic Risk Register was last considered by Audit Committee on 18 March 2015. (Period October to December 2014). The register has been updated to reflect controls implemented between January to March 2015 and is attached at **Essential Reference Paper ‘B’**

2.0 Report

2.1 Risk management can be defined as:

The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

2.2 Managing threats and opportunities helps to create an environment of “no surprises” and the Authority is in a stronger position to deliver services in accordance with corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.

2.3 The following system of rating applied to the 2014/15 financial year:

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

- 4 **High**-Greater than £280,000 and / or national criticism and / or catastrophic fall in service quality
- 3 **Medium** - £140,000 to £280,000 and / or regional criticism and / or major long term fall in service quality
- 2 **Low** - £50,000 to £140,000 and / or long term local media criticism and / or minor long term or major short term fall in service quality
- 1 **Negligible**- Below £50,000 and / or short term local media criticism and / or short term fall in service quality

Rating the likelihood of occurrence using the following scores

- 4 **Probable**- The event is likely to occur within a year
- 3 **Possible** - The event is likely to occur within, or more than one in three years
- 2 **Unlikely** - The event could occur less frequently than every three years
- 1 **Rare** – The event could occur in exceptional circumstances

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

2.4 The Strategic Risk Register, **Essential Reference Paper ‘B’**, details these, and the controls implemented between January and March 2015.

2.5 All scores remain unchanged.

2.6 The Executive did not receive a health check report for the quarter in question so there are no comments to relay from that meeting.

2.7 All strategic and operational risks can be viewed on the Council's performance management system, Covalent (www.covalentcpm.com/eastherts).

3.0 Implications/Consultations

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

Background Papers

Risk Monitoring Report October to December 2014– Audit Committee 18 March 2015.

Contact Member: Cllr Geoffrey Williamson
Executive Member for Finance and Support
Services
geoffrey.williamson@eastherts.gov.uk

Contact Officer: Simon Drinkwater
Director of Neighbourhood Services
Ext 1405
simon.drinkwater@eastherts.gov.uk

Report Author: Graham Mully
Risk Assurance Officer
Ext 2166
graham.mully@eastherts.gov.uk

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

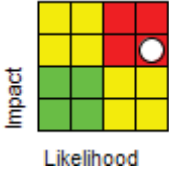
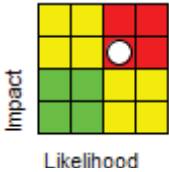
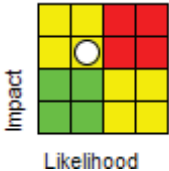
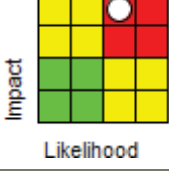
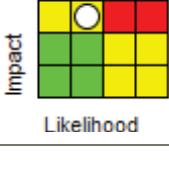
Contribution to the Council's Corporate Priorities/Objectives:	<p>People This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</p> <p>Place This priority focuses on the standard of the built environment and our neighbourhoods and ensuring our towns and villages are safe and clean.</p> <p>Prosperity This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic and social opportunities.</p>
Consultation:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.
Health and wellbeing – issues and impacts:	There are no specific health and wellbeing implications arising directly from this report.

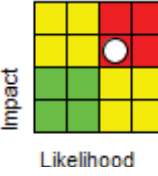
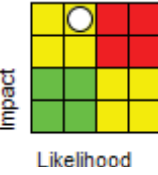
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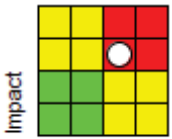
Strategic Risk Register January to March 2015

Essential Reference Paper 'B'

