East Herts Council

Kevin Williams
Interim Head of Legal and
Democratic Services

MEETING **:** AUDIT AND GOVERNANCE COMMITTEE
VENUE **:** COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE **:** WEDNESDAY 21 SEPTEMBER 2016
TIME **:** 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE:

Councillor M Pope (Chairman).
Councillors D Abbott, A Alder, B Deering (Vice-Chairman), I Devonshire,
P Kenealy, W Mortimer, C Snowdon, S Stainsby and C Woodward.

CONTACT OFFICER: **LORRAINE BLACKBURN** **01279 502174.** **lorraine.blackburn@eastherts.gov.uk**

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.)

<u>Audio/Visual Recording of meetings</u>

Everyone is welcome to record meetings of the Council and its Committees using whatever, non-disruptive, methods you think are suitable, which may include social media of any kind, such as tweeting, blogging or Facebook. However, oral reporting or commentary is prohibited. If you have any questions about this please contact Democratic Services (members of the press should contact the Press Office). Please note that the Chairman of the meeting has the discretion to halt any recording for a number of reasons, including disruption caused by the filming or the nature of the business being conducted. Anyone filming a meeting should focus only on those actively participating and be sensitive to the rights of minors, vulnerable adults and those members of the public who have not consented to being filmed.

AGENDA

1. Training Item – Local Government Audit Update

2. Apologies

   To receive apologies for absence.

3. Minutes – 15 June 2016

   To confirm the Minutes of the meeting of the Committee held on Wednesday 15 June 2016 (Previously circulated as part of the Council Minute book for 27 July 2016).

4. Declarations of Interest

   To receive any Members' Declarations of Interest

5. Statement of Accounts 2015-16 – 'To Follow'

6. External Audit – Audit Results report – 'To Follow'

7. Risk Management Monitoring Report (April to June 2016) (Pages 7 – 18).

8. Teasury Management Strategy – 2015-16 Outturn (Pages 19 – 34).

9. Shared Internal Audit Service – Audit Plan Update (Pages 35 – 56).

10. Shared Anti-Fraud Service (SAFs) – Position Statement (Pages 57 – 80).

11. Annual Shared Internal Audit Service – Board Report 2015-16 (Pages 81 – 94).

12. 2015/16 Annual Governance Statement and 2016/17 Action Plan (Pages 95 – 146).

13. Audit and Governance Work Programme (Pages 147 – 152).

14. Verbal Update – Complaints Lodged with the Monitoring Officer

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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EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

RISK MANAGEMENT MONITORING REPORT (APRIL TO JUNE 2016)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- This report relates to action taken to mitigate and control strategic risks in the period April to June 2016.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:	
(A)	**The risk management controls implemented be approved.**

1.0   Background

1.1   The Strategic Risk Register was last considered by Audit and Governance Committee on 15 June 2016. (Period January to March 2016). The content of the register has been updated for 2016/17, and controls implemented between April and June 2016 have been recorded. Please see **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 applicable to the 2015/16 financial year remains unchanged for 2016/17:

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   The risk monitoring report considered by Audit Committee on 16 March 2016 detailed the scheduled content of the Strategic Risk Register for 2016/17, and the changes since 2015/16. One further new risk has been added following the referendum vote to leave the EU.

2.5   Controls implemented during the period April to June 2016 have been recorded together with scores for the risks as they currently stand. However new for 2016/17 is the introduction of a target score. This demonstrates where Officers believe the likelihood and / or impact can be mitigated. Please refer to Essential Reference Paper B for more information.

2.6   The Executive considered the Strategic Risk Register on 6 September 2016 so any amendments or comments will be relayed verbally at the meeting.

2.7   All strategic and operational risks will be loaded to Covalent shortly. All operational risks have been reviewed following the restructure, as has the Risk Management Strategy which will be submitted to the next meeting. 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
2015 /16 Quarter 4 risk management monitoring report to Audit and Governance Committee 15 June 2016.
2015/16 Quarter 3 risk management monitoring report to Audit and Governance Committee 16 March 2016.

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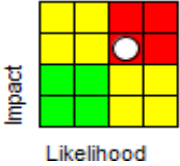IMPLICATIONS/CONSULTATIONS:
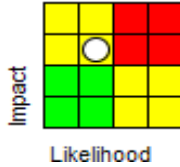
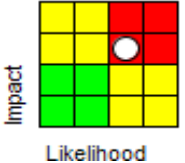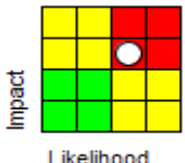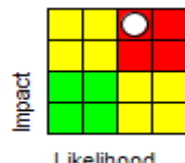|	
Contribution to the Council's Corporate Priorities/ Objectives:	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	There are no specific consultation implications arising 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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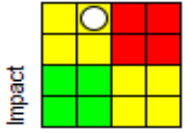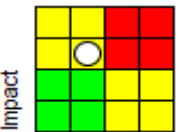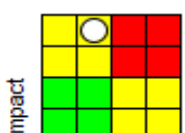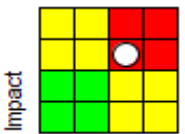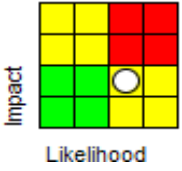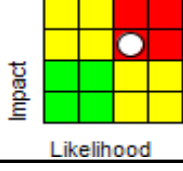
Code 16SR	Title	Description	Risk Matrix	Impact	Likelihood	Target Impact	Target Likelihood	Managed By	Controls introduced in 2016/17 quarter one, and future controls.
1a	Risk of significant deviation from plan in terms of funding. This is predominately a risk of a significant reduction but a significant increase could also cause risks to materialise.	There is uncertainty around future funding, both from Government and other areas such as income from commodities markets for recycled materials, parking charges. There is some clarity on 2016/17 but little beyond then, particularly with the potential impact of leaving the EU and on trade relations. There are cost pressures combined with an increased awareness and scrutiny of financial position.		3	3	3	3	Philip Gregory	April to June 2016: The referendum vote to exit the EU has resulted in continued uncertainty. DCLG have indicated that they expect 100% Business Rates Retention to launch from April 2019. The funding situation is being carefully monitored.
1b	Business rate income significantly reduced from planned anticipated level (and current levels).	Appetite and ability as a Council to influence economic development. Neighbouring authorities reducing rates. Revaluation and appeals. (Maximum liability circa £10m if all appeals were granted). Inability to influence economic regeneration. Economic vitality.		4	4	4	3	Philip Gregory	April to June 2016: No developments in past quarter. Planned controls: Discussions ongoing around mitigating actions to be included in next MTFP update in August / September 2016.
2	Risk of not having capacity / capability and flexibility to continue to deliver service levels over time.	There are challenges 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	3	2	Emma Freeman	April to June 2016: Workforce plans were completed for services as part of the 2015/16 strategic finance and service planning process. Actions are being driven through the Organisational Development Strategy work programme. Planned controls: Workforce plans are being updated as part of the 2016/17 service planning process if needed.
3	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	3	1	All Heads of Service	April to June 2016: No concerns reported with any major contracts or shared service.

| 4 | Risk that investment and effort in alternative service delivery models does not deliver benefits and returns. | Moving more towards other delivery models in future with public sector partners. This is part of the wider context of the changing role of Local Government moving forward. 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 | 2 | 2 | Emma Freeman | April to June 2016: New Building Control company to commence operation in August 2016. Work on proposals for a Housing Company have commenced with a proposed timetable for establishment of the first company by March 2017. The risks identified are being mitigated by drawing on expertise from other authorities, devising a detailed Project Initiation Document, timetabling in members / committee briefings and establishing a budget for external support on financial modelling, legal aspects and tax advice. IIP silver status achieved in April 2016. Management development programme to be delivered through the Organisational Development Strategy in 2016/17. |
| 5 | Information management: Misuse or loss of key information leading to breach. The potential disclosure of personal data inappropriately. | The Council handles a large amount of information and data which if not managed properly could be compromised. This could be perhaps through carelessness or hacking and security of the information could be compromised. Failure to comply with information governance principles. Action may be taken by the ICO. Individuals may suffer if their personal data, particularly sensitive personal data is disclosed. | | 3 | 2 | 3 | 1 | Kevin Williams | April to June 2016: No reportable data breaches. 'Bob's Business' on line training for staff continues. Planned controls: Annual data protection review report to be submitted to July 2016 Corporate Business Scrutiny Committee. Joint IT security group to be established. |

6	Impact of Housing and Planning Act.	The key potential impacts are: • Introduction of Starter Homes as a form of affordable housing, with nationally prescribed percentages to be delivered through the planning process, is likely to reduce the supply of new affordable rented homes thus reducing housing options for those on no / low incomes. This could place increased pressure on existing housing stock and potentially increase homeless approaches to the Council, leading to higher workloads • The opening up of the planning application assessment process to third parties could see workloads/income drop for the Council and its influence in decision making reduced. Potential for significant impact on staff resources, income and the ability to support direct and back office services. • Provisions for the Government to determine district plans where local authorities have not done so within certain time limits could erode the Council's reputation and ability to shape local development. • Further provisions for flexibilities with regard to fee levels and self setting of fees if the Council continues to operate established performance levels.	Impact / Likelihood	3	3	3	2	Jonathan Geall and Kevin Steptoe	April to June 2016: Work to develop the district plan is well under way. The Housing Service is closely monitoring levels of demand. Work has commenced to investigate the viability of a Council-owned housing company which could contribute to local supply of housing in all tenures. Officers continue to monitor secondary regulations which may come forward under the act and respond to them. A policy approach is set out in the District Plan to maintain affordable housing provision as far as can be achieved. Regular monitoring of performance and implementing actions as may be required to mitigate any decease in performance levels.
7	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 management, Cannot bid for funding for infrastructure, lost opportunity, open to challenge in meantime, legal / reputational / political issues. Impact on New Homes Bonus.	Impact / Likelihood	3	3	3	2	Kevin Steptoe	April to June 2016: Officers have continued to work to a timetable that enables delivery of plan to Government timetable. Planned controls: A range of factors have the ability to affect timescales. Officers continue to assess any that arise, with partners and Members, to assess impact these may have.
8	Significant development proposals at strategic sites (Welwyn Garden City, Bishop's Stortford) - need to ensure good quality developments securing all necessary infrastructure.	Ambitions not achieved. Ability of building industry to deliver, including contribution for infrastructure. Poor environment. Loss of development opportunity. Reputational risk.	Impact / Likelihood	4	3	4	1	Kevin Steptoe	April to June 2016: Appropriate advice and support engaged at all relevant stages in the development process to ensure that quality development is achieved.

	Risk	Description	Matrix					Owner	Action
9	Failure to deliver Digital East Herts.	Risk that services are not provided across multiple channels to improve the customer experience AND realise efficiency gains. Step change to digital basis for service delivery will not be made within the window of invest opportunity in the next two to three years.		3	4	2	3	Adele Taylor	April to June 2016: Establishment of project and investment in consultancy to support. Additional staff resource secured for six months.
10	Compliance with the Childrens Act 2004.	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.		4	2	4	1	Jonathan Geall	April to June 2016: Full participation in the East Herts and Broxbourne Safeguarding arrangements. Planned controls: Attendance by Head of Housing and Health at Safeguarding Forum in July and dissemination of activities / learning locally including safeguarding training.
11	Safeguarding adults.	Maintain and develop interagency relationships, Council policy and training.		3	2	3	1	Jonathan Geall	April to June 2016: Full participation in the East Herts and Broxbourne Safeguarding arrangements. Planned controls: Attendance by Head of Housing and Health at Safeguarding Forum in July and dissemination of activities / learning locally including safeguarding training.
12	Encouragement of economic vitality cross the District.	Risk that opportunities to develop and improve Bishop's Stortford and Hertford town centres are not maximised through the Old River Lane Planning Framework and Hertford Urban Design Study. Also ensure regular dialogue with business and organisations representative of business. Interventions to be proposed where appropriate e.g. business improvement district opportunities.		4	2	4	2	Ben Wood	April to June 2016: New Economic Development vision agreed by Executive. Hertford Urban Design Study (HUDS). Member steering group established to implement HUDS proposals. Planned controls: Bishop's Stortford Town Centre Planning Framework addressing range of town centre issues.
13	Extreme weather - Either unable to resource or prioritise emergency planning response and other mitigation measures.	Frequency of events likely to increase. Emergency planning response could be compromised. Impact on east/west travel in District and on infrastructure, especially transportation. Lack of resource for mitigation activity e.g. land drainage function. Impact on Council properties, particularly sites on flood plains.		3	3	2	3	Jonathan Geall	April to June 2016: (a) Land Drainage Asset Survey underway. (b) Emergency Planning rota introduced. (c) Officers on Emergency Planning rota have received, or are timetabled to receive, training on the East Herts Emergency Plan and Incident Management. A desk-top emergency planning training exercise is to be planned for quarter 3, and a Business Continuity test is scheduled for 22 September 2016.

14	Devolution - fail to engage and influence partners to engage leading to missed opportunities.	Hertfordshire not seen as a 'player' nationally and regionally. Unable to be proactive and engage early on in this agenda. Missed opportunities to maximise benefit.		2	3	2	3	Liz Watts	April to June 2016: Hertfordshire leaders meetings took place at which there was a decision taken to work on more collaboration. Await the impact on devolution of new conservative leadership at national level.
15	Referendum vote to leave EU.	Further budget reductions likely. Potential impact on the economy, particularly employment and the housing market. Loss of EU funding for local schemes. Legislative changes.		3	3	3	3	Liz Watts	April to June 2016: The referendum vote to exit the EU has resulted in continued uncertainty. Developments will be closely monitored. Rural Development Project funding has been frozen.

