



Public Document Pack

Jeff Hughes
*Head of Democratic and Legal
Support Services*

MEETING : AUDIT COMMITTEE
VENUE : COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE : WEDNESDAY 25 NOVEMBER 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

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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 - Treasury Management presented by King and Shaxson
2. Apologies

To receive apologies for absence.
3. Minutes (Pages 7 - 14)

To confirm the Minutes of the meeting held on 23 September 2015
4. Chairman's Announcements
5. Declarations of Interest

To receive any Member's Declarations of Interest.
6. Treasury Management Strategy - 2015/16 Mid Year Review (Pages 15 - 34)
7. External Audit report - 2014/15 Annual Audit Letter (Pages 35 - 42)
8. Council Response to 2014/15 Annual Audit Letter (Pages 43 - 48)
9. External Audit - Audit Fees for 2015/16 (Pages 49 - 52)
10. Update on Implementation of Annual Governance Statement Action Plan (Pages 53 - 62)
11. Risk Management Monitoring Report 1 July 2015 to 30 September 2015 (Pages 63 - 72)
12. Audit committee work programme (Pages 73 - 78)
13. Urgent Business

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

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE HELD IN THE
COUNCIL CHAMBER, WALLFIELDS,
HERTFORD ON WEDNESDAY 23
SEPTEMBER 2015, AT 7.00 PM

PRESENT: Councillor W Mortimer (Chairman).
Councillors J Cartwright, I Devonshire,
P Kenealy and S Stainsby.

ALSO PRESENT:

Councillors P Ruffles, M Stevenson and
G Williamson.

OFFICERS IN ATTENDANCE:

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

ALSO IN ATTENDANCE:

Sarah Ironmonger	- Grant Thornton
Nick Jennings	- Shared Anti-Fraud Service
James Kidd	- Shared Anti-Fraud Service
Helen Maneuf	- Shared Internal Audit Service

282 TRAINING ITEM – THE SHARED INTERNAL AUDIT SERVICE (SIAS) AND THE SHARED ANTI-FRAUD SERVICE

Members were provided with a training presentation by the Shared Internal Audit Service (SIAS) and the Shared Anti-Fraud Service (SAFS). The Director of Finance and Support Services and representatives of SIAS and SAFS responded to a number of questions from the Committee in respect of the training.

The Chairman thanked the representatives of SIAS and SAFS for the informative presentation.

RESOLVED – that the presentation be received.

283 APOLOGIES

Apologies for absence were submitted on behalf of Councillors B Deering and P Phillips.

284 MINUTES – 15 JULY 2015

RESOLVED – that the Minutes of the meeting held on 15 July 2015 be confirmed as a correct record and signed by the Chairman.

285 EXTERNAL AUDIT – AUDIT FINDINGS REPORT

The External Auditor submitted a report setting out significant findings arising from the audit for the year ending 31 March 2015. The report also presented the External Auditor's findings to management and those charged with governance in accordance with the requirements of the International Standard on Auditing 260 (UISA UK and I).

The External Auditor advised that the audit was substantially complete subject to the finalisation of their work in areas as detailed in the report. A number of key messages had arisen from the audit, as detailed in the report. Subject to the finalisation of the highlighted areas,

the External Auditor anticipated providing an unqualified opinion on the Council's financial statements.

The External Auditor also anticipated providing an unqualified opinion in respect of the Value for Money (VfM) conclusion. Members were advised of three minor internal control issues as detailed in the report.

Officers in the Council's finance department were thanked for their support in the preparation of this report.

The Director of Finance and Support Services stated that future system capability of the Council's financial system would improve the internal control of the Authority. She assured the Committee that once the contract on the current non-bespoke system expired at the end of 2017, adjustments would be made to ensure the Council's financial system delivered what the Authority needed going forward.

The Committee received the report.

RESOLVED – that the report be received.

286 STATEMENT OF ACCOUNTS 2014/15

The Executive Member for Finance and Support Services submitted a report which set out the background to the 2014/15 Statement of Accounts and detailed the overall financial position on the balance sheet, revenue activities for the General Fund and the Collection Fund. The report summarised changes in reporting requirements from 2013/14 and supporting comments on the key financial statements.

The Director of Finance and Support Services responded to a comment from Councillor I Devonshire regarding the Council's increasing pension liabilities.

The Committee approved the report.

RESOLVED – that (A) the Council's Statement of

Accounts for 2014/15 be approved and that the Chairman of Audit Committee be authorised to sign the Statement at the conclusion of the meeting; and

(B) the Letter of Representation be approved for signature by the Chairman of Audit Committee and the Director of Finance and Support Services.

287 TREASURY MANAGEMENT STRATEGY STATEMENT
2014-15 OUTTURN

The Executive Member for Finance and Support Services submitted a report which reviewed the Council's treasury management activity for 2014/15 and which identified the associated impact on the 2015/16 treasury management strategy.

Members were referred to Essential Reference Paper 'C' for the Prudential and Treasury Indicators as at 31 March 2015. The Committee approved the report.

RESOLVED – that the 2014/15 Treasury management activity and Prudential Indicators be approved.

288 ANNUAL GOVERNANCE STATEMENT 2014/15

The Leader of the Council submitted a report setting out the 2014/15 Annual Governance Statement and the 2015/16 Annual Governance Statement Action Plan as detailed within the supporting Essential Reference Papers.

The Head of Governance and Risk Management reminded Members that the Annual Governance Statement, under the Accounts and Audit Regulations 2011, required Authorities to conduct an annual review of the effectiveness of its system of internal control.

Members were advised that the static part of the Annual Governance Statement was detailed at Essential

Reference Paper 'B' and this document showed tracked changes made to last year's statement. The Annual Governance Statement Action Plan 2015/2016 was detailed at Essential Reference Paper 'C' and identified three issues which would continue to be monitored through Corporate Management Team (CMT) and Audit Committee.

The Committee approved the report.

RESOLVED – that the 2014/15 Annual Governance Statement and 2015/16 Action Plan, as now detailed, be approved.