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
14-SR1	Risk of significant reduction in funding above that planned for, in particular localisation of Council Tax Support, localisation of business rates and New Homes Bonus.	There is uncertainty around future funding, both from Government and other areas such as income from commodities markets for recycled materials. There are cost pressures combined with an increased awareness and scrutiny of financial position.		3	3	Adele Taylor	January to March 2015: Finance settlement for 2015/16 and the impact on the budget and Medium Term Financial Plan have now been modelled. A balanced budget was set by Council in February 2015. Significant risk remains for 2016/17 onwards given uncertainty around funding.
14-SR2	Risk of not having capacity / capability and flexibility to continue to deliver service levels over time.	There are challenges around workforce planning to ensure the Council is fit for the future, in terms of workforce skills, capacity and flexibility. Also about being fleet of foot and responsiveness		3	3	George A Robertson	January to March 2015: Recruitment arrangements are in hand for a replacement Chief Executive and interim arrangements have been agreed.
14-SR3	Risk that supplier / contractor or key third sector partner fails or fails to deliver.	A number of key external and internal services are delivered through major contracts, both directly and in consortia. This is both through private sector supply chains and in conjunction with the voluntary and third sector.		3	2	George A Robertson	January to March 2015: The council has robust contract management processes and procedures in place to ensure any concerns are flagged up early.
14-SR4	Risk that investment and effort does not deliver benefits and returns in Shared Services.	Moving more towards shared services with other public sector partners. Potential for lack of consistent political buy-in by all partners resulting in considerable effort without benefit. There is also a challenging skill set for managers due to the complexity.		3	3	Adele Taylor	January to March 2015: Current shared services are delivering expected benefits. Governance arrangements in place to measure performance.

14-SR5a	There is short term uncertainty around government policy and a number of changes required without accompanying resource.	Risk of policy changes by decree which we do not comply with or implement		3	4	Simon Drinkwater	January to March 2015: The Council's ability to respond promptly and efficiently to changes in legislation poses risks for delivery of service. Software changes are not always reliable or easy to implement.
14-SR5b	There is long term uncertainty on overall future government policy and direction, and its impact on local government.	Risk of being unable to long term strategically plan.		3	3	Simon Drinkwater	January to March 2015: The Council has responded well to changes in welfare legislation. The risk remains that future changes to housing benefit and housing rules may be more difficult to manage particularly if they are accompanied by funding reductions. The outcome of the General Election could affect this issue.
14-SR6	HR and Workforce management policies are being brought up to date. These will need to be applied across the Council in a coherent and consistent way.	There could be a lack of consistency and cohesion at senior management levels of applying policies.		3	2	Adele Taylor	January to March 2015: The review and update of policies is continuing with policies being regularly presented for decision at HRC. Appropriate training is being provided for new and existing policies.
14-SR7	Availability and performance of IT systems and resources impacting on service delivery.	Reduced levels of service across the Authority. Targets may not be achieved. Staff morale and reputation of Council may suffer. Influence of ITSG should reduce risks		4	3	Adele Taylor	January to March 2015: The core infrastructure is now more resilient. Roll out of the system is ongoing. Performance is regularly monitored at both Partnership Board and ITSG level. Further infrastructure investment is being made and will further strengthen resilience.
14-SR8	Data Protection: Failure to comply with the data protection principles. The potential disclosure of personal data inappropriately.	Action may be taken by the ICO. Individuals may suffer if their personal data, particularly sensitive personal data is disclosed.		3	2	George A Robertson	January to March 2015: Additional training to further assist staff in application of Data Protection principles to working environment has taken place and is ongoing. Data protection risk assessments were revisited within the service planning process.

14-SR9	Impact of welfare reform changes, specifically Universal Credit.	New legislation will have an adverse financial impact on a significant number of residents. Residents will require more support from services across the Council affecting staffing levels, finances, and a risk of increased aggression. There may also be difficulties in implementing Government policy, with uncertainty on timetable.		3	3	Adele Taylor	January to March 2015: Uncertainty on timetable remains but relevant officers are ensuring that they attend briefings and learning events to prepare for changes as they come in.
14-SR10	Development of an Investment Strategy with sufficient levels of governance and due diligence.	A need to find the optimum position of balancing risk and return and having financial strength to contribute to the local economy. Risk of failing to undertake and implement effective due diligence and governance meaning potential consequences of: Incurring significant costs, Challenge, Qualification of accounts, Scrutiny Publicity, Loss of reputation		4	2	Adele Taylor	January to March 2015: Two property funds have been selected to invest money in and the Council is currently on the waiting list. Investment adheres to updated Treasury Management Strategy. The remainder of the Investment Strategy is currently under review.