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EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT OUTTURN 2015 – 16

WARDS AFFECTED: None.

Purpose/Summary of Report:

- The report reviews the Council's treasury management activities for 2015/16, including the prudential indicators and identifies the associated impact on the 2016/17 treasury management strategy.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE:	
(A)	**The 2015/16 Treasury management activity and prudential indicators be approved.**

1.0 Background

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

1.2 This activity is supported by the council's appointed independent advisors – Capita Asset Services.

1.3 The Council is required by regulations under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16.

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

1.5 The Council is required by the CIPFA Prudential Code to approve an annual review following the end of the year describing the activity compared to the strategy.

2.0   Report

2.1   Please refer to the Annual Treasury Management Review, **Essential Reference Paper 'B': Annual Treasury Management Review 2015-16.**

2.3   Prudential Indicators have been summarised in **Essential Reference Paper 'C': Prudential Indicators 2015-16.**

3.0   Implications/Consultations

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

Background Papers
CIPFA Code of Practice on Treasury Management (2011)
CIPFA Prudential Code for Capital Finance in Local Authorities (2011)

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Contact Officers: Philip Gregory, Head of Strategic Finance and Property, Extn: 2050.
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Report Author: Nicola Munro, Principal Accountant, Extn: 2044.
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IMPLICATIONS/CONSULTATIONS:

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	*People* **– Fair and accessible services for those that use them and opportunities for everyone to contribute** This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable. *Place* **– Safe and Clean** This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean. *Prosperity* **– Improving the economic and social opportunities available to our communities** This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.
Consultation:	Not Applicable*.*
Legal:	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. The report fulfils the following legislative requirements: • 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.

East Herts District Council

Annual Treasury Management Review

2015/16

Annual Treasury Management Review 2015/16

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 18/02/2015)
- a mid-year (minimum) treasury update report (Audit and Governance Committee 25/11/2015)
- an annual review following the end of the year describing the activity compared to the strategy (Audit and Governance Committee 21/09/2016)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 25/11/2015 in order to support members' scrutiny role.

2. The Economy and Interest Rates *(supplied by Capita Asset Services)*

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016.   However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. The Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 was disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 were for yields to fall to historically low levels as forecasts for inflation were repeatedly revised downwards and

expectations of increases in central rates were pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

3. Overall Treasury Position as at 31 March 2016

At the beginning and the end of 2015/16 the Council's treasury (excluding finance leases) position was as follows:

TABLE 1	31 March 2015 Principal		31 March 2016 Principal
Total debt	*£7.5m*		*£7.5m*
CFR	*(£41.9m)*		*(£23.1m)*
Over / (under) borrowing	*(£37.4m)*		*(£15.6m)*
Total investments	*£69.5m*		*£54.2m*
Net debt	*(£62m)*		*(£46.7m)*

4. The Strategy for 2015/16

The expectation for interest rates within the treasury management strategy for 2015/16 anticipated a low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

5. The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
CFR General Fund (£m)	(41,895)	(40,799)	(21,080)

6. Borrowing Rates in 2015/16

PWLB certainty maturity borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.

Apr 2015 - Mar 2016 PWLB maturity certainty rates

Legend: —1 Year —5 Year —10 Year —50 Year —50 year target %
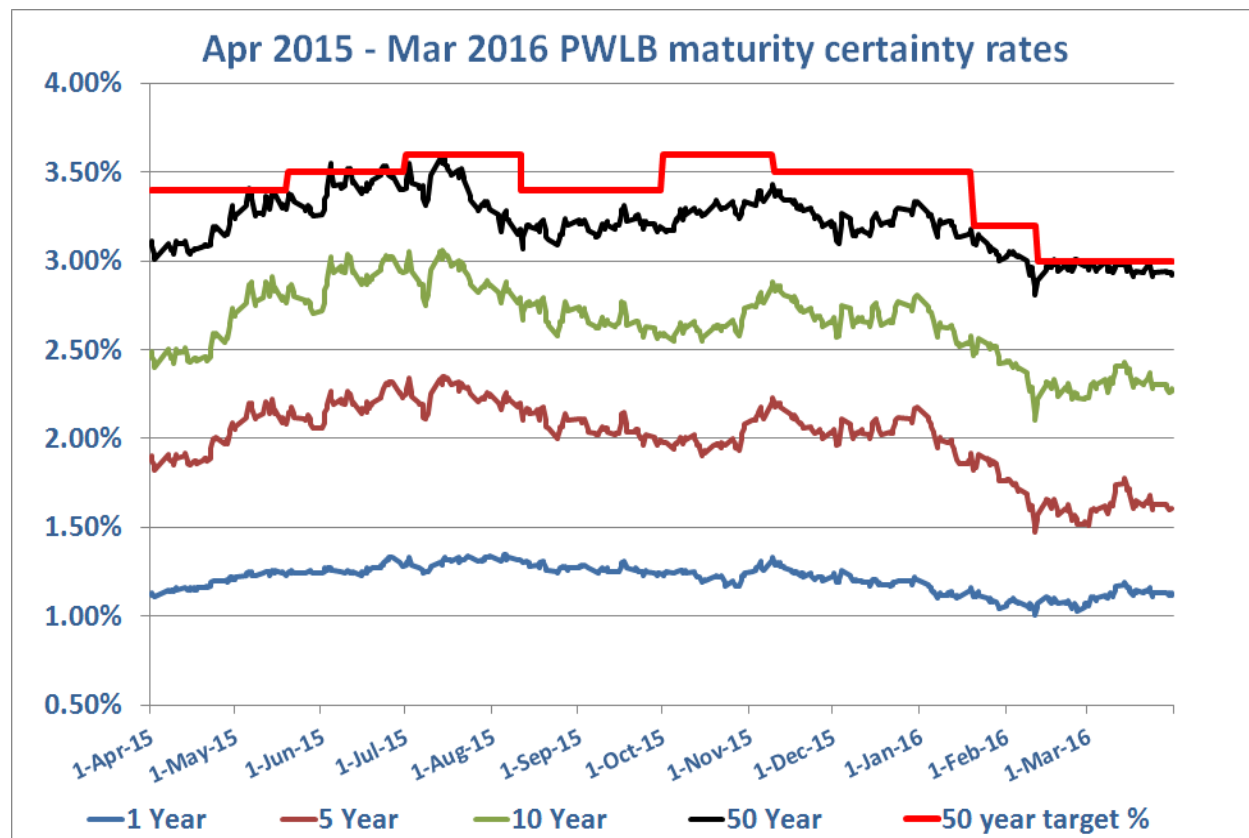
7. Borrowing Outturn for 2015/16

Borrowing – the following loans were outstanding during the year: -

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£1.5m	Fixed interest rate	8.875%	40 years
UBS Secured Bond	£6m	Variable interest rate	8.785%	5 years

No new borrowing was undertaken during the year.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayments
No repayments were made by the Council during the year.

8. Investment Rates in 2015/16

Apr 2015 - Mar 2016 Bank Rate vs LIBID rates %

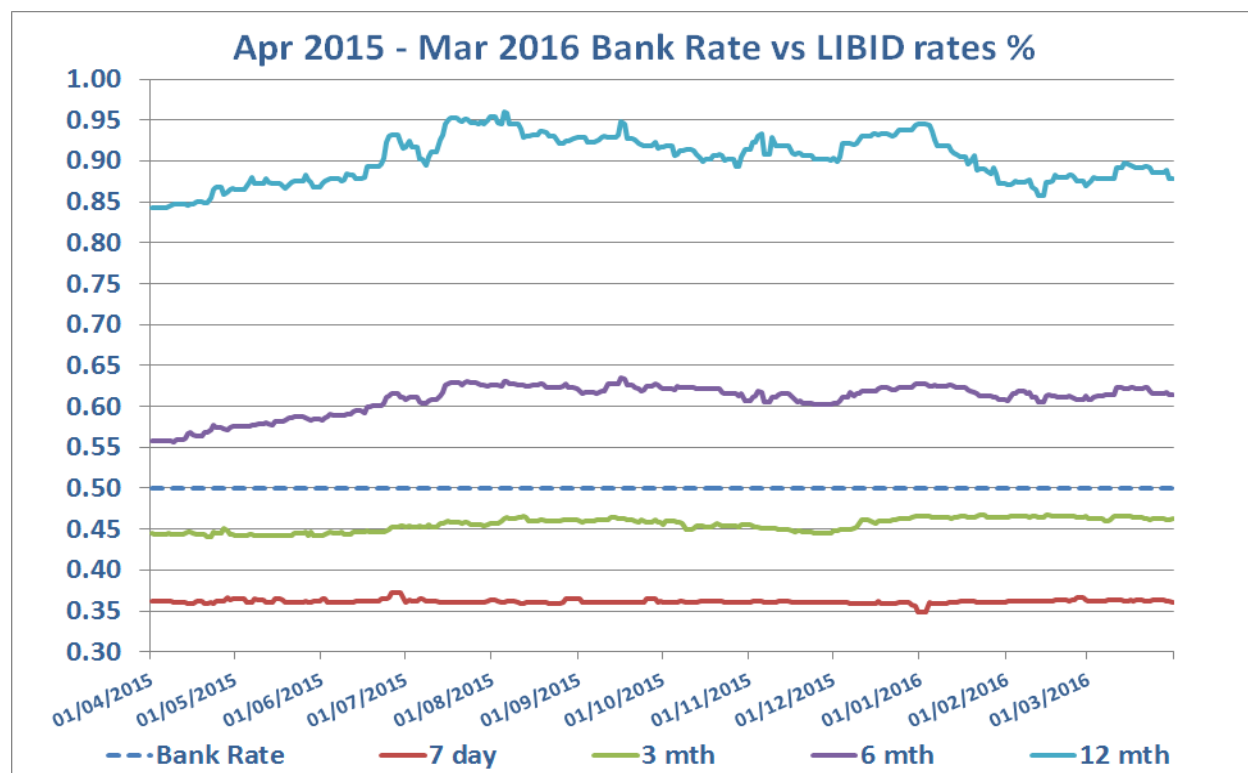The Bank Rate remained at its historic low of 0.5% throughout the year; remaining unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

9. Investment Outturn for 2015/16

Investment Policy – the Council's investment policy is governed by Department for Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by the Council on 18th February 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (e.g. rating outlooks, credit default swaps, bank share prices).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - the Council maintained an average balance of £57.8m of internally managed funds. The internally managed funds earned an average rate of return of 0.85%. The comparable performance indicator is the average 7-day LIBID rate , which was 0.36%.

Investments held with Property Funds – the Council approved the use of property funds up to a value of £20m, at the time of investment. Working with our advisors Capita Asset Services, two funds were chosen, Lothbury Property Trust and Hermes Property Unit Trust. Both funds had

waiting lists to invest. The invitation to invest in the Lothbury fund arose in June 2015 and the Hermes fund in December 2015. The performances of these funds are detailed below:

Property Fund	Investments Held	Average Return
Lothbury Property Trust	£10m	3.83%
Hermes Property Unit Trust	£10m	4.35%

Budget
The total interest earned on investments for 2015/16 was £1.089m which exceeded the budget of £867k.

10. Other Issues

During the year the Council made the decision to purchase a site at Old River Lane in Bishop's Stortford. This was an investment of £19.55m to acquire a key town centre site comprising 2 office buildings, 2 car parks and 3 residential properties. The Council was involved in a competitive process to acquire the site where a good level of interest was shown from property companies and institutional investors. An external market valuation by an experienced, qualified RICS Registered Valuer has confirmed the valuation at the price agreed.

Prior to an offer being submitted and the subsequent exchange of contracts a number of Council and Executive meetings were held between members, officers and property experts. These meetings were held to determine whether the council should submit a bid for the site, to ascertain the market value of the site and to approve the value of the bid submitted by the council. Throughout this process expert valuation and legal advice has been provided by independent, external partners.

This investment is part of a wider investment strategy which aims to realise best value from council assets without exposing the council to undue risk. Full Council approved the direct purchase of property as an investment within the Investment Strategy in February 2014 following Executive approval in November 2013.

The investment principles agreed in those meetings have been adhered to with careful consideration of treasury management principles, in summary:

- Security of the council's capital; this is 'institutional' grade property in a prime site and the quality of tenancies has been assessed through credit checks and the spread of lease lengths.
- Yield of at least 4% on property; the expected yield is 5.02% "as-is" with a yield up to 7.20% if fully re-furbished and occupied.
- Liquidity; the council were one of several parties who submitted offers for this site and could re-market the site to realise the cash invested should the council decide to do so.

Essential Reference Paper 'C'

Prudential and Treasury Indicators

During 2015/16, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2014/15 Actual £000	2015/16 Original £000	2015/16 Actual £000
Capital expenditure	1,859	2,718	22,446*
Capital Financing Requirement	(41,900)	(23,904)	(23,100)
Gross borrowing	0	0	0
External debt	7,500	7,500	7,500
Investments	69,846	45,779	54,184
Net borrowing	(62,346)	(38,279)	(46,684)

Note: The significant capital expenditure variance in 2015/16 was due to the purchase of Old River Lane, which was not in the original budget.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.