289 SHARED INTERNAL AUDIT SERVICE – ANNUAL REPORT 2014/15

The Shared Internal Audit Service submitted their annual report on the activity of the Shared Internal Audit Service (SIAS) during the 2014/15 financial year. The SIAS Head of Assurance provided a summary of the highlights that had been achieved.

Members were reminded of the importance of harnessing the power of partnership working and the sharing of learning. The SIAS Head of Assurance referred the Committee to figure 4 in her report for the key observations from the Joint Review of Annual Governance Statements.

The Chairman commented on the importance of organised and disciplined audit work. The Director of Finance and Support Services reminded Members that Audit Plans now covered a 3 year period. The Director advised Councillor J Cartwright that she was a board Member of SIAS in her position as the Council's Section 151 Officer.

The Audit Committee was advised that if any issue arose and there was any concern regarding a conflict of interest in that matter then Members could approach the Council's Monitoring Officer or the Chief Executive.

The Committee received the report.

RESOLVED – that the report be received.

290 SHARED INTERNAL AUDIT SERVICE – AUDIT PLAN UPDATE

The Shared Internal Audit Service submitted a report detailing the progress made in delivering the Council's Annual Audit Plan for 2015/16 and proposed amendments to the approved 2015/16 Audit Plan. Members were also provided with an update on the status of previously agreed high priority audit recommendations and an update on performance management information for the period up to 4 September 2015.

Councillor J Cartwright sought and was given clarification in terms of the definition of the Changing the Way We Work (C3W) programme and the benefits as regards business continuity. The Committee noted the progress made on the information as detailed by Internal Audit and the status of high priority recommendations.

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

(B) the status of high priority recommendations be noted.

291 SHARED ANTI-FRAUD SERVICE (SAFS) POSITION

The Shared Anti-Fraud Service (SAFS) submitted a report in respect of the progress made by the new SAFS since its launch on 1 April 2015. The report updated Members on the progress in respect of a proposed shared fraud strategy, the proposed countywide SAFS publicity campaign and the proposed format of future half-yearly reports.

In response to a query from Councillor J Cartwright regarding governance and funding, the Director of

Finance and Support Services agreed to circulate the original SAFS business case that had been approved by the Executive in December 2014.

The Director stated that the SAFS had been set up in a short space of time and that the initial set up costs had been covered by a grant from the Department of Communities and Local Government (DCLG). She advised that the SAFS would be at the forefront of anti-fraud work and was cutting edge. Members received the report.

RESOLVED – that (A) the Shared Anti-Fraud Service progress report be noted; and

(B) the proposed format for future half-yearly reports be supported.

292 RISK MANAGEMENT MONITORING REPORT 1 APRIL TO 30 JUNE 2015

The Executive Member for Finance and Support Services submitted a report on the actions that had been taken to mitigate and control strategic risks during the period April to June 2015.

The Head of Governance and Risk Management advised that 9 risks had been updated and 4 had been removed from the strategic risk register. 5 new strategic risks had been added and the previous risk register had also been updated.

The Committee approved the report as now detailed.

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

293 WORK PROGRAMME

The Director of Finance and Support Services submitted a report setting out the proposed Audit Committee work programme. The Head of Governance and Risk

Management stated that a revised date of the 16 March 2016 had now been set for the meeting originally scheduled for April 2016.

Members agreed that they would receive future training items in respect of treasury management and the local government pension scheme.

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

The meeting closed at 8.51 pm

Chairman
Date

EAST HERTS COUNCIL

AUDIT COMMITTEE– 25 NOVEMBER 2015

REPORT BY EXECUTIVE MEMBER OF FINANCE

TREASURY MANAGEMENT STRATEGY – 2015/16 MID-YEAR REVIEW

WARD(S) AFFECTED: NONE SPECIFIC

Purpose/Summary of Report

- This report reviews the Council's treasury management activities for the 6 months to 30 September 2015.

RECOMMENDATIONS TO AUDIT COMMITTEE:

That:

(A)	the loan and investment position as at 30 September 2015; and be noted;
(B)	the Prudential Indicator position as at 30 September 2015 be noted and that no changes to Prudential Indicators are proposed. (paragraph 2.8 and Essential Reference Paper "D")
(C)	the changes on credit rating methodology(paragraph 2.9) be noted.

1.0 Background

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (the Code) recommends that Members be updated on treasury management activities regularly through the Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and mid and year end reports. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2 The Council operates a balanced budget, which broadly means cash

raised during the year will meet its cash expenditure. Part of the treasury management operation ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

- 1.3 The second main function of the treasury management function is to facilitate the funding of the Council's capital programme. The capital programme provides a guide to the borrowing need of the Council, essentially longer term cash flow planning to ensure the Council can meet its capital spending agreements. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and, on occasions, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.4 Accordingly, treasury management is defined by the Code as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.5 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).
- 1.6 This mid-year report has been prepared in compliance with the Code, and covers the following:
 - A brief economic update for the first part of the 2015/16 financial year;
 - A review of the Council's Treasury Management and Annual Investment Strategy;
 - A review of the Council's capital expenditure (Prudential Indicators);
 - A review of the Council's investment portfolio for 2015/16;
 - A review of the Council's borrowing strategy;
 - A review of any debt rescheduling undertaken during 2015/16;
 - A review of compliance with Treasury and Prudential Limits for 2015/16.
- 1.7 The Council is supported in its treasury management activities by independent advisers – Capita Asset Services.

2.0 Report

2.1 Economic Update

2.1.1 An economic update has been provided by our independent advisors and is included in **Essential Reference Paper 'B'**. A summary of the impact on the Council is included in the following paragraphs.

2.1.2 The UK economy continues to grow and is expected to do so over the short to medium term however there are significant risks to the pace of this growth being achieved. The growth in the UK economy will be affected by the economic performance of other leading economies including the USA, China, Japan and the Eurozone. Should the UK exit the Eurozone following the referendum in 2017 the economic impact is unclear.

2.1.3 Interest rate forecasts are set out in **Essential Reference paper 'C'** although the earliest rate rise is not expected until the second quarter of 2016 at the earliest.