<p>14-SR11</p>	<p>Development of a District Plan that is acceptable to the community and the planning inspectorate.</p>	<p>Risk of not being able to agree plan in timeframe meaning: Increased costs, Lack of effective development control, Cannot bid for funding for infrastructure, Lost opportunity, Open to challenge in meantime, Legal / Reputational / political issues</p>	 <p>Impact</p> <p>Likelihood</p>	<p>3</p>	<p>3</p>	<p>Simon Drinkwater</p>	<p>January to March 2015: Progress continues although delays have been identified in relation to two important areas of technical work. Strategic Housing Market Assessment (SHMA) – which will identify and update the housing need for the District – remains to be completed. Consultants undertaking this work are acting on behalf of four authorities. This, and the need to take into account a range of update information provided by the government and other statistical sources, have delayed this work. Strategic transport work is being undertaken by consultants on behalf of Essex and Herts CCs. This impacts on the eastern part of the district and the outputs are required to inform the development strategy. It is not possible to formulate the next stage of the District Plan (pre-submission) prior to the outcome of these and other pieces of work. In the interim there remains a risk that unsustainable development proposals will come forward and there is an inadequately robust framework in place for development management purposes.</p>
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EAST HERTS COUNCIL

AUDIT COMMITTEE – 15 JULY 2015

REPORT BY DIRECTOR OF FINANCE & SUPPORT SERVICES

AUDIT COMMITTEE WORK PROGRAMME 2015/16

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides the Audit Committee work programme for the 2015/16 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 18 March 2015.

2.0 Report

2.1 The Audit Committee work programme for the 2015/2016 civic year is given at **Essential Reference Paper 'B'**.

3.0 Implications/Consultations

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

Background Papers

Audit Committee Work Programme 2014/15 Audit Committee
18 March 2015.

Contact Member: Councillor Will Mortimer
Chairman of Audit Committee
will.mortimer@eastherts.gov.uk

Contact Officer: Adele Taylor
Director of Finance and Support Services
Ext 1406
adele.taylor@eastherts.gov.uk

Report Author: Chris Gibson
Head of Governance and Risk Management
Ext 2073
chris.gibson@eastherts.gov.uk

ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	<p><i>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</i></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>
Consultation:	External Audit and the Shared Internal Audit Service have been fully consulted in the preparation of this work programme.
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 2015/16 Civic Year

Committee Date	Agenda Items
15 July 2015	<ul style="list-style-type: none"> • Training item • External Audit- Audit Plan • Draft Statement of Accounts 2014-2015. • Shared Internal Audit Service Annual Assurance Statement and Annual Report 2014/15. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2014/15 Annual Governance Statement. • Risk Management monitoring report 1 January 2015 to 31 March 2015. • Audit Committee Work Programme.
23 Sept 2015	<ul style="list-style-type: none"> • Training item • External Audit report- Audit Findings Report. • Treasury Management Strategy – 2014/15 Outturn • Treasury Management Strategy- 2015/16 Mid-year Review. • Statement of Accounts 2014/15. • 2014/15 Annual Governance Statement. • Annual Shared Internal Audit Service Board Report 2014/15. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) Position Statement. • Risk Management monitoring report 1 April 2015 to 30 June 2015. • Audit Committee Work Programme.
25 Nov 2015	<ul style="list-style-type: none"> • Training item • External Audit report- 2014/15 Annual Audit Letter. • Council response to 2014/15 Annual Audit Letter. • External Audit report- Planned Audit Fees for 2015/16. • Treasury Management Strategy- 2015/16 Mid-

ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2015/16 Civic Year

	<p>year Review.</p> <ul style="list-style-type: none"> • Update on Implementation of Annual Governance Statement Action Plan. • Risk Management monitoring report 1 July 2015 to 30 September 2015. • Audit Committee Work Programme.
<p>20 Jan 2016</p>	<ul style="list-style-type: none"> • Training item • External Audit- Grants Claim Certification Work 2014/15. • Treasury Management Strategy Statement 2016/17. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Audit Committee Work Programme.
<p>13 April 2016</p>	<ul style="list-style-type: none"> • Training item • External Audit Update report. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) Position Statement. • Internal Audit Plan 2016/17. • Update on Implementation of Annual Governance Statement Action Plan. • Annual Review of Data Quality Strategy. • Risk Management monitoring report 1 October 2015 to 31 December 2015. • Risk Management Strategy. • Audit Committee Work Programme 2016/17 Civic Year.