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

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

	2015/16
Authorised limit	£12m
Maximum gross borrowing position	£0m
Operational boundary	£8m
Average gross borrowing position	£7.5 m
Financing costs as a proportion of net revenue stream	2.63%

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TABLE 1	31 March 2015 Principal	Rate/ Return	Average Life yrs		31 March 2016 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:							
-PWLB	£1.5m	8.875%	40		£1.5m	8.875%	39
-Market	£6m	8.785%	5		£6m	8.785%	4
Total debt	**£7.5m**				**£7.5m**		
CFR	**(£41.9m)**				**(£23.1m)**		
Over/ (under) borrowing	**(£37.4m)**				**(£15.6m)**		
Total investments	**£69.5m**				**£54.2m**		
Net debt	**(£62m)**				**(£46.7m)**		

The maturity structure of the debt portfolio was as follows:

	31 March 2015 actual	2015/16 original limits	31 March 2016 actual
Under 12 months	£0m	£0m	£0m
12 months and within 24 months	£0m	£0m	£0m
24 months and within 5 years	£6m	£6m	£6m
5 years and within 10 years	£0m	£0m	£0m
10 years and within 20 years	£0m	£0m	£0m
20 years and within 30 years	£0m	£0m	£0m
30 years and within 40 years	£1.5m	£1.5m	£1.5m
40 years and within 50 years	£0m	£0m	£0m

The maturity structure of the investment portfolio was as follows:

	2014/15 Actual £000	2015/16 Original £000	2015/16 Actual £000
Investments			
Longer than 1 year	10,000	20,000	19,936
Under 1 year	59,547	25,779	34,247
Total	**69,547**	**45,779**	**54,183**

The exposure to fixed and variable rates was as follows:

	31 March 2015 Actual £000	2015/16 Original Limits £000	31 March 2016 Actual £000
Limits on fixed interest rates based on net debt:			
• Debt only	100%	100%	100%
• Investments only	43%	98%	27%
Limits on variable interest rates:			
• Debt only	0%	50%	0%
• Investments only	57%	95%	73%

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East Herts Council
Audit and Governance Committee
SIAS Progress Report
21 September 2016

Recommendation

Members are recommended to:
- Note the Internal Audit Progress Report; and
- Note the status of high priority recommendations and agree removal of completed actions.

Contents

1. Introduction and Background

<u>Purpose of Report</u>

1.1   This report details:

   a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2016/17 as at 2 September 2016.
   b) Proposed amendments to the approved 2016/17 Audit Plan.
   c) Implementation status of previously agreed high priority audit recommendations.
   d) An update on performance management information as at 2 September 2016.

<u>Background</u>

1.2   The 2016/17 Audit Plan was approved by Audit Committee on 16 March 2016.

1.3   The Audit and Governance Committee receives periodic updates against the Annual Internal Audit Plan, the most recent of which was brought to Audit Committee on 15 June 2016.

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

<u>Delivery of Audit Plan and Key Audit Findings</u>

2.1   As at 2 September 2016, 30% of the 2016/17 Audit Plan days had been delivered. Appendix A provides a status update on each individual project within the audit plan.

2.2   Two projects from the 2015/16 Audit Plan have been finalised since the June 2016 meeting of the Audit & Governance Committee. This marks closure of the 2015/16 Audit Plan.

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Section 106 Agreements	Jun '16	Substantial	One medium Two merits attention
Leisure Contract	Jun '16	Moderate	Six medium One merits attention

The following 2016/17 projects have been finalised:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Freedom of Information	Jul '16	Substantial	Three merits attention
Cash and Banking	Aug '16	Full	None

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.

2.4   The current position in respect of existing outstanding high priority recommendations is shown at Appendix B.

Proposed Audit Plan Amendments

2.5   There are no plan changes to bring before this meeting of the Audit & Governance Committee.

Performance Management

2.6   Annual performance indicators and associated targets were approved by the SIAS Board and are reviewed annually.

2.7 As at 2 September 2016 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 2 September 2016	Actual to 2 September 2016
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	33%	30%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	23% (7 of 30 projects to draft)	20% (6 of 30 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%
4. Number of High Priority Audit Recommendations agreed	95%	95%	None yet made in 2016/17

2.8 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2016/17 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 and Governance 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 and Governance Committee's first meeting of the civic year.

2016/17 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Key Financial Systems								
Asset Management					12	Yes	0	Due to start Q3
Benefits					12	Yes	0	Due to start Q3
Council Tax					10	Yes	0	Due to start Q3
Creditors (CRSA Year 1)					10	Yes	0	Due to start Q4
Debtors (CRSA Year 1)					10	Yes	0	Due to start Q3
Main Accounting					12	Yes	0	Due to start Q3
NDR					10	Yes	0	Due to start Q3
Payroll					12	Yes	0	Due to start Q3
Payroll Certificate					1	Yes	1	Complete
Treasury (CRSA Year 2)					6	Yes	0	Due to start Q3
Operational Audits								
Absence Management					10	Yes	1	In planning
BACS					6	Yes	5.5	Draft report issued
Car Parks – New pay & display machines					10	Yes	0	Due to start Q3
Cash and Banking	Full	0	0	0	12	Yes	12	Final report issued
Consultants					10	Yes	6	In fieldwork
Development Management –					6	Yes	1	In planning - audit

APPENDIX A   PROGRESS AGAINST THE 2016/17 AUDIT PLAN AS AT 2 SEPTEMBER 2016

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
pre applications								deferred to Q4
Digital by Default					18	Yes	0	Due to start Q3
Elections					10	Yes	0	Due to start Q3
Enviro Crime					15	Yes	2	In fieldwork
Freedom of Information	Substantial	0	0	3	10	Yes	10	Final report issued
Health & Safety					12	Yes	2	In planning – audit deferred to Q3
Land Charges					8	Yes	0	Due to start Q4
Project Management / Benefits Realisation					12	Yes	11.5	Draft report issued
Safeguarding					15	Yes	0.5	In planning
Tree Surveying					12	Yes	0	Due to start September 2016
Procurement								
New Payroll Contract – controls assurance					5	No	0.5	In planning
Trade / Clinical Waste					12	Yes	10.5	In fieldwork
Land Drainage Contract					8	No	1	In planning
IT Audits								
Internet and Email Usage					8	No	0.5	Due to start Q4

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Cyber Risk					8	Yes	7.5	Draft report issued
Shared Learning								
Shared Learning Newsletters and Summary Themed Reports					2	N/A	1	Ongoing
Audit Committee Workshop					1	N/A	0	Due Q4
Joint Review – Benchmarking Workshop (topic tbd)					2	N/A	0	Due Q4
Joint Review - Community Infrastructure Levy					2	N/A	0	Due Q4
Joint Reviews – tbd					10	N/A	0	Due Q4
Risk Management								
No audits					0	N/A	0	
Anti-Fraud								
Follow up fraud related themes					5		0	
Strategic Support								
2017/18 Audit Planning					10	N/A	0	
Audit Committee					15	N/A	7	Ongoing
Client Liaison					10	N/A	5	Ongoing
Liaison with External Audit					1	N/A	0.5	Ongoing

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Head of Internal Audit Opinion 2015/16					5	N/A	5	Complete
Progress Monitoring					10	N/A	5	Ongoing
SIAS Development					5	N/A	5	Ongoing
Contingency								
Unused Contingency					0	N/A	0	
Follow Ups								
Follow up of high priority recommendations					5	N/A	2.5	Ongoing
2015/16 Projects requiring completion								
Various					15	N/A	15	Complete
EHC TOTAL					**400**		**118.5**	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
1.	Business Continuity Planning (01/10/13)	All departmental business continuity plans and resource recovery questionnaires should be reviewed to ensure they are complete, contain a sufficient level of detail, and have been reviewed and approved by appropriate members of staff.

In addition to this, a periodic rolling programme of disaster recovery testing (at minimum requiring some | Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time.

Information captured by services in their Business Recovery Plans will be reviewed in | Director of Neighbourhood Services | 30 June 2014 | Sep 15
Critical service questionnaires returned and plan updated.

Dec 15
See note at recommendation 1.

Mar 16
Critical services have completed resource requirement questionnaires and the plan has been updated. Graduate trainee has been allocated to assist the project | Partially implemented – continue to monitor |

APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
		downtime and recovery of IT services) should be performed and then reviewed to make relevant updates to the BCPs.	line with the new ICT solution referred to in Recommendation 2. A provisional schedule for testing recovery plans will be established and reviewed annually. Testing will take place in line with the established schedule.			completion this financial year. Test is planned for March / April 2016 May 16 Critical services have completed resource requirement questionnaires and the plan has been updated. There are some suspected weaknesses in the plan that will be brought out through running a test scenario. HCC Resilience Team will organise once	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
						all new EHC senior managers are in place. Revised to 30 September 2016. <u>Aug 16</u> Critical services will be required to recomplete questionnaires and prepare their plans to reflect the restructure. Revised to 31 December 2016.	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
2.	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 Continuity Plan formally approved and signed off, so that it can be distributed to the relevant members of staff. In addition to this, key stakeholders need to meet and agree on comprehensive roles and responsibilities with	Now that the Shared ICT service is in place and IT business continuity arrangements are being taken forward then this action will also move forward at the same time.	Director of Neighbourhood Services	31 March 2014	<u>Jun15</u> Statement of intent from Directors included in Plan. Contact list / information cascade close to completion. <u>Sep 15</u> As per June 2015 comment. <u>Dec 15</u> See note at recommendation 1. <u>Mar 16</u> Statement of intent from Directors is included in the	Partially implemented – continue to monitor

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
		regard to business continuity planning, and these responsibilities should be documented within the plan.				plan. Director of Finance & Support Services has instructed project completion this financial year. Gold command updated to reflect staffing changes. May 16 Statement of intent from Directors is included in the plan. Risk Assurance Officer has produced an initial Business Continuity framework that can be adjusted as and	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
						when needed. Finalisation and sign off will follow on from the test. Revised to 30 September 2016. Aug 16 As above, sign-off and finalisation will follow on from test which has been postponed from 22 September to 31 October 2016. Revised to 31 October 2016.	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
3.	Street Markets (24/05/16)	The Head of Business Development should approach the Chief Executive (BSTC) with a view to formally identifying all existing issues with the current arrangements that both parties feel are unsatisfactory. Following this, they should seek to identify how these may be addressed, through either: revisions to existing processes / governance	It is acknowledged by both EHC and BSTC that the contract is not straightforward in places and often leads to different interpretations.\n\nThis will be picked up as part of the first annual review of the contract. Discussions are already underway with BSTC.	Benjamin Wood / Contract Manager (TBC)	1 June 2016	We concluded negotiations with BS Town Council regarding a variation to the contract for operating the market. EHC objectives within this process have been to reduce the direct and indirect contract costs whilst BSTC objectives have been to increase contractor autonomy over day to day operational matters. We have managed to adopt	Implemented – remove from list

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
		arrangements; or a more formal review of the contractual arrangements. In the case of the latter, further advice should be sought from the EHC legal team to identify the most appropriate approach to revising the contract. In the unlikely event that a satisfactory resolution to the existing issues cannot be achieved, both parties should				the following principles which allow both parties to realise their objectives and which should provide a stronger platform for making the BS market a success: 1. Contractor to take on more risk and corresponding reward; financial model to change so that BSTC retains 100% of the income (with a corresponding reduction in	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
		consider the viability of continuing the existing contractual relationship.				contributions from EHC). 2. A reduced set of KPIs and light-touch monitoring. 3. Autonomy over waste management and street cleansing (and other sub-contracting elements) once EHC is released from its contractual commitments to their waste/cleaning subcontractor. 4. Less scrutiny of day to day matters and operational aspects of running	

APPENDIX B   IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

No	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Original Target Date	Management Comments	SIAS Comment (August 2016)
						the market. 5. Reducing the administrative overhead experienced by both parties.	

APPENDIX C   AUDIT PLAN ITEMS (APRIL 2016 TO MARCH 2017) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Payroll Certificate **Complete**	Trade / Clinical Waste **In fieldwork**	Project Management / Benefits Realisation **Draft report issued**	Consultants **In fieldwork**	Enviro Crime **In fieldwork**	Tree Surveying	Council Tax	Treasury Mgmt	Debtors	Creditors	Land Charges	
BACS **Draft report issued**		Cash and Banking **Final report issued**		Elections **In planning**	Car Parks – New pay & display machines	Benefits	Payroll	Asset Mgmt	Internet & Email Usage		
FOI **Final report issued**		Cyber Risk **Draft report issued**			Land Drainage Contract **In planning**	NDR	Digital by Default	Main Accounting	Development Management (Pre-apps)** **In planning**		
					Absence Management **In planning**		Payroll System – controls assurance** **In planning**				

APPENDIX C   AUDIT PLAN ITEMS (APRIL 2016 TO MARCH 2017) – START DATES AGREED WITH MANAGEMENT

Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
						Health & Safety** **In planning**					
						Safeguarding**					

**Notes
- Health & Safety audit deferred from May to October at Management's request in view of the absence of the main contact officer.
- Safeguarding audit deferred from July to October at Management's request in view of the revised management arrangements.
- Payroll System controls assurance deferred from August to November to reflect revised project timelines.
- Development Management (pre-applications) audit deferred from September to January as revised process / charging structure not yet introduced.

East Hertfordshire District Council
Shared Anti-Fraud Service
Report
September 2016

Recommendation

Members are recommended to:

Note the Shared Anti-Fraud Service year-end data for 2015/16

Note the progress of the Shared Anti-Fraud Service in delivering the Council Anti-Fraud Action Plan 2016/17.

Note the anti-fraud activity undertaken to protect the Council

Introduction

This is the first report for the Council's Audit Committee providing progress against the Council's published Anti-Fraud Action plan adopted by this Committee in March 2016. The Committee are asked to note and comment on the progress against Plan for 2016/17.