2.1.4 The impact on the Council of the economic forecast and interest rates predictions is discussed below.

2.2 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 18 February 2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

2.2.1 Investment rates available in the market have been broadly stable during the first half of the year and have continued at historically low levels as a result of the ultra-low Bank rate. The average level of funds available for investment purposes during the half year ending 30 September 2015 was £76m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital

Programme.

- 2.2.2 The investment portfolio continues to maintain a relatively high degree of liquidity with the least liquid investments (in-house term deposits) generally rolled over for periods of 1 year.
- 2.2.3 Officers can confirm that the approved limit for NatWest Bank, a total of £20m, within the Annual Investment Strategy was breached on 6 occasions for a total of 17 days during the half year ended 30 September 2015. This was due to a limited number of available counterparties offering call facilities and the requirement to keep funds in excess of £20m on call to fund the Old River Lane purchase.
- 2.2.4 Direct deposit and call facility arrangements have now been set up with a number of additional approved counterparties, including UK building societies. This will significantly reduce, if not eliminate, the number of days exceeding the maximum limit for NatWest.
- 2.2.5 In the current economic climate it is a very challenging investment market in terms of earning the level of interest commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The table below illustrates that the Council outperformed the benchmark by 93 basis points (bps). The Council's budgeted investment return for 2015/16 is £867k, and performance for the year to date is £167k below budget, even though investment returns were above the national benchmarks. This is due to a delay in property fund investments being placed and the purchase of Old River Lane resulting in a reduction in the level of balances available to invest. Any variance will be met from the Interest Equalisation Reserve, as agreed by Council, at year end. The balance on the reserve is £1.503m as at 31 March 2015.

Investment performance for the financial year to date as at 30 September 2015

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned £
7 day	0.36%	0.38%	37,315
1 Month	0.38%	0.43%	17,247

3 Month	0.45%	0.59%	22,617
6 Month	0.60%	0.70%	20,085
12 Month	0.90%	1.52%	113,075

Note: The above table does not include Investec or property fund investments.

2.3 Investec Asset Management

2.3.1 In May 2015 the following statement was received from Investec Asset Management:

“As a growing global business, Investec Asset Management (IAM) is constantly reviewing the services it provides to its clients, together with its efficiency at providing those services. IAM’s core business is investment management but historically the firm offered a wider range of services including the provision of custody. Further to changes to the UK Financial Conduct Authority’s rules around how custody services must be operated which are highly technical in nature, relating amongst other things to reporting, record-keeping and reconciliations, we have made the strategic decision to exit the custody markets from the end of June 2015.”

2.3.2 Following this announcement of their withdrawal from the market funds totalling £22m were drawn down on maturity, with the final balance received on 30 June 2015.

2.4 Property Funds

2.4.1 After the procurement of external advice, an amendment to the TMSS and AIS 2014/15 was agreed at Council on 30 July 2014 to include the use of Property Fund Investments. Investment in Property Funds is limited to an initial investment of £20m in a maximum of two funds at any one time. There are large entry and exit fees associated with Property Fund investments, which cover costs such as stamp duty land tax, so these are typically viewed as long term investments over a term of 5 years or more.

2.4.2 There are long waiting lists for entry into these funds with the first opportunity not arising until June of this year. £10m was placed with Lothbury Property Trust on 4 June 2015, which purchased units with a value after fees of £9.5m. These units have grown in value at an average rate of £90k (0.90%) per calendar month. If this rate of growth continues at the same level the units should

start to exceed their original investment value in December 2015. Please note unit values can fall as well as rise.

2.4.3 In addition to the capital gain the units are producing average quarterly interest/rental returns of £80k. This equates to a return on investment of 3.20%.

2.5 Old River Lane

2.5.1 Purchase of the Old River Lane site in Bishop's Stortford, completed on 13 October 2015. It was treated as an investment decision, representing good value for money in delivering a return on investment in excess of 5% from rental income.

2.5.2 This increase in our investment property portfolio has reduced investment balances by £22m which will impact on the investment interest received.

2.5.3 The full report on the Bishop's Quarter site purchase will be presented to the Executive on 1 December 2015.

2.6 New Borrowing

2.6.1 As outlined below, the general trend in Public Works Loan Board (PWLB) rates has been an increase in interest rates during the first quarter but then a fall during the second quarter. The 50 year PWLB target (certainty) rate for new long term borrowing, for the quarter ending 30 September 2015, fell slightly from 3.60% to 3.40% after the August Bank of England Inflation report.

PWLB certainty rates for the financial year to 30 September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%

- 2.6.2 No borrowing was undertaken during the half year ended 30 September 2015. It is anticipated that borrowing will not be undertaken during this financial year.
- 2.6.3 This Council has not borrowed in advance of need during the half year which ended on 30 September 2015 and has not borrowed in advance at all during the 2015/16 financial year.

2.7 Debt Rescheduling

- 2.7.1 Debt rescheduling opportunities have been limited in the current economic climate and, following the increase in the margin added to gilt yields, PWLB new borrowing rates have been impacted since October 2010. No debt rescheduling was undertaken during the half year which ended on 30 September 2015.

2.8 Compliance with Treasury and Prudential Limits

- 2.8.1 The Council has a statutory duty to determine and keep under review its affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 2.8.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in **Essential Reference Paper 'D'**.
- 2.8.3 Capital programme budgets and forecast outturn form part of the monthly Healthcheck report. The Council resolved to fund the capital programme internally rather than from external borrowing. Given the current economic climate it is not proposed that this approach be changed.
- 2.8.4 The capital outturn presented in the September Healthcheck report shows that the forecast capital outturn will be £165k less than budget. There is, therefore, no risk that the 2015/16 capital programme will become unaffordable to the Council.
- 2.8.5 There has been no change to the Council's outstanding loans and therefore there is no risk that any of the prudential indicators

relating to borrowing will be breached or require reconsideration this financial year.

2.9 Changes in credit rating methodology

- 2.9.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by the regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies.
- 2.9.2 In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
- 2.9.3 In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely upon the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay, have not been changed.
- 2.9.4 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where, through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this Authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA This is in relation to the fact that the underlying domestic and, where appropriate, international,

economic and wider political and social background will still have an influence on the ratings of a financial institution.