Recent reports have been provided to Council officers and are being used by SAFS to ensure that the Council is aware of its own fraud risks and finding ways to mitigate or manage these effectively wherever possible.

These reports include:

Fighting Fraud and Corruption Locally 2016–2019 Strategy produced by CIPFA in March 2016 and supported by CLG. The new strategy estimates annual fraud losses in local government at around £2.1bn.

UK Annual Fraud Indicator produced by PKF, Portsmouth University and Experian in May 2016 which estimates the risk of fraud losses for local government in excess of £7bn per annum (this does not include fraud in local taxation or care services).

Contents

1. Background

2. Summary of SAFS Activity at EHDC

3. Progress against the 2016/17 Plan.

Appendices.
.

Adobe Acrobat
Document

A. SAFS/EHDC Anti-Fraud Action Plan 2016/2017-

Adobe Acrobat
Document

B. Summary of Progress against Plan 2016/2017-

1.   Background

1.1   According to reports from the former Audit Commission National Fraud Intelligence Bureau, The National Audit Office (NAO), Cabinet Office, and the Private Sector fraud loss across local government in England exceeds £2.billion each year with some reports indicating levels considerably above this .

1.2   The Cabinet Office, Department for Communities and Local Government, NAO, and CIPFA have also issued advice, and best practice guidance to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for Councils to be vigilant in recognising their fraud risks and to invest resources in counter fraud activities that deliver savings.

1.3   It is essential that to support this service the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.

1.4   East Hertfordshire District Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Members received a detailed report in September 2015 about the creation of SAFS and how this service would work closely with the Shared Internal Audit Service (SIAS) in a two year pilot. SAFS works across the whole Council dealing with all aspects of fraud from prevention to prosecution working with staff at all levels.

2.   SAFS Activity

Staffing

2.1   The SAFS team is composed of nine staff based at the County Council offices in Stevenage.

2.2   Each SAFS Partner receives dedicated support and response from the Team. At present the most effective way to do this is by allocating one officer to work exclusively for each Partner. This officer acts as the first point of contact for that partner's services, and will assist in developing relationships at a service level, delivering training, and working on local pilot projects.

2.3   For East Hertfordshire District Council, Raj Kumar (SAFS) is the Counter Fraud Officer working with the Council. Raj is a fully accredited criminal investigator with more than 20 years' experience working in the public sector. Raj is supported by intelligence officers working for SAFS, a financial investigator working for Trading Standards, service specialists working for the Council, local policing staff, and legal staff from the County Council.

2.4   Due to the success of SAFS in the use of data matching to identify fraud an additional temporary post has been created on the Team to look at ways to build on this early success.

Fraud Awareness and Reported Fraud

2.5   One of the key aims for the Council is to create an 'Anti-Fraud' culture, that will deter fraud; encourage senior managers and members to consider the risk of fraud when

developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council and to report fraud where it is identified.

2.6   SAFS ensures that fraud can be reported by both staff and the public and the Council's website and intranet both have options for reporting suspected fraud which link to the SAFS webpage.

2.7   The SAFS webpage – www.hertsdirect.org/reportfraud includes an online reporting tool and is being further developed as part of the County Council's new website. A confidential fraud hotline (0300 123 4033) and a secure email account are also available for reporting fraud – fraud.team@hertscc.gcsx.gov.uk. These contact details have been added to EHDC's own website. None of these functions replace the Council's own in-house Whistleblowing reporting procedures.

2.8   To 31st July 2016 SAFS had received 55 new allegations of fraud relating to EHDC services. SAFS also carried forward 37 live cases from 2015/2016. The details of reported fraud at EHDC are shown in the tables below.

Table 1. Types of fraud being reported (*in year*):

Council Tax Discount Fraud	Council Tax Support Fraud	Housing Fraud*	Other Fraud	Total
6	43	4	2	55

for East Herts Council 'Housing Fraud' relates to housing application/ homelessness fraud
***Other fraud includes 1 alleged Business Rate Fraud and 1 alleged Staff Fraud*

Table 2. Who is reporting Fraud (*in Year*)?

Fraud Reported by Staff	Reports from Public	Joint Working with DWP	Data-Matching	Other	Total
15	34	2	4	0	55

Table 3. Outcomes of cases closed *(includes cases carried fwd. from 15/16)*:

Closed No Action Required	Referred to Another Agency	Closed Fraud Proved/ Advice Provided	Closed Fraud 'Not Proved'	Total
17	6	11	2	36

Table 4. Status of cases still under investigation *(includes cases carried fwd.)*

Pre-Investigation Checks	Pending Investigation	Live Investigations	Pending Decision	Total Live Cases
17	12	23	4	56

2.9   The number of cases closed as 'No Action' is one of the lowest for any SAFS Partner. This would indicate that the quality of referrals passed for investigation is of good quality allowing SAFS to focus on those areas of highest risk/value.

2.10   Of those cases closed with a positive outcome 3 related Council Tax Discount frauds where civil penalties were subsequently applied, the first time that such penalties have bene used by the Council.   The cases pending decisions include two prosecution cases jointly investigated with the DWP.- Fraud and Error Service,

2.11   In the first quarter of 2016/2017 SAFS recorded fraud loss & savings across the Partnership of £605k. For EHDC fraud losses of £15k and savings resulting from prevention totalling £47k were identified against a quarterly target of £25k for the two combined

Table 6. Fraud Losses

Housing Benefit	Council Tax Support	Council Tax Discounts	Other	Total Live Cases
£12k	£2.5k	£.5k	0	£15k

Table 7. Fraud Savings

Business Rates	Council Tax Support	Council Tax Discounts	Other	Total Live Cases
£38k	£2.5k	£.5k	£6k	£47k

Pilot Projects

2.12   SAFS have worked with the Council's local taxation team to identify potential fraud around discounts and exemptions. The Council is now able to level civil and financial penalties for false claims for discounts and exemptions and has started to do so where appropriate and in line with the Prosecution and Sanctions Policy.

2.13   SAFS have arranged specialist free training events for staff, covering areas including Anti-Money Laundering, Business Rates Avoidance and Housing Fraud. SAFS work very closely with EHDC's HR Service providing assistance in disciplinary matters, with reviews of HR policies and in promoting anti-fraud training. SAFS have also worked with the recruiting team in HR to deliver anti-fraud measures at the point of recruitment.

2.14   SAFS are providing the project lead on the procurement of a county-wide data matching exercise to identify Council Tax fraud, particularly around discounts and exemptions, empty homes, and council tax support schemes. This will be introduced in the late summer of 2016 for all districts, and will be funded by EHDC and all participating districts.

2.15   SAFS will lead on the National Fraud Initiative submissions to the Cabinet Office for EHDC this year and will be assisting with the data upload for this in October 2016 with results being produced in February 2017.

5

3. Progress against the 2016/2017 Anti-Fraud Action Plan

3.1 The Council has in place an Anti-Fraud and Corruption Strategy. This document lays out the Council's position, and includes advice to Members, senior officers and staff about how to deal with identified fraud. This document will be reviewed in 2016 but at present it meets the best practice guidance from CIPFA.

3.2 A copy of the 2016/2017 Anti-Fraud Action Plan, approved by this Committee in March 2016, is attached at **Appendix A**. The Action Plan covers all areas recommended by CIPFA to ensure that the Council acknowledges the risk of fraud, its own responsibility to combat these risks, and takes appropriate action to prevent/deter/pursue fraud. The Plan also includes assurance that it benefits from a positive return on its investment from the SAFS Partnership.

3.3 Progress against the plan is shown at **Appendix B**. At present all milestones and/or targets are being met or are on course for delivery and there are no significant issues outstanding or late.

3.4 SAFS will provide a final report to this Committee in March 2017 on the performance against the Anti-Fraud Action Plan for 2016/2017 and a proposed Action Plan for 2017/2018. This will then form a rolling programme from 2017 onwards.

Appendix A.

East Hertfordshire District Council
Anti-Fraud Plan
in partnership with
Hertfordshire Shared Anti-Fraud Service
2016/2017

Contents

Appendix A- SAFS Resources for EHC 2016/2017

Appendix B- SAFS KPI for EHC 2016/2017

Appendix C- SAFS Standards of Service for EHC

Introduction

This plan supports the Councils Anti-Fraud and Corruption Strategy by ensuring that the Council, working in partnership with the Hertfordshire Shared Anti-Fraud Service, has in place affective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The Councils states that the key elements for the Strategy are;

Culture- the prevailing set of assumptions and values within the organisation- and the reporting of suspicions of fraud and corruption,

Actions to prevent and deter fraud and corruption,

Controls to detect and ensure investigation of fraud and corruption,

Alertness and vigilance reinforced by training.

This plan includes objectives and key performance indicators to measure the Councils effectiveness against its Policy and meet the best practice guidance/directives from central government department such as Department for Communities and Local Government and other bodies such as National Audit Office, the Chartered Institute for Public Finance and Accountancy and The European Institute for Combatting Corruption and Fraud.

The National Context.

The Audit Commissions 2014 report '***Protecting the Public Purse'*** included a summary of statements from its findings.

- The scale of fraud against local government is large, but difficult to quantify with precision. In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.

- In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year. However, the value of fraud increased to over £188 million.

- In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud. Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.

- Local government bodies have a duty to protect the public purse (s.151 LGFA1992). A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and involves a number of core components.

The Chartered Institute for Public Finance and Accountancy (CIPFA) in its 2015 publication '***Code of practice on managing the risk of fraud and corruption'*** highlights five principles outlining public bodies responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management

The five key principles of the code are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

The Fighting Fraud Locally Strategy (2012 and 2015) highlights the three keys areas for councils to consider when dealing with fraud- **Acknowledge**, **Prevent** and **Pursue**, the Aims of this Anti-Fraud Plan reflect these fully as does the Councils Anti-Fraud and Corruption Strategy.

EHC Anti-Fraud Action Plan 2016/2017

Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure
Acknowledge and understand fraud risks	Review the Councils existing Anti-Fraud and Corruption Strategy, Fraud Response Plan and, Whistleblowing Policy, Money Laundering Policy implement a new Fraud Prosecution Policy.	Head of Legal Services. Chief Exec. SAFS Manager	October 2016
	Ensure that the Council retains its Board and Partner role in SAFS and funding for the services provided by SAFS.	S.151 Officer. Chief Exec	March 2017
	Annual fraud reports to the Audit Committee.	s.151 Officer and SAFS Manager	September 2016/ March 2017
	Identify key fraud risks faced by the Council. Add to Risk Register as appropriate.	Risk Manager. SAFS Manager	Ongoing
	Promote and publicise the costs of fraud to staff, members and local residents including the impact this had on Council Services.	SAFS Manager and EHC Comms Team	Ongoing
	Subscribe to organisations and events that demonstrate the Councils zero tolerance to fraud.	SAFS Manager	Ongoing. CIPFA/CIH/LAIOG/NAFN
	Roll out an E-learning anti-fraud training package for EHC Staff	SAFS Manager. HR Manager	March 2017

	Provide Money Laundering training for appropriate staff	Monitoring Officer. MLRO. Head of Legal Services.	October 2016
	Provide Fraud Awareness training to Elected Members	SAFS Manager	March 2017

Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure
Prevent and deter fraud	Maintain a strong internal control framework as assessed by SIAS Internal Audit Annual Report	S.151 Officer – SIAS Manager	Ongoing. AGS and Planned Audits.
	Create and maintain Data Sharing Procedures including Information Sharing Protocol (ISP), PIA/EIA to allow for lawful exchange of data between SAFS and EHC.	IT Manager. Head of Legal. SAFS Manager	Ongoing but reviewed each April.
	Deliver fraud awareness, prevention training and workshops to Council Services at risk if fraud	SAFS Manager	5 Local Events at EHC delivered by SAFS
	Have in place one SAFS Counter Fraud Officer FTE for EHC exclusive use. Access to SAFS Intel/Admin to support for this role. Access to SAFS Manager for Senior Mgt Meetings.	SAFS Manager	Ongoing
	Issue Fraud Alerts to appropriate staff and managers as when new fraud threats arise and publish a Fraud & Corruption Newsletter for staff.	SAFS Manager	Ongoing.

	Have in place fraud reporting tools to allow staff and public alike to report fraud.	SAFS Manager	Ongoing
	Permit SAFS to oversee and assist the delivery of the National Fraud Initiative 2016 as the NFI SPOC for EHC.	SAFS Manager. S.151 Officer.	October 2016
	Provide access to services such as National Anti-Fraud Service (NAFN), CIPFA, Local Authority Investigation Officers Group (LAIOG) to benefit both EHC and SAFS.	SAFS Manager	Ongoing
Anti-Fraud and Corruption Strategy	**Activity**	**Lead Officer/s**	**Target Date/Value/Measure**
Be stronger in pursuing fraud and recovering losses	Record identified financial savings from anti-fraud activity. Record value of all fraud identified to an agreed, auditable and recognised standard.	SAFS Manager	SAFS Champion Meetings. Audit Committee. £100K Target for EHC. KPI
	Maximise civil recovery and utilise civil recovery methods to seek redress where fraud is identified.	SAFS Manager and Head of R&B Service	Ongoing
	EHC will Publicise prosecutions, sanctions, recovery to demonstrate a zero tolerance to fraud and act as a deterrence to others.	SAFS Manager and EHC Comms Team	Ongoing
	To work in a partnership role with SAFS and ensure that SAFS delivers value for money and return on investment to EHC, be this in actual new revenue or future savings.	S.151 Officer and SAFS Manager.	Champion Meetings

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	East Herts Council will support County wide CTAX SPD review which will benefit the Council, and any other opportunities to conduct anti-fraud projects with SAFS as required.	s.151 Officer and SAFS Manager	From October 2016

SAFS Resources 2016/2017

Budget

In 2015/2016 SAFS had the advantage for funding from CLG (£366,000) to meet many of its set up costs including project management, case management, IT hardware and licenses. The Partner fee in 2015/2016 was agreed at £80,000 split between a fixed and flexible elements. A small surplus was delivered in 2015/2016 which allowed the fee for 2016/2017 to be reduced.

The agreed annual funding for each SAFS partner has been set at £75,000 per partner as a fixed fee payable quarterly. It has been agreed that SAFS will be allowed to build up a small operating reserve but should this be exhausted all Partners agree to meet any shortfall in Budgets equally.

Staffing

The full complement of SAFS posts have now been filled with 9 FTE's in post; 1 Manager, 1 Assistant Manager, 5 Investigators and 2 Intelligence Officers. All the investigators are fully trained and accredited but both Intelligence Officers require training and accreditation and this is ongoing and will be met from the CLG funding.

The SAFS Team is also supported by 1 FTE Data-Analyst and ½ FTE Business Support. Both these posts are funded through the SAFS Budget.

For staffing- East Herts Council will have exclusive access to one FTE Investigator, access to intelligence functions of the service, all data-matching services being offered through the local data-warehouse and call on the Counter Fraud Manager for quarterly liaison meetings, senior managers meetings and two Audit Committees per annum.

Appendix C

SAFS

KPIs for EHC 2016/2017

KPI	Measure	2015/2016 Target	Quarterly Target	SAFS Project Aims
1	Provide an Investigation Service	1 FTE on call at EHC	100%	**Ensure ongoing effectiveness and resilience of anti-fraud arrangements when the impact of the Single Fraud Investigation Service (SFIS) takes effect.**
2	Identified Value of Fraud prevented/detected. Based on the Methodology agreed by SAFS Board	£100k	£25k	**Deliver financial benefits in terms of cost savings or increased revenue.**
3	Allegations of fraud Received. From all sources.	100 Fraud referrals	25	**Improve the reach into the areas of non-benefit and corporate fraud within the county.**
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	50%	50%	**Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.**
5	Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining.	Data-Hub, Access to NFI and County SPD Exercise	100%	**Create a data hub for Hertfordshire.**

SAFS- Standards of Service.

SAFS will provide East Herts Council with the following fraud prevention and investigation services as part of the contracted anti-fraud function.

1. Access to a managed fraud hotline and webpage for public reporting.
2. Process and document for SAFS Partner staff to report suspected fraud to SAFS.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, ID Fraud Prevention.
4. Assistance in the design of Council policies processes and documents to deter/prevent fraud.
5. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
6. SAFS will provide a proactive data-matching solution (data-warehouse) to identify fraud and prevent fraud occurring.
   - The data-warehouse will be funded by SAFS and located in accordance with DPA requirements.
   - The data-warehouse will be secure and accessible only by named SAFS Staff. Data will be collected and loaded in a secure manner.
   - SAFS will design and maintain a data-sharing protocol for SAFS Partners to review and agree to as they choose. The protocol will clearly outline security provisions and include a PIA.
   - SAFS will work with nominated officers in the SAFS Partners to access data-sets to load to load into the data-warehouse and determine the frequency of these.
   - SAFS will work with Partners to determine the most appropriate data-matching for each of them and the frequency of such data-matching.
7. All SAFS Staff will be qualified, fully trained and/or accredited to undertake their duties lawfully, or be working towards such qualifications.
8. All SAFS investigations will comply with legislation including DPA, PACE, CPIA, HRA, RIPA* and all relevant policies of the Council.
9. Reactive fraud investigations.
   - All reported fraud will be actioned by SAFS within 10 days.
   - The Council will be informed of all reported fraud and how SAFS are going to deal with this.

- SAFS will allocate an officer to each investigation.
- SAFS officers will liaise with nominated officers at the Council to access data/systems/accommodation required to undertake their investigations.
- SAFS Officers will provide updates on cases and a report with summary of facts and supporting evidence on conclusion of the investigation for the Council to review and make any decisions.
- Where a decision indicates an offence SAFS Officers will draft a report for the nominated officers of the Council to make a decision on any further sanctions/prosecutions.

10. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal based on the Code for Crown Prosecutors and the Councils published policies. Decisions on imposition of any sanction will lay with the Council but the issue of any penalty will be resolved locally on a case by case basis.

11. SAFS will provide reports through the SAFS Board on progress and to the Councils Audit Committee.

12. SAFS will provide Alerts to all Partners, including East Herts Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.

Data Protection Act, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act.

**East Hertfordshire District Council
Performance against
Anti-Fraud Plan
2016/2017**

(Hertfordshire Shared Anti-Fraud Service)

EHDC Anti-Fraud Action Plan 2016/2017

Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.7.2016
Acknowledge and understand fraud risks	Review the Council's existing Anti-Fraud and Corruption Strategy, Fraud Response Plan and, Whistleblowing Policy, Money Laundering Policy implement a new Fraud Prosecution Policy.	EHDC Head of Legal Services. Chief Exec and SAFS Manager	October 2016	Prosecution Policy presented AC by SAFS for adoption in March 2016. Anti-Fraud and Coruption Policy reviewed in 2015.
	Ensure that the Council retains its Board and Partner role in SAFS and funding for the services provided by SAFS.	s.151 Officer/ Chief Exec	Ongoing to April 2017.	s.151. or Strategic Director attends SAFS Board Decision about continuation of Project post April 2017 to be made by SAFS Board September 2017.
	Annual fraud reports to the Audit Committee.	SAFS Manager s.151 Officer	2 Reports to AC Annually	AC dates for SAFS reports agreed Sep 2016 and March 2017 in Fwd Plan

	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.7.2016
	Identify key fraud risks faced by the Council. Add to Risk Register as appropriate.	SAFS Manager and EHDC Risk Manager	September 2016	Outstanding.
	Promote and publicise the costs of fraud to staff, members and local residents including the impact this had on Council Services.	SAFS Manager and EHDC Comms Team	Ongoing but to start from June 2016	Further Cheater Campaign linked to new SAFS webpage arranged for Sep/Oct 2016. Several local PRs issued to residents in 2016.
	Subscribe to organisations and events that demonstrate the Council's zero tolerance to fraud.	SAFS Manager	Ongoing	SAFS joined CIPFA Centre for Counter Fraud for all Partners.
	Roll out an E-learning anti-fraud training package for EHDC Staff	HR Manager and SAFS Manager	March 2017	Outstanding
	Provide Money Laundering training for appropriate staff	Monitoring Officer. MLRO. Head of Legal Services	October 2016	Arranged for s.151 and MLRO for October 2016.
	Provide Fraud Awareness training to Elected Members	SAFS Manager	March 2017	Outstanding
Anti-Fraud and Corruption Strategy	**Activity**	**Lead Officer/s**	**Target Date/Value/Measure**	**Progress at 31.7.2016**

Prevent and deter fraud	Maintain a strong internal control framework as assessed by SIAS Internal Audit Annual Report	S.151 and SIAS Manager	Ongoing	AGS and Internal Audit Plan
	Create and maintain Data Sharing Procedures including Information Sharing Protocol (ISP), PIA/EIA to allow for lawful exchange of data between SAFS and EHDC.	IT Manager, Head of Legal Services, and SAFS Manager	Review from April 2016 onwards	ISP being reviewed for all SAFS Partners by HCC and NHDC Legal with emphasis on revised PIA.
	Deliver fraud awareness, prevention training and workshops to Council Services at risk of fraud	SAFS Manager	5 Local Events at EHDC delivered by SAFS	Housing Event Oct 2016 AML Oct 2016 NNDR- Nov 2016 Induction Training for new staff in place.
	Have in place one SAFS Counter Fraud Officer FTE for EHDC exclusive use. Access to SAFS Intel/Admin to support for this role. Access to SAFS Manager for Senior Mgt Meetings.	SAFS Manager	Ongoing	RK (SCFO) in place NJ/SE support this work
	Issue Fraud Alerts to appropriate staff and managers as when new fraud threats arise and publish a Fraud & Corruption Newsletter for staff.	SAFS Manager	Ongoing from April 2016	9 Alerts issued in 1st Qtr. from NAFN, OWL, NFIB and Partners.
	Have in place fraud reporting tools to allow staff and public alike to report fraud.	SAFS Manager and EHDC Webteam	Ongoing from April 2016	Webpage, Hotline, Direct line, email all available.

Anti-Fraud and Corruption Strategy	Activity	Lead Officer/s	Target Date/Value/Measure	Progress at 31.7.2016
	Permit SAFS to oversee and assist the delivery of the National Fraud Initiative 2016 as the NFI SPOC for EHDC.	SAFS Manager and S.151 Officer	October 2016	Agreed that SAFS will act as Key-Contact and upload roles for 2016/2017.
	Provide access to services such as National Anti-Fraud Service (NAFN), CIPFA, Local Authority Investigation Officers Group (LAIOG) to benefit both EHDC and SAFS.	SAFS Manager	April 2016	SAFS subscribes to NAFN, CIPFA, LAIOG, PNLD for all Partners.
Be stronger in pursuing fraud and recovering losses	Record identified financial savings from anti-fraud activity. Record value of all fraud identified to an agreed, auditable and recognised standard.	SAFS Manager	Ongoing from April 2016. SAFS Champion Meetings £100k Target for 16/17	Fraud of £62k identified in first Qtr 2016/2017
	Maximise civil recovery and utilise civil recovery methods to seek redress where fraud is identified.	SAFS and Shared Revs and Bens Manager	Ongoing from April 2016	EHDC have policy and process in place and are now capable of issuing CPs.
	EHDC will Publicise prosecutions, sanctions, recovery to demonstrate a zero tolerance to fraud and act as a deterrent to others.	EHDC Comms Manager and SAFS Manager	As and when required	Several PR issued already and a number of cases are pending outcomes that will

				be reported as well.
	To work in a partnership role with SAFS and ensure that SAFS delivers value for money and return on investment to EHDC, be this in actual new revenue or future savings.	SAFS Manager and s.151 Officer	Ongoing from April 2016	Meetings taking place with S.151 and Board Reports.
	EHDC to support County wide CTAX SPD review which will benefit the Council, and any other opportunities to conduct anti-fraud projects with SAFS as required.	SAFS Manager, S1.151 Officer and Shared Revs and Bens Manager	October 2016	SAFS are leading on procurement of a CTAX 'Review Framework' for whole County. Go live- October 2016

Shared Internal Audit Service

Annual Report

2015/16

Annual Report Contents
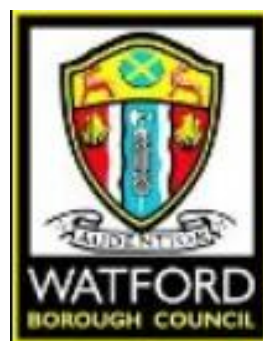
Introduction and Highlights

Terry Barnett
Head of Assurance for the
Shared Internal Audit
Service

Welcome to the annual report covering the activity of the Shared Internal Audit Service in the 2015/16 financial year.

Established in 2011, the Service is considered to be an exemplar of local authorities working in partnership. The commitment and dedication of the team and the co-operation of our partners continues to allow the service to combine the 'in-house' appreciation and understanding of local government, with the business-like focus of the big internal audit firms.

In 2015/16, our compliance with the Public Sector Internal Audit Standards was the subject of an independent peer review; an exercise that confirmed the Service was operating at the highest level of conformance. In addition the audit methodology used by the Service was revised, with the new approach being commended by the independent review team.

Once again SIAS exceeded its two key performance indicators and it continues to deliver high quality audit services to its clients.

I am very proud of the work of the team and delighted to be able to share some of the highlights of our working year in this report.

Terry Barnett

Head of Assurance for the Shared Internal Audit Service

July 2016

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Maintaining High Levels of Delivery

Despite some challenges late in the year related to staff absences, our billable days and audits delivered targets were exceeded with figures of 97% and 96% respectively achieved.
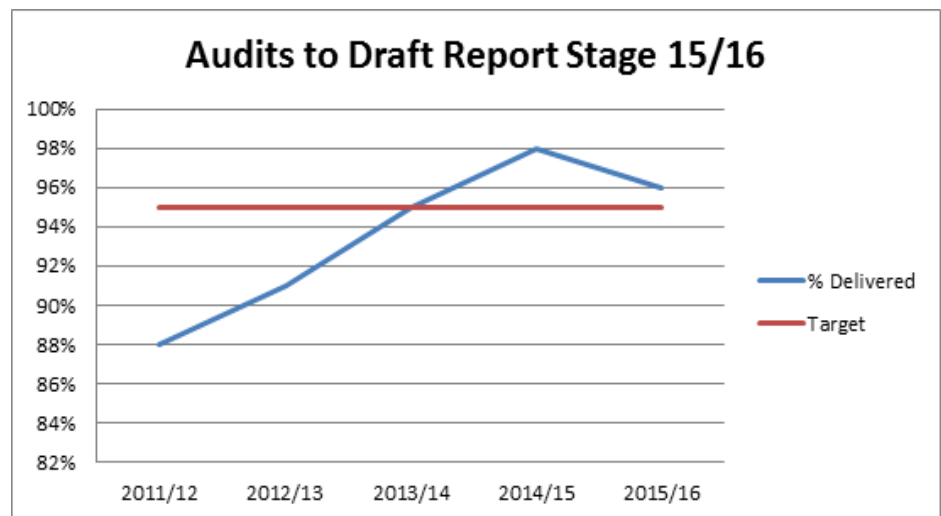
This continues the trend for delivering high performance results that has been a feature of the last five years.