2.9.5 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, and are merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate.

2.9.6 While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. The banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

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’**.

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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:	Not Applicable
Legal:	<p>The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.</p> <p>The report fulfils the following legislative requirements:</p> <ul style="list-style-type: none">• Reporting of prudential Indicators in line with the requirements of the CIPFA Code of Practice.• Reporting to those charged with governance a mid-year treasury management report.
Financial:	Within the body of the report.
Human Resource:	Not Applicable.

Risk Management:	Within the body of the report.
Health and wellbeing – issues and impacts:	Not Applicable.

Capita Asset Services Economic Update

- 1.0 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% year-on-year (y/y)) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y).
- 1.1 Growth is expected to weaken marginally to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May budget. However, the Purchasing Manager's Index (PMI) for services issued on 5 October 2015 would indicate an even lower growth rate of around +0.3% in quarter 4 which would be the lowest growth rate since the end of 2012.
- 1.2 Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4% – 2.8% over the next three years. This has been driven mainly by strong consumer demand as the squeeze on consumers' disposable incomes has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. Since then, worldwide economic statistics have been distinctly weak so it would not be a surprise if the next Inflation Report in November were to cut those forecasts.
- 1.3 The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction, and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come,

especially as world commodity prices have generally been depressed by the Chinese economic downturn.

- 1.4 There are, therefore, considerable risks around whether inflation will rise in the near future as strongly as previously expected. This will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far. All of which could potentially spill over to impact the real economies rather than just financial markets.
- 1.5 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth, and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start.
- 1.6 The nonfarm payrolls figures for September and revised August, issued on 2nd October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 to 2016. However, there are increasing concerns, both in the US and UK, that the growth rates currently being achieved are only being achieved with monetary policy being highly aggressive with central rates at near zero and huge quantitative easing in place. This is causing an increasing debate as to how realistic it will be for central banks to start reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases such that inflation is likely to get back to around 2% within a 2-3 year time horizon.

- 1.7 In the Eurozone (EZ), the European Central Bank (ECB) fired its “big bazooka” in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and in starting to see a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its quantitative easing programme if it is to succeed in significantly improving EZ growth and getting inflation up from the current level of around zero to its target of 2%.

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Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

* Public Works Loan Board (PWLB)

Capita Asset Services undertook a review of its interest rate forecasts on 11 August after the August Bank of England Inflation Report. This latest forecast includes no change in the timing of the first increase in Bank Rate as being quarter 2 of 2016.

With CPI inflation now likely to be at or near zero for most of 2015, it is difficult for the Bank of England Monetary Policy Committee (MPC) to start increasing the Bank Rate when the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon.

Despite average weekly earnings ticking up to 2.9% year-on year (y/y) in the three months ending in July, (as announced in mid-September), this is unlikely to provide ammunition for the MPC to take action to raise the Bank Rate soon as labour productivity growth meant that net labour unit costs are still only rising by about 1% y/y. The significant appreciation of Sterling against the Euro in 2015 has also acted as a dampening to UK growth while sharp volatility in financial markets since the Inflation Report has depressed equity prices, raised bond prices and lowered bond yields (and PWLB rates).

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

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Prudential and Treasury Indicators as at 30th September 2015

Treasury Indicators	2015/16 Budget £'000	Half Year Ended 30 th Sept 2015 Actual £'000
Authorised limit for external debt	17,600	Not Exceeded
Operational boundary for external debt	11,600	Not Exceeded
Gross external debt	8,490	8,490
Investments	70,029	77,546
Net borrowing	(61,539)	(69,056)
Maturity structure of fixed rate borrowing - upper and lower limits:		
Under 12 months	Nil	Nil
12 months to 2 years	Nil	Nil
2 years to 5 years	6,000	6,000
5 years to 10 years	Nil	Nil
10 years to 20 years	Nil	Nil
20 years to 30 years	Nil	Nil
30 years to 40 years	1,500	1,500
40 years to 50 years	Nil	Nil
Upper limit of fixed interest rates based on net:		
• Borrowing	100%	100%
• Investments	98%	59%
Upper limit of variable interest rates based on net:		
• Borrowing	50%	0%
• Investments	95%	41%
Upper limit for principal sums invested over 364 days	60,000	10,000

Prudential Indicators	2015/16 Budget £'000	Half Year Ended 30 th Sept 2015 Actual £'000
Capital expenditure	2,719	1,138
Capital Financing Requirement (CFR)	(41,799)	(41,799)
Annual change in CFR	565	Nil
In year borrowing requirement	565	Nil
Ratio of financing costs to net revenue stream	4.27%	4.27%
Incremental impact of capital investment decisions:-		
a) Increase in council tax (band change) per annum.	£0.65	£0.65

The Annual Audit Letter for East Hertfordshire District Council

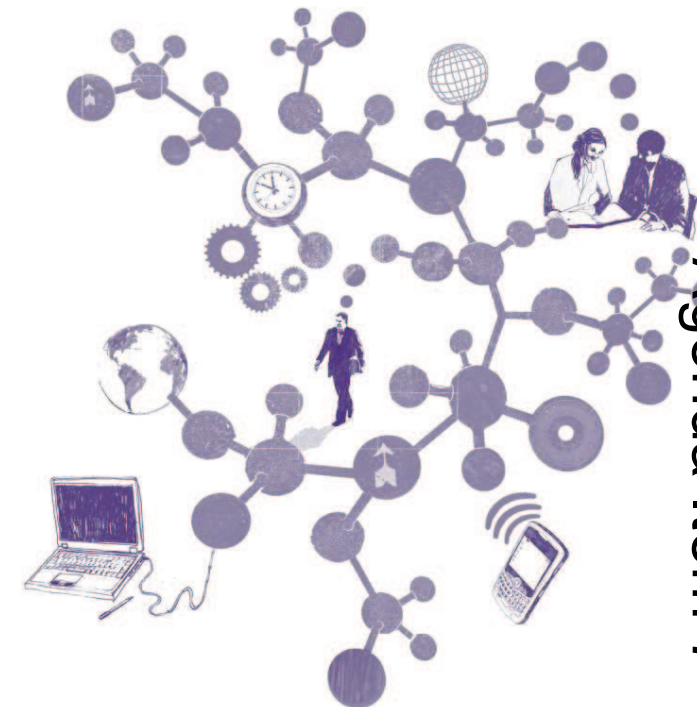
Year ended 31 March 2015

October 2015

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Agenda Item 7

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Appendices

A Key issues and recommendations

B Summary of reports and audit fees

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at East Hertfordshire District Council for the year ended 31 March 2015.