Figure 1: Percentage of audits days delivered
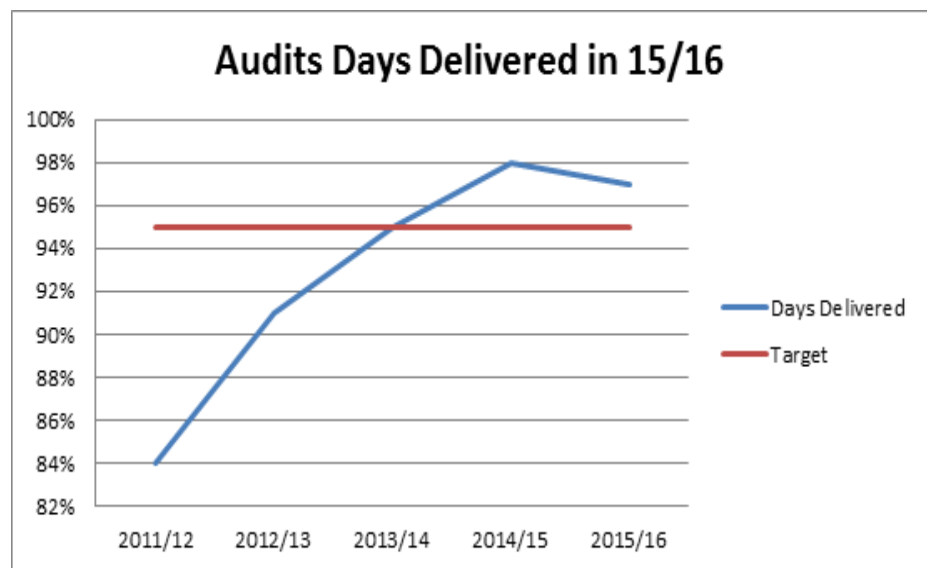
Key performance targets continue to be exceeded…

Figure 2: Percentage of audits to draft stage

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Independently Assured

The Public Sector Internal Audit Standards (PSIAS) require that an annual self-assessment be carried out as part of a Quality Assurance and Improvement Programme. This assessment seeks to evidence that effective arrangements are in place and internal audit standards are in line with good practice.

SIAS chose to join a peer review group to facilitate a programme of independent validation of each member's self-assessment and in January 2016 the Service was the subject of a peer review carried out by Veritau Ltd, an Audit Partnership located in Yorkshire.

The outcome from the review was that SIAS achieved the highest level of conformance to the PSIAS; having a charter, policies and processes that fully meet the Standards.

When carrying out the review the Veritau team found high standards of service delivery and a number of areas of good practice; some of their feedback is provided below:

"…the service has credibility and its recommendations and advice are valued by management…"

- *'The review team received consistently positive feedback about SIAS from client officers and audit committee members'*

- *'The service has credibility and its recommendations and advice are valued by management'*

- *'The service is focussing on the right areas and there is an appropriate mix between compliance work and more forward looking strategic type audits'*

- *'The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client'*

- *'Time management is excellent and there is a real emphasis on efficient working, assignment planning, review and control'.*

Shared Learning - The Power of Partnership

It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is developing momentum through our team, our sister services within Assurance and across our partners and opportunities abound to publicise and promote issues big and small.

Shared learning highlights for the year included a workshop on Risk Management in which all our partners participated. The workshop and subsequent report benchmarked the approach to risk management, risk appetite and risk registers to understand approaches and areas of difference. Of great benefit to the workshop, was not only the attendance of Risk Managers from our partners, but also Service Heads and Managers who enlightened proceedings with the reality of risk management at the 'coal face' of service delivery. Together we examined the key areas and identified areas for potential continuous improvement.

…our quarterly shared learning papers are now a regular feature at management boards, governance groups and team meetings across our partners

Over the course of 2015/16, our quarterly shared learning papers became embedded and are now a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Service. This last year has seen a number of special editions covering topical issues such as safeguarding and counter-Fraud, as well as a summary of themes arising from our key financial systems work across our partners. Our recent safeguarding paper based on themes arising from our safeguarding audits across our partner base stimulated great interest and debate when presented to the District Safeguarding Group.

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Developing our Processes

With the SIAS trading model centred on the delivery of audit services within pre-agreed budgets it is important that we constantly review the ways in which the service carries out its work. 2015 /16 saw a major revision of our methodology that sought to meet two key objectives:

- Compliance with the Public Sector Audit Standards; and
- Minimising the costs associated with the work that allows us to arrive at our conclusions and opinions.

Constant revision to stay up to date, relevant and efficient

Utilising the skills of the SIAS team through an initial brainstorming session and project mid-point consultation, the project team sought to arrive at a solution that would both: exploited existing technology; and streamline some of the repetitive tasks involved in maintaining the complex working papers required to support our assurance opinions.

Utilising the Microsoft Excel package the new methodology allowed us to house the audit working file in a single document which incorporates links to evidence files in the same location.

A large portion of the sample of audit projects that were used in the independent review were carried out using the new methodology and the reviewers made the following reference to the quality of the approach in their final report:

'Audit assignments are well planned and the testing is directed to those areas of greatest importance. Working papers are completed to a consistently good standard and the audit reports are clear and concise'.

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First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that we have received 95% satisfactory or higher feedback rating from our customers.

Some of the comments that accompany the formal scoring document are shown below:

- *'A very efficient, professional, service with excellent regular communication'*

- *'Discussions around the draft report were well handled to end up with an appropriate recommendation that we have already actioned'*

- *'…we now have a report that helps informs future actions'*

- *'The final report captured the issues well and the recommendations will undoubtedly help us to develop an action plan with audit recommendations having 'added value' for the officers involved'*


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Performance - Outcomes

SIAS worked on 309 assurance and other projects during the year, giving the assurance opinions and recommendations detailed in the charts below.

For those pieces which resulted in a formal assurance opinion the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2015/16

309 assurance and other projects identifying 663 recommendations

Figure 3: Distribution of Audit Opinion 2015/16 — Full, 57; Substantial, 168; Moderate, 32; Limited, 3; Not Assessed, 49
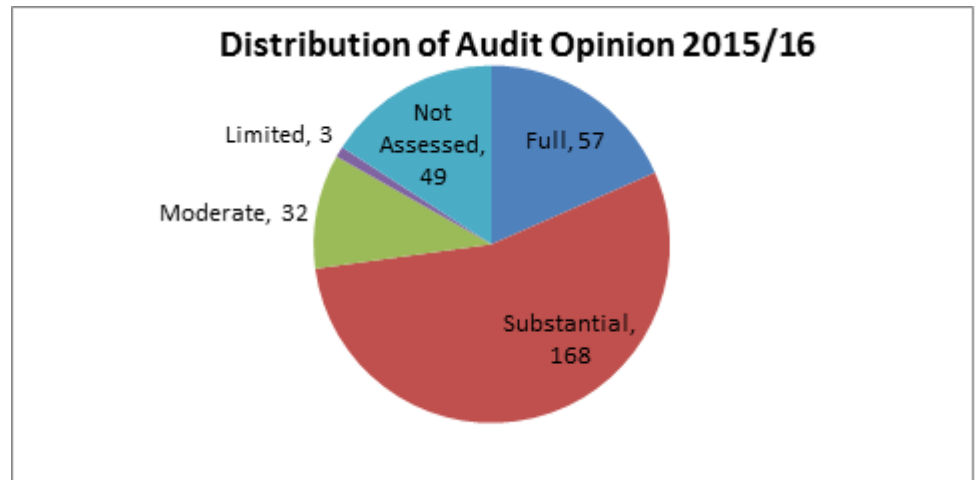
For those audits where recommendations were required the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2015/16

Figure 4: Prioritisation of Recommendations 2015/16 — High 19; Medium 311; Low 333
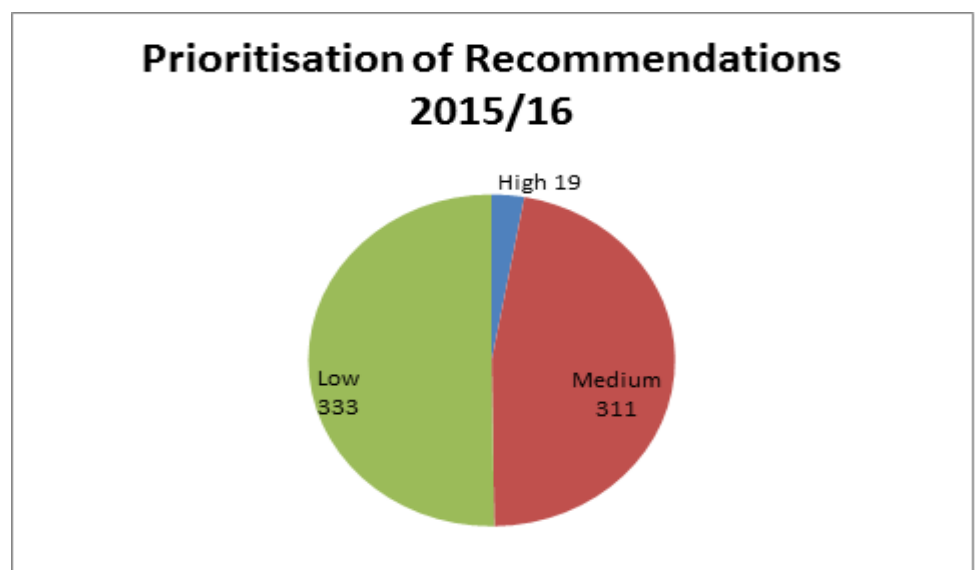
Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2015	Actual as at 31 March 2016	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	98%	97%	The service continues to exceed its two key performance indicators.
Progress against plan: audits issued in draft by 31 March	95%	98%	96%	
Client satisfaction	Satisfactory and above	96%	95%	Good performance in this area

Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2016.

The partners determined that the service should aim to build a small surplus in order and to move to considering the financial position of the service on a three year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

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Future Developments

With SIAS now fully established and the Shared Anti-Fraud Service becoming an integrated part of the Assurance process, 2016/17 seems the appropriate time to consider future developments.

Among the outcomes from the independent peer review referenced elsewhere in this report were two recommendations directed at the SIAS Board, these were:

- That the SIAS Board define the strategic vision, objectives and priorities for the business; and

- The Board should try to leverage the benefits of developing a single brand for the wider service.

With these recommendations closely linked to each other the matters have been included in the SIAS 16/17 Service plan and will be taken forward via a separate project that will seek to establish the business advantage that an approach which sees all assurance services e.g. Audit, Anti-Fraud, Health & Safety etc. could secure.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

Clare Fletcher, SBC

Assistant Director (Finance)

Sajida Bijle, HBC

Director of Resources

Owen Mapley, HCC

Director of Resources

Norma Atlay, NHDC

Director Finance, Policy & Governance

Pam Kettle, WHBC

Director of Finance & Operations

Philip Gregory, EHC

Head of Strategic Finance & Property

Jo Wagstaffe, WBC and TRDC

Shared Director of Finance

Terry Barnett, SIAS

Head of Assurance

SIAS cost centre: revised budget against outturn 2015/16		
	Budget £	**Outturn**
Salaries & Salary Related	1,140,772	1,061,939
Partner / consultancy costs	51,273	109,514
Transport	12,130	8,466
Supplies	27,374	14,773
Office Accommodation cost	22673	17005
RCCO		854
	1,254,222	1,212,551
Total expenditure		
Income	1,250,594	1,238,126
Net surplus / deficit	**-3,628**	**25,575**

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

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

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

REPORT BY THE LEADER OF THE COUNCIL

ANNUAL GOVERNANCE STATEMENT 2015/16

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- This report presents the 2015/16 Annual Governance Statement and the 2016/17 Annual Governance Statement Action Plan.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:	
(A)	The 2015/16 Annual Governance Statement and 2016/17Action Plan be approved.

1.0   Background

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

2.0   Report

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

2.2 The Council should undertake regular, at least annual, reviews of its governance arrangements by means of an Annual Governance Statement, to ensure continuing compliance with best practice. It is important that such reviews are reported both within the Council, to the Audit and Governance Committee and externally with the published accounts, to provide assurance that:

o governance arrangements are adequate and operating effectively in practice, or

o 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:

o an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)

o an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide

o a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.

o 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 and Governance Committee/ overview and scrutiny function/ Standards Committee
➢ Internal Audit
➢ other explicit review/ assurance mechanisms

o   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:

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

2.6   The Chartered Institute of Public Finance and Accountancy (CIPFA) have recently provided five top tips for improving the governance statement:

o   Keep it relevant: Make sure the governance statement is written specifically for the year being considered. It should reflect the adequacy of the governance in place for the year and provide an opportunity to reflect on current governance challenges.

o   Evaluate and conclude: The statement should be an evaluation rather than a description. The statement should include a conclusion, e.g. "the arrangements continue to be regarded as fit for purpose in accordance with the governance framework".

o   Well founded: The governance statement should be underpinned by a robust review and assessment of governance.

o   Plan improvement: There is a need to be clear about what needs to improve and how that is to be achieved.

o   Keep it short: The Annual Governance Statement should be brief, focused and high-level, written in an open and readable style.

2.7   In order to add real value to the Annual Governance Statement officers have considered the current Annual Governance Statement Action Plan, External and Internal Audit reports, Risk registers, Management Assurance Statements, Ombudsman reports, 3 C's reports, National Fraud Initiative reports and the Annual Report.

2.8   The Audit and Governance Committee has monitored the 2015/2016 Annual Governance Statement Action Plan throughout the year. At the Audit and Governance Committee on 15 June 2016, it was reported that one governance issue had been completed and two significant governance issues remained outstanding and their status showed as "Amber". These outstanding issues are considered to remain significant and have therefore been carried forward to this year's Action Plan with target dates updated to reflect any changes of circumstances.

2.9   The Chief Executive, the Monitoring Officer and the Chief Finance Officer have discussed any items that could be considered significant governance issues that have been identified in the past year. No new issues have been identified to include in the Action Plan; no specific issues were raised either by the external auditor or the Shared Internal Audit Service.

2.10   An Annual Governance Statement and an Action Plan that identifies required enhancements to internal control arrangements has been drawn up.

2.11   The static part of the Annual Governance Statement can be found at **Essential Reference Paper 'B'**. This document shows tracked changes made to last year's statement. Changes have been made that update the Council's governance arrangements to ensure the current position is reflected. **Essential Reference Paper 'C'** is the Annual Governance Statement without the tracked changes for ease of reading.

2.12   The Annual Governance Statement Action Plan 2016/2017 can be found at **Essential Reference Paper 'D'**. The two issues identified will continue to be monitored through the Leadership Team and the Audit and Governance Committee.

2.13   These documents were considered by Corporate Business Scrutiny Committee on 30 August 2016 and the Executive on 6 September 2016. Responsibility for approval of the Annual Governance Statement rests with the Audit and Governance Committee, as part of the approval of the Annual Accounts.

2.14   CIPFA and the Society of Local Authority Chief Executives and Senior Managers (Solace) have published a new 'Delivering Good Governance in Local Government: Framework' in 2016. This framework will apply to annual governance statements prepared for the financial year 2016/17 onwards as required by the CIPFA Code of Practice on Local Authority Accounting. The 2016/17 Annual Governance Statement will incorporate the changes required by the new framework.

3.0   <u>Implications/Consultations</u>

3.1   Consultation documents were sent to the Leader and Executive Members, Chairmen of Committees, Leadership Team, the Shared Internal Audit Service and EY. Leadership Team considered the Annual Governance Statement and Action Plan on 15 August 2016.

3.2   Corporate Business Scrutiny Committee and the Executive considered the Annual Governance Statement and Action Plan, prior to approval by the Audit and Governance Committee.

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

<u>Background Papers</u>
None.

Contact Member: Councillor Linda Haysey, Leader of the Council.
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Contact Officers: Liz Watts, Chief Executive, Extn: 1410.
                       liz.watts@eastherts.gov.uk

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

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IMPLICATIONS/CONSULTATIONS:

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy The report summarises the governance of the Council in 2015/16 and contributes to all the Corporate Priorities.
Consultation:	Consultation documents were sent to the Leader and Executive Members, Chairmen of Committees, Leadership Team, the Shared Internal Audit Service and EY.
Legal:	No specific implications arise from this report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	No specific implications arise from this report
Risk Management:	This report documents significant matters related to the ongoing governance of the council.
Health and wellbeing – issues and impacts:	No specific implications arise from this report.

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EAST HERTS COUNCIL ANNUAL GOVERNANCE STATEMENT 2015~~4~~/2016~~5~~ AND ACTION PLAN 2016~~5~~/2017~~6~~

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~~6~~ of the Accounts and Audit (England) Regulations 2015~~4~~ 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
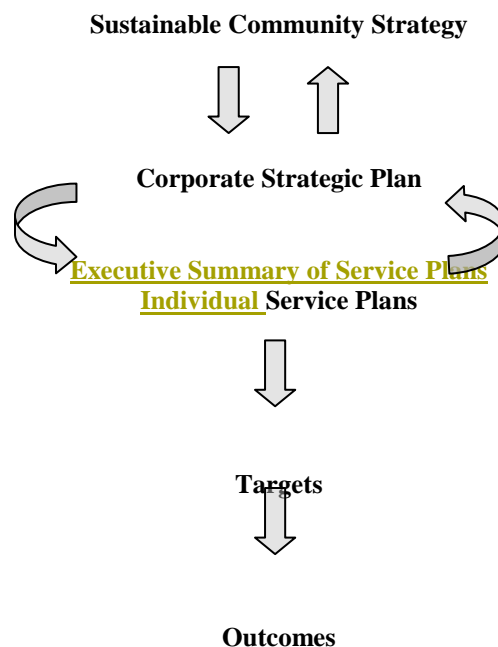
The Sustainable Community Strategy outlines the vision, aims and priority themes for the district. It was produced in conjunction with the East Herts Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.

The Customer Services Strategy requires all services to individually consider insight about their customers, local need and how their service is accessed and set out actions, within the Council's medium term financial planning process, to maximise the appropriate digital operation and delivery of services. This will include the requirement to understand the reasons for customer contact and the methods currently used.

The Council's ~~aims~~priorities and ~~objectives~~outcomes are set out in the ~~annually updated~~ Corporate Strategic Plan, which is reviewed annually. 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~~deliver these outcomes are incorporated in~~to~~ the executive summary of service plans. ~~i~~Individual service plans set out all strategic and operational activity. The Plan will be ~~updated~~ reviewed 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. ~~During 2015/16 the financial and business planning process is being fundamentally changed. It will ensure that service actions reflect changing patterns of demand, need and preference balanced against financial constraints in the medium term.~~

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 Corporate Business Scrutiny committee monitor the delivery of the MTFP.

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.

Sustainable Community Strategy

Corporate Strategic Plan

Executive Summary of Service Plans
Individual Service Plans

Targets

Outcomes

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~~Corporate Strategic Plan which focuses on activities that will deliver the Council's ~~ambitions and priorities~~outcomes. 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~~Quarterly Performance report and ~~Service Plan monitoring reports~~ the Mid-Year and Annual Report in regard to the Corporate Strategic Plan.

The Council's Executive and ~~its Scrutiny Committees~~Corporate Business Scrutiny Committee 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~~ quarterly 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. The, ~~as evidenced by the~~ Annual Audit Letter documents this relationship with external auditors and is submitted with the Statement of Accounts to the Audit Committee.

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. This ensures that decisions are transparent and that Members are accountable to local people.

The Council adopted the Leader and Cabinet Executive model. The main features are:
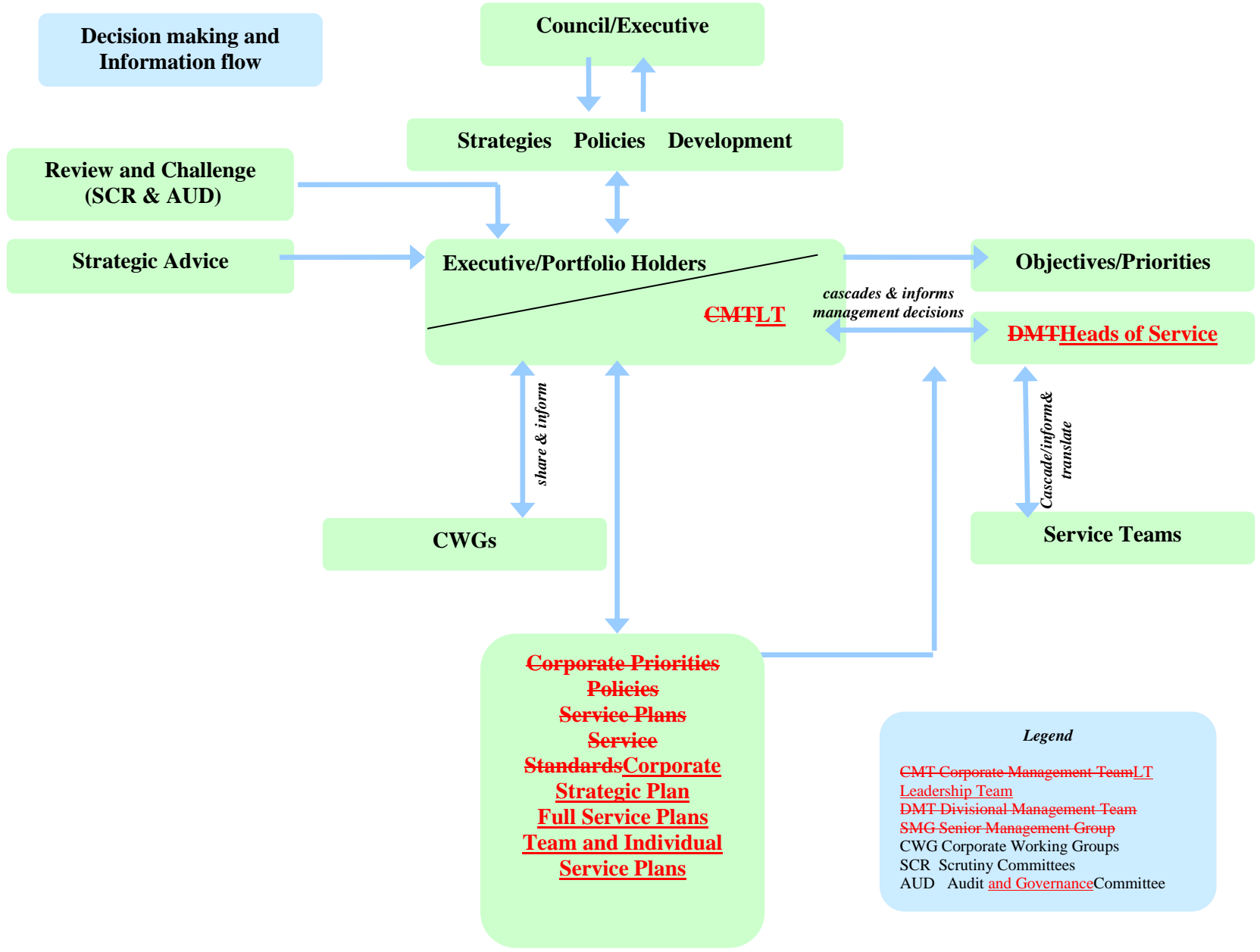
- The Council's Executive consists of a Leader and between two and nine other Councillors.
- The Leader is elected by full Council and will hold office in accordance with the Local Government Act 2000, the Local Government and Public Involvement in Health Act 2007and the Localism Act 2011.
- The other 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 Chief Executive retired in May 2015 and a new Chief Executive takes up the post in Autumn 2015.~~

The Council's Leadership~~Corporate Management~~ Team ~~(CM~~LT~~)~~ consisting of the Chief Executive , Directors and the Heads of Services ~~of Human Resources and Organisational Development~~ meets on a weekly~~fortnightly~~ basis to develop ~~policy~~ policies and discuss issues commensurate with the Council's aims, objectives and priorities. ~~LCMT~~The Leadership Team also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of ~~CMLT~~the Leadership Team meet with Portfolio Holders regularly~~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. ~~CMLT~~The Leadership Team has a corporate responsibility for the messages that the Council produces, both internally and externally.

Below ~~CMLT~~Leadership Team the management structure is well defined. The chart below indicates how decisions are implemented and cascaded:

Decision making and Information flow

Council/Executive

Strategies   Policies   Development

Review and Challenge (SCR & AUD)

Strategic Advice

Executive/Portfolio Holders

~~CMT~~LT

cascades & informs management decisions

Objectives/Priorities

~~DMT~~Heads of Service

share & inform

Cascade/inform & translate

CWGs

Service Teams

~~Corporate Priorities~~
~~Policies~~
~~Service Plans~~
~~Service Standards~~**Corporate Strategic Plan**
Full Service Plans
Team and Individual Service Plans

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

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

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, s/he will report to the full Council if s/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 constantly monitors its speed of response to FOI's and seeks to proactively publish regularly requested information by making a wider range of information more easily available through the Council's website.

The Council determines its Members' Allowances scheme in accordance with the legislative framework. Each allowance scheme is determined following consideration of the recommendations made by its Independent Remuneration Panel

A scheme forms part of the Council's constitution and details of actual allowances paid are published as soon as possible after the end of the year in question.

All Council services are delivered by trained and experienced people. All posts have a detailed job description~~post profile~~ and person specification. Learning and development~~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 Silver~~Bronze~~ standard ~~re-~~accreditation ~~for a further three years~~ from 20 April~~May~~ 201~~5~~6 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 Financial Regulations that form part of the Council's constitution. The Head of Strategic~~Director of~~ Finance and Property~~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 Financial Conduct Authority. The Portfolio holder and the Leader of the Council receive regular updates from the Head of Strategic Finance and Property~~Director of Finance and Support Services~~. The Chairman of the Audit and Governance 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.

The Council utilises an Anti-Fraud service delivered under a shared partnership service with five other Councils. The Anti-Fraud service provides robust fraud prevention, detection and investigation across Council services.

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~~outcomes.

At individual employee level the Council has established a Personal Development Review Scheme so as to agree individual employee objectives and identify learning~~training~~ and development needs jointly. The Scheme provides for regular 121's and~~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, Environment Scrutiny and ~~from 2015/16,~~ Health and Wellbeing Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. They also help to develop new policy and make considered recommendations prior to any major contract tendering.~~, developing the capacity and capability of members and officers to be effective.~~
- Audit and Governance 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.It has also taken on the role previously provided by the Standards Committee that promotes and maintains high standards of conduct for the Council's Members.~~;~~
- 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 takes 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 Leadership~~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.