The Letter is intended to communicate key messages to you and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee on 15 July 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<p>Financial statements audit (including audit opinion)</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2015 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"> • we did not identify any adjustments affecting your reported financial position, and your recorded net expenditure remains unchanged at £18.9 million • we identified a number of adjustments to improve the presentation of the financial statements. • your information system capability caused difficulties during the audit, in particular: <ul style="list-style-type: none"> • providing a detailed listing of debtor and creditor amounts that remained outstanding at the balance sheet date was problematic; • producing support for your asset management figures was difficult • comparison of your carrying value to fair value for property assets identified a significant variance. <p>We issued an unqualified opinion on your 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of your financial position and of the income and expenditure recorded by you.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2015.</p>

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Key messages continued

Certification of housing benefit grant claim	Our work to certify your 2014/15 housing benefit grant claim is on-going.
Audit fee	Our fee for 2014/15 was £69,775, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Your Property, Plant and Equipment asset system needs improvement. The issues identified during the audit were:</p> <ul style="list-style-type: none"> • £633k of equipment assets were in use but the invoices supporting the carrying value were no longer available • £85k of equipment assets were no longer in use and should be written off • Asset lives recorded in the system differed from those used in the valuer's report • Depreciation was incorrectly applied before the revaluation of 1 April 2014. <p>Recommendation: As noted in your Annual Governance Statement action plan, you should review your asset management system.</p>	Medium	<p>Officers are reviewing the asset management system in line with the deadline commitment in the Annual Governance Statement.</p> <p>Responsible office: Director of Finance and Support Services Due date: 31 March 2016</p>
2.	<p>One Accountancy team member has the ability to both initiate and then self-authorise purchase orders. There is a risk that fictitious purchase orders could be raised. We have reviewed all purchase orders made by this person and did not identify any untoward purchase orders raised.</p> <p>Recommendation: You should consider amending the access rights to prevent purchase orders being initiated and authorised by the same person.</p>	Low	<p>Officers will review this recommendation and evaluate whether there are sufficient controls in place to mitigate risks identified as the IT system is not able to restrict access rights in this regard.</p> <p>Responsible office: Director of Finance and Support Services Due date: 31 March 2016</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>Your Principal Accountants can self-authorise journals and 28 journals were self-authorised during the year. There is a risk that journals which are posted and authorised by the same person may contain errors. Our review of all 28 self-authorised journals did not identify any indication of fraud or error.</p> <p>Recommendation: You should establish controls that reduce the number and significance of journals which are self-authorised.</p>	Low	<p>Officers will review processes to ensure that self-authorised journals are minimised.</p> <p>Responsible office: Director of Finance and Support Services Due date: 31 March 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	69,775	69,775
Housing benefit grant certification fee	7,940	Tbc
Total audit fees	77,715	tbc

Fees for other services

Service	Fees £
Non-audit related services	Nil

Our grant certification audit is on-going and the actual fees will be confirmed on completion.

Reports issued

Report	Date issued
Audit Plan	15 July 2015
Audit Findings Report	23 September 2015
Certification Report	Due January 2016
Annual Audit Letter	October 2015



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EAST HERTS COUNCIL

AUDIT COMMITTEE – 25 NOVEMBER 2015

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

THE COUNCIL'S RESPONSE TO THE ANNUAL AUDIT LETTER

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report sets out the proposed response from the Council to the issues and recommendations raised in the Annual Audit Letter 2014/15.

RECOMMENDATIONS FOR AUDIT COMMITTEE:

That:

(A)	the response to the Annual Audit Letter be agreed.
------------	---

1.0 Background

- 1.1 All Councils are subject to independent, external review by an external auditor with the final conclusions and recommendations being presented to the Council in the Annual Audit Letter (AAL).
- 1.2 The AAL for the financial year 2014/15, (set out on agenda item 7 – Annual Audit Letter), summarises the key findings arising from the external audit along with proposed responses from the Council to these.
- 1.3 The AAL will be published on the council's website in order to comply with the publication requirements contained within the Accounts and Audit Regulations 2015.

2 Report

- 2.1 The AAL summarises the key issues and recommendations arising from the work undertaken by Grant Thornton UK LLP for the year ended 2014/15.

- 2.2 The letter follows on from the Audit Findings Report submitted to the Audit Committee on 23 September 2015.
- 2.3 The AAL confirms that the council received an unqualified opinion on both its financial statements for the year ended 2014/15 and for the value for money conclusion on 30 September 2015.
- 2.4 No issues have been raised in the AAL that were not raised in the Audit Findings Report. The three recommendations made by the external auditor are for the Council to:
1. Review the asset management system.
 2. Consider preventing access rights to prevent the same individual initiating and authorising purchase orders.
 3. Consider how the volume and significance of self-authorized journals may be reduced.
- 2.5 The suggested response from the Council to these recommendations is shown in the AAL and a brief commentary on each is given in the following paragraphs.
- 3 Asset management system review
- 3.1 The audit identified a number of issues related to the accuracy of records held in the Property, Plant and Equipment asset system.
- 3.2 The Annual Governance Statement action plan for 2015/16 includes a commitment to review the asset management system. This work is currently being progressed by the Head of Strategic Finance and the Business and Knowledge Systems Manager with a proposal to be submitted to the corporate management team (CMT) by December 2015.
- 4 Purchase order controls
- 4.1 One member of the accountancy team is able to both initiate and authorise purchase orders. Segregating these duties is a mechanism to reduce the opportunity for fraud to occur, for example, should fictitious purchase orders be raised.
- 4.2 The current finance system is not able to restrict this individual from authorising purchase orders that they have raised. The auditors were satisfied that no untoward purchase orders had been raised. The Head of Strategic Finance will review whether sufficient controls are in place to mitigate this risk.

5 Journal self-authorisation

5.1 The Accountancy Manager and Principal Accountants have the capability to self-authorise journal transactions. This occurred on 28 occasions during 2014/15. A process review has been undertaken by officers and these transactions have been minimised during 2015/16. A full audit trail of the creation and authorisation of journal transactions is maintained within the finance system.

6 Implications/Consultations

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

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geoffrey.williamson@eastherts.gov.uk

Contact Officer: Adele Taylor, Director of Finance and Support Services, Extn: 1401. adele.taylor@eastherts.gov.uk

Report Author: Philip Gregory, Head of Strategic Finance, Extn: 2050. philip.gregory@eastherts.gov.uk

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ESSENTIAL REFERENCE PAPER 'A'

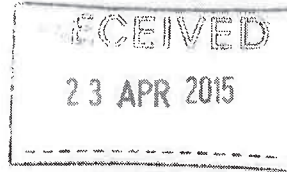
IMPLICATIONS/CONSULTATIONS

<p>Contribution to the Council's Corporate Priorities/ Objectives (delete as appropriate):</p>	<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>
<p>Consultation:</p>	<p>An advertisement was placed in the Herts & Essex Observer, Hertfordshire Mercury and Royston Crow newspapers on 9th July stating that the accounts were open for public inspection during a four week period from 27th July.</p> <p>Consultation has also taken place between officers and External Audit staff throughout the audit.</p>
<p>Legal:</p>	<p>No specific implications arise from this report.</p>
<p>Financial:</p>	<p>There are no direct financial implications arising from the report.</p>
<p>Human Resource:</p>	<p>No specific implications arise from this report</p>
<p>Risk Management:</p>	<p>These are addressed in the report.</p>
<p>Health and wellbeing – issues and impacts:</p>	<p>No specific implications arise from this report.</p>

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George Robertson
Chief Executive
East Hertfordshire District Council
Wallfields
Pegs Lane
Hertford
SG13 8EQ

20 April 2015

Ref: EHDC/Annual Audit Fee

Direct line: 07881 518875

Email: mwest@uk.ey.com

Dear Mr Robertson

East Hertfordshire District Council

Annual Audit and Certification Fees 2015-16

I am writing further to the letter Karl Havers and I sent to you dated 27 January 2015 introducing ourselves as the Council's external auditors from 1 April 2015. We are pleased to be appointed as your auditors and look forward to working with you. We would like the opportunity to meet you before we start planning for the 2015-16 audit in the autumn.

Please let me know when it would be convenient to meet with you. I have copied Helen Pace in to this letter. She manages my diary and can contact the relevant person at the Council to arrange an introductory meeting.

We are required to send the Council a planning letter outlining our proposed work programme for the audit and certification work that we propose to undertake for 2015-16 and the planned fees.

Our 2015-16 audit is the first we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The audit fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015-16 audits.

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts

For 2015-16 the Audit Commission has set a scale fee for each audited body following a tendering of contracts in March 2014. As a result of the tendering exercise fees have reduced by 25%. Consequently

scale fees are not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015-16 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards
- ▶ The financial statements will be available to us in line with the agreed timetable
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable
- ▶ Prompt responses are provided to our draft reports

Meeting these assumptions will help ensure the delivery of our audit at the planned audit fee which is set out in the table below.

We have set the Council's planned fee at the scale fee level which assumes the overall level of audit risk is not significantly different from that of prior years. We will review the fee position later in the year after your current appointed auditor has completed your audit for 2014-15 and we have carried out some initial audit planning for 2015-16.

Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on the actual 2013-14 benefit certification fee and incorporating a 25% reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015-16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after your current appointed auditor completes 2014-15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2015-16
Total Code audit fee	£52,331
Certification audit fee	£8,316

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.



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Billing

The planned audit and certification fees will be billed in 4 quarterly instalments of £15,161.75 from July 2015.

Audit plan

We aim to issue our 2015-16 audit plan early in 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

We will introduce you to the audit team later this year. Set out below are my and Helen Pace's contact details.

Mick West

Director

mwest@uk.ey.com

Tel: 07881 518875

Helen Pace

Executive Assistant

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Tel: 01223 394590

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully

Mick West

Director

For and on behalf of Ernst & Young LLP

cc. Adele Taylor, Director of Finance

Councillor J Ranger, Chairman of the Audit Committee

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 25 NOVEMBER 2015

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

UPDATE ON IMPLEMENTATION OF 2015/2016 ANNUAL
GOVERNANCE STATEMENT ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The 2014/15 Annual Governance Statement includes three measures to enhance East Herts Council's internal control framework during 2015/16. The Audit Committee is requested to consider the content of **Essential Reference Paper 'B'** that provides details of proposed actions that need to take place prior to confirmation being given that adequate and effective controls are fully in place.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>	
That:	
(A)	the Committee reviews the progress made against implementing the action plan contained in the 2014/15 Annual Governance Statement and advises of any concerns; and
(B)	the SMART targets attached to actions be approved.

1.0 Background

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

2.0 Report

- 2.1 For the purposes of the Annual Governance Statement, internal control is being interpreted in its broadest sense covering both financial and managerial controls that ensure that the implementation of East Herts Council's vision and priorities is being managed effectively.
- 2.2 Position statements are reflected in **Essential Reference Paper 'B'** following consultation with key responsible officers. The position statement contains a traffic light system whereby:
- "Green" indicates that the planned action has been achieved,
 - "Amber" indicates that satisfactory progress is being made towards achieving the planned action, and
 - "Red" is where a planned action has not been achieved or that progress is unsatisfactory.
- 2.3 The Annual Governance Statement Action Plan was approved by the Audit Committee on 23 September 2015. Officers have subsequently expanded on the details and further broken down each action such that each action is now SMART, as requested by Members. To date, this has not been possible against the Welfare Reform action as no clear time lines are yet known.
- 2.4 This is the first position statement report since approval of the Annual Governance Statement. Current positions have been reflected and a RAG status is shown against each action. The report was also considered by Corporate Management Team on 10 November 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

Annual Governance Statement 2014/ 2015 – Audit Committee 23 September 2015.

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Director of Finance and Support Services
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Report Author: Chris Gibson
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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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Required enhancements to internal control arrangements:

Issue	Resp. Off.	Initial Target Dates	Actions needed to achieve milestone	Current position	RAG Status
Asset Management Plan	CMT	December 2015 for draft plan to CMT, with submission to Executive by March 2016.	<ul style="list-style-type: none"> Review strategy for each asset held by the Council to provide an outcome for each one. 	<ul style="list-style-type: none"> Action by Strategic Finance has commenced. 	AMBER
			<ul style="list-style-type: none"> Review Asset Management Plan in line with RICS guidance. 	<ul style="list-style-type: none"> Action by Strategic Finance has commenced. 	AMBER
			<ul style="list-style-type: none"> Assess the requirements of an Asset Management IT system and begin procurement. 	<ul style="list-style-type: none"> Action by Strategic Finance has commenced. 	AMBER
Impact of Welfare Reform changes	CMT	April 2016 is the likely start date for	<ul style="list-style-type: none"> Impending Legislation will have an adverse financial impact on a significant number of residents. 	<ul style="list-style-type: none"> Unable to put SMART targets in place until it is clear when and how this is going to impact. The 	AMBER

		legislation to take effect.	<ul style="list-style-type: none"> • Provide residents more support for services across the Council to staffing levels, manage the budget and the public expectations. • Implement Council policies effectively. 	Impact of Welfare Reform changes is recognised as a specific Strategic Risk. Revenues & Benefits have this area under constant review. Further information may become available following the Autumn Statement by the Chancellor.	
Development of a District Plan that is approved by the planning inspectorate.	CMT	<p>March 2016</p> <p>October 2016</p>	<ul style="list-style-type: none"> • Pre-submission document agreed for consultation. • Submission document agreed and submitted to PINS. 	<ul style="list-style-type: none"> • Action by Planning & Building Control has commenced. • The ability to advance this action is dependent on a number of factors including: the level of response to consultation and the issues raised; the resolution of outstanding infrastructure concerns; and ongoing discussions under the Duty-to- 	<p>AMBER</p> <p>AMBER</p>

		February 2017	<ul style="list-style-type: none"> • Examination of Plan. 	<p>Cooperate. Risks to the timeline will be minimised through ongoing work with stakeholders and DCLG/PINS.</p> <ul style="list-style-type: none"> • Examination of the Plan will commence in accordance with a timeline issued by PINS. More detailed assessment of the risks at this stage will be possible following the release of the submission version of the Plan. Action would be taken, as appropriate, to reduce any identified risks. 	AMBER
		May 2017	<ul style="list-style-type: none"> • Adoption of District Plan 	<ul style="list-style-type: none"> • Adoption of the District Plan will be dependent on the outcome of the Examination. More detailed assessment of 	AMBER

				<p>the risks at this stage will be possible following the release of the submission version of the Plan. Action would be taken, as appropriate, to reduce any identified risks.</p>	
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EAST HERTS COUNCIL

AUDIT COMMITTEE – 25 NOVEMBER 2015

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

RISK MANAGEMENT MONITORING REPORT (JULY TO SEPTEMBER 2015)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report relates to action taken to mitigate and control strategic risks in the period July to September 2015.

<u>RECOMMENDATION FOR AUDIT COMMITTEE:</u>	
That:	
(A)	the action taken to mitigate and control strategic risks be approved.

1.0 Background

The Strategic Risk Register was last considered by Audit Committee on 23 September 2015. (Period April to June 2015). The register has been updated to reflect controls implemented between July and September 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 system of rating listed below applies to the 2015/16 financial year.

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

- 4 **High** - Greater than £300,000 and / or national criticism and / or catastrophic fall in service quality
- 3 **Medium** - £150,000 to £300,000 and / or regional criticism and / or major long term fall in service quality
- 2 **Low** - £50,000 to £150,000 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 Controls implemented in the period July to September 2015 have been recorded. Scores remain unchanged. Please refer to **Essential Reference Paper B** for more information.
- 2.5 One new risk was introduced with effect from July 2015; 'safeguarding adults'. Please see SR15.
- 2.6 This information will be presented to the Executive on 1 December 2015, so no comments from the Executive are available in advance of this Audit Committee meeting.

- 2.7 A further new risk has been introduced concerning Old River Lane, Bishop's Stortford. Given that the Council completed the acquisition in October 2015, the risk will feature in the register for the period October to December 2015 and reported at Audit Committee in March 2016.
- 2.8 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 April to July 2015 – Audit Committee 23 September 2015.

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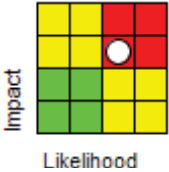
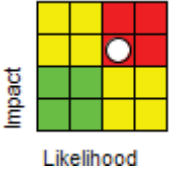
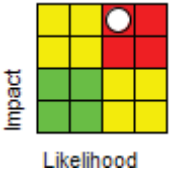
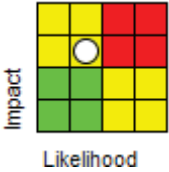
ESSENTIAL REFERENCE PAPER 'A'

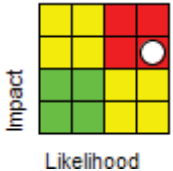
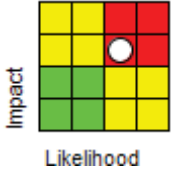
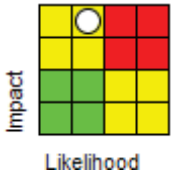
IMPLICATIONS/CONSULTATIONS

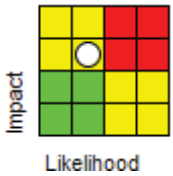
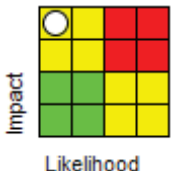
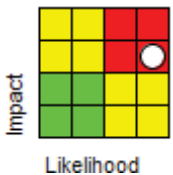
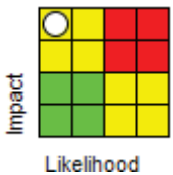
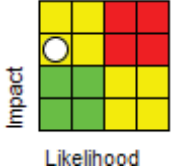
Contribution to the Council's Corporate Priorities/ Objectives:	<p>People This priority focuses on enhancing the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</p> <p>Place This priority focuses on the standard of the built environment 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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Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
15-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	4	Adele Taylor	July to September 2015: Medium Term financial plan has been refreshed with the most up to date information that we have. A new finance and business planning process has been put into place which will identify options for Members to consider should funding be reduced further than that planned for. Uncertainty will remain until announcements in December from Treasury.
15-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	Adele Taylor	July to September 2015: Organisational Development Strategy has been consulted upon widely. It has been considered and approved by CMT in September.
15-SR3	Risk that supplier / contractor or key third sector partner fails or fails to deliver.	A number of key 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	Simon Drinkwater	July to September 2015: The level of risk remains unchanged. Key services continue to be delivered by contractors and partners. Effective monitoring and contract management is in place. These mechanisms are essential to mitigate the risks combined with effective procurement and a clear understanding of the relevant market place.

Page 70 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	July to September 2015: Current shared services performing well. New Shared Anti-Fraud Service formally launched in June and first board meeting held in September.
15-SR5	There is 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	3	Simon Drinkwater	July to September 2015: Pressures continue relating particularly to the budget in the form of the financial settlement from the government and the impact of the next round of welfare reform. Housing Benefits and Housing Options are likely to be most affected, but there will also be issues for Members and other services. Affordability for tenants will be a significant challenge.
15-SR6	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	July to September 2015: Performance monitored through Information Technology Steering Group. Continuing investment into networking is providing greater reliability of systems.
15-SR7	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	Adele Taylor	July to September 2015: One Data Protection breach managed, non-reportable to the Information Commissioner's Office. Council continues to progress through the on-line Data Protection modular training. Next quarter will include service revision to Data protection risk assessments within the Service Planning process.

15-SR8	Impact of welfare reform changes.	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	4	Adele Taylor	July to September 2015: Following announcements in the Chancellor's budget statement on 8th July, further details is still awaited to assess what impact there may be for East Herts residents. Initial meeting between key internal officers has been held to ensure that we can identify and interim measures to ensure that we are prepared to respond proactively and swiftly once more detailed information is known about who will be affected.
15-SR9	Development of a District Plan that is acceptable to the community and the planning inspectorate.	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		3	3	Simon Drinkwater	July to September 2015: Key parts of the evidence base are being reported to the District Plan Panel in preparation for the publication of the next stage of the draft plan.
15-SR10	Bishop's Stortford - significant development proposals - ensure good quality development securing all necessary infrastructure	Poor environment, loss of development opportunity, reputational risk		4	2	Simon Drinkwater	July to September 2015: Work is continuing with partners to ensure a high quality development with the appropriate infrastructure.

<p>Page 72 SR11</p>	<p>Health and safety compliance across the Authority.</p>	<p>Non-compliance with statutory responsibilities may lead to accidents, more staff absence and potentially insurance claims.</p>		<p>3</p>	<p>2</p>	<p>Adele Taylor</p>	<p>July to September 2015: Safety Committee meets regularly to consider compliance issues as well as any incidents to ensure any necessary improvements are identified. Audit programme commenced of highest risk services / contractors. Regular briefing reports to be provided to Leader and Portfolio Holder. Briefing for Executive Members recently conducted and guidance drafted for all Members.</p>
<p>15-SR12</p>	<p>Business Continuity Planning.</p>	<p>Failure to update the Business Continuity Plan may prevent the Council from providing critical services in the event of an incident.</p>		<p>4</p>	<p>1</p>	<p>Adele Taylor</p>	<p>July to September 2015: Significant work being undertaken to update Business Continuity Plan. Further work during next quarter and a plan being put together to run a test of our arrangements.</p>
<p>15-SR13</p>	<p>Failure of services to develop digital service offer and channel shift targets in line with Customer Service Strategy</p>	<p>Step change to digital basis for service delivery will not be made within the window of invest opportunity in the next 2-3 years</p>		<p>3</p>	<p>4</p>	<p>Adele Taylor</p>	<p>July to September 2015: Consideration of channel shift through implementation of customer service strategy is being included as part of Finance and Business Planning process. The results of this will be considered during the next quarter.</p>
<p>15-SR14</p>	<p>Compliance with the Childrens Act 2004.</p>	<p>Whilst the Council's self-assessment obtained ratings of at least 'adequate' there is a commitment to improve and thereby ensure the safety of children and vulnerable adults.</p>		<p>4</p>	<p>1</p>	<p>Simon Drinkwater</p>	<p>July to September 2015: The action plan is being implemented. Further training for staff is being provided. Additional work is required to deal with safeguarding adults.</p>
<p>15-SR15</p>	<p>Safeguarding adults.</p>	<p>Maintain and develop interagency relationships, Council policy and training.</p>		<p>3</p>	<p>1</p>	<p>Simon Drinkwater</p>	<p>July to September 2015: Received presentation from chair of Hertfordshire Safeguarding Board. Key individuals are being identified for further training.</p>

EAST HERTS COUNCIL

AUDIT COMMITTEE – 25 NOVEMBER 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.

RECOMMENDATION FOR AUDIT COMMITTEE:

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'**.

2.2 A revised date

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.

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Report Author: Chris Gibson
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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	<i>People – Fair and accessible services for those that use them and opportunities for everyone to contribute</i> This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable.
Consultation:	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. • Statement of Accounts 2014/15. • 2014/15 Annual Governance Statement. • Treasury Management Strategy – 2014/15 Outturn • 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-year Review. • Update on Implementation of Annual Governance

ESSENTIAL REFERENCE PAPER 'B'

Audit Committee Work Programme 2015/16 Civic Year

	<p>Statement Action Plan.</p> <ul style="list-style-type: none"> • 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>16 March 2016 (revised date)</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.