Executive 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 operates 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 Head of Strategic Finance and Property ~~Governance and Risk Management~~ is the Audit Champion for the Council and has monitoring meetings every three months with ~~the Director of Finance and Support Services and~~ SIAS managers. Progress reports are submitted to four Audit and Governance Committee meetings per year.

The Shared Anti-Fraud Service (SAFS) ~~launched in June 2015 and~~ is a partnership of six Hertfordshire Authorities. It is a 'sister' partnership with SIAS and has shared governance arrangements through the Partnership Board. ~~SAFS will provides robust fraud prevention, detection and investigation across Council services.~~ The Council is represented on the Board and the Head of Strategic Finance and Property ~~Governance and Risk Management~~ is the Council's Anti-Fraud Champion.

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 is operating.

The Council is one of seven partners of Hertfordshire Authorities in a Building Control joint venture due to launch in summer 2016, with the TUPE of existing building control staff into the new company. Senior officers will be appointed by East Herts Council to act as a shareholder representative and Director of the new company within the agreed governance structures of the joint venture.

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 did hold accreditation for the Charter for Member Development but when that came to the end of the four year term, it was replaced by a local Member Development Pledge (based on the same parameters as the Charter).   The Pledge was originally signed in December 2014 by the leaders of all the political groups represented on the council at the time. It ~~hw~~was then ~~recently been~~ re-signed by the Leader on behalf of all Members at Annual Council in May 2015 and will be reviewed during 2016/17.

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 Group. With 22 new councillors elected in May 2015, on-going support was~~is being~~ offered through a co-ordinated Mentor support programme. A key aspect of on-going peer-to-peer support for local problem solving is the use of Member Support Groups~~Action Learning Sets~~.

The Council has an infrastructure in place to support members' needs in respect of ICT requirements.
The Council's Democratic Services team provide general 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 is taking forward the concept of 'Here to Help' which is an organisational development activity which has been developed in-house to allow 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 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 Organisational Development Strategy sets out the Council's workforce development plan over the next four years to support the Council's priorities and values. It focuses on how the Council attracts, retains, rewards and develops its employees.

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.

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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 the Residents' Survey~~s and follow-up focus groups~~. Engagement events around specific issues will be considered where they provide a proportionate and cost effective model for engagement.

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Individual members are active in their localities and with local groups and serve on a number of external bodies. Training is offered to all Members who are asked to represent East Herts on outside bodies and Trusteeships.

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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:

- The Chief Executive,~~All~~ Directors, Heads of Service, Members of the Executive and Chairmen of Committees are given the opportunity to make contributions.
- Consideration by the Audit and Governance Committee.
- Production of a draft Annual Governance Statement.
- Consideration by Leadership~~Corporate Management~~ Team
- Consideration by the Corporate Business Scrutiny Committee.
- Consideration by the Executive
- Approval by the Audit and Governance Committee.

The review of effectiveness is informed by the work of the Leadership Team ~~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 legal 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 ha~~sd~~ four ~~three~~ overview and scrutiny committees ~~(up to 2014/15) and four from the start of 2015/16~~. 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 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 and Governance Committee

~~Sev~~Ten Councillors sit on the Audit and Governance Committee, which has extensive ~~.~~ ~~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

19. 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.

20. To consider the External Auditors' report to those charged with governance on issues arising from the audit of the accounts.

The Audit and Governance Committee's terms of references, 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 and Governance Committee as part of the SIAS update report. The Audit Champion monitors all other recommendations and reports progress to Leadership~~Corporate Management~~ Team on a quarterly basis. All SIAS audit 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 and Governance 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 is~~will be~~ required to have an independent external review of performance at least every five years.

The latest external review conducted in January 2016 was undertaken by Veritau Ltd (a local authority controlled company which provides internal audit, counter fraud and other governance services). The review concluded that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code

of Ethics and the Standards. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

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~~Corporate Business Scrutiny on a quarterly 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 and Governance Committee.

The Head of Assurance's Annual report and opinion on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement. The opinion of the Head of Assurance in respect of 2015/16 is one of substantial assurance in respect of both financial and non-financial systems, giving significant confidence in the effectiveness of internal control arrangements of the Council. This report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2015/16, and is informed by the comments of external auditors and inspectors.

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
~~Head of Governance and Risk Management~~
Wallfields
Pegs Lane,
Hertford
SG13 8EQ

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EAST HERTS COUNCIL ANNUAL GOVERNANCE STATEMENT 2015/2016 AND ACTION PLAN 2016/2017

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 6 of the Accounts and Audit (England) Regulations 2015 that requires authorities to carry out an annual review of the effectiveness of its

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 Herts Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.
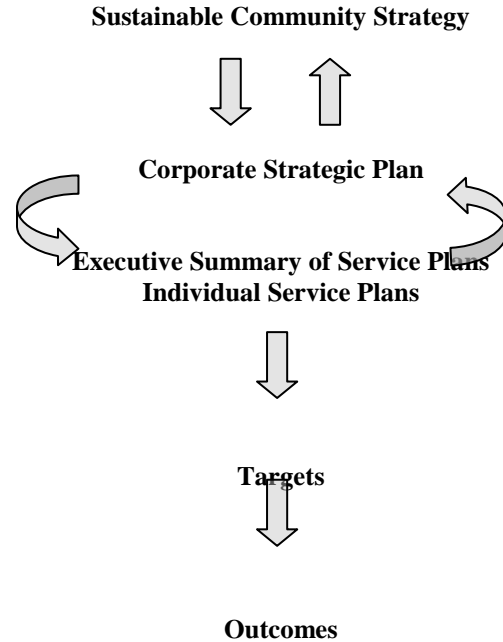
The Customer Services Strategy requires all services to individually consider insight about their customers, local need and how their service is accessed and set out actions, within the Council's medium term financial planning process, to maximise the appropriate digital operation and delivery of services. This will include the requirement to understand the reasons for customer contact and the methods currently used.

The Council's priorities and outcomes are set out in the Corporate Strategic Plan, which is reviewed annually. 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 deliver these outcomes are incorporated into the executive summary of service plans. Individual service plans set out all strategic and operational activity. The Plan will be reviewed each year to include new service developments and to remove

outcomes once 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 Corporate Business Scrutiny committee monitor the delivery of the MTFP.

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.

Sustainable Community Strategy

Corporate Strategic Plan

Executive Summary of Service Plans
Individual Service Plans

Targets

Outcomes

The Council has an effective performance management framework using a dedicated IT system to record and report performance. The system is driven by the Corporate Strategic Plan which focuses on activities that will deliver the Council's outcomes. 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 Quarterly Performance report and the Mid-Year and Annual Report in regard to the Corporate Strategic Plan.

The Council's Executive and Corporate Business Scrutiny Committee monitor and scrutinise progress against targets and performance in priority 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 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 quarterly 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. The Annual Audit Letter documents this relationship with external auditors and is submitted with the Statement of Accounts to the Audit Committee.

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 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. This ensures that decisions are transparent and that Members are accountable to local people.
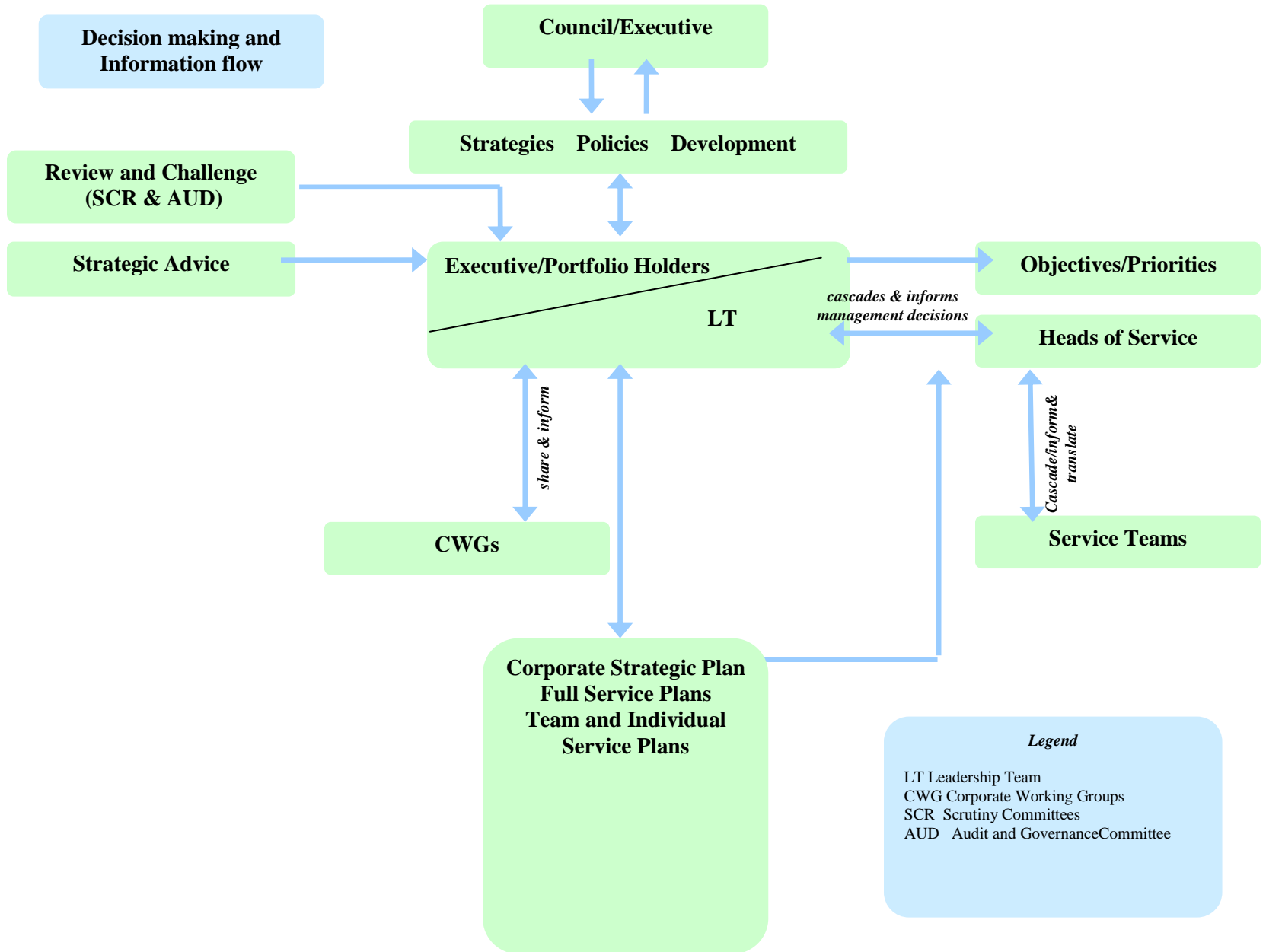
The Council adopted the Leader and Cabinet Executive model. The main features are:

- 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 Act 2000, the Local Government and Public Involvement in Health Act 2007and the Localism Act 2011.
- 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 Leadership Team consisting of the Chief Executive , Directors and the Heads of Services meets on a weekly basis to develop policies and discuss issues commensurate with the Council's aims, objectives and priorities. The Leadership Team also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of the Leadership Team meet with Portfolio Holders regularly to review progress in achieving the Council's ambitions, priorities for action, budget monitoring, performance management and forward planning for major issues. The Leadership Team has a corporate responsibility for the messages that the Council produces, both internally and externally.

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

Decision making and
Information flow

Council/Executive

Strategies   Policies   Development

Review and Challenge
(SCR & AUD)

Strategic Advice

Executive/Portfolio Holders

LT

*cascades & informs
management decisions*

Objectives/Priorities

Heads of Service

share & inform

CWGs

*Cascade/inform&
translate*

Service Teams

Corporate Strategic Plan
Full Service Plans
Team and Individual
Service Plans

Legend

LT Leadership Team
CWG Corporate Working Groups
SCR Scrutiny Committees
AUD   Audit and GovernanceCommittee

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

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

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, s/he will report to the full Council if s/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 constantly monitors its speed of response to FOI's and seeks to proactively publish regularly requested information by making a wider range of information more easily available through the Council's website.

The Council determines its Members' Allowances scheme in accordance with the legislative framework. Each allowance scheme is determined following consideration of the recommendations made by its Independent Remuneration Panel. A scheme forms part of the Council's constitution and details of actual allowances paid are published as soon as possible after the end of the year in question.

All Council services are delivered by trained and experienced people. All posts have a detailed job description and person specification. Learning and development 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 Silver standard accreditation from 20 April 2016 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 Financial Regulations that form part of the Council's constitution. The Head of Strategic Finance and Property 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 Financial Conduct Authority. The Portfolio holder and the Leader of the Council receive regular updates from the Head of Strategic Finance and Property. The Chairman of the Audit and Governance 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.

The Council utilises an Anti-Fraud service delivered under a shared partnership service with five other Councils. The Anti-Fraud service provides robust fraud prevention, detection and investigation across Council services.

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 outcomes.

At individual employee level the Council has established a Personal Development Review Scheme so as to agree individual employee objectives and identify learning and development needs jointly. The Scheme provides for regular 121's and 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, Environment Scrutiny and Health and Wellbeing Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. They also help to develop new policy and make considered recommendations prior to any major contract tendering.
- Audit and Governance 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. It has also taken on the role previously provided by the Standards Committee that promotes and maintains high standards of conduct for the Council's Members.
- 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.

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 takes 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 Leadership 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.

Executive 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 of a shared Revenues and Benefits service with Stevenage Borough Council.

A shared service partnership operates with Stevenage Borough Council to deliver ICT, Business Improvement, Print and Design services. A Partnership Board with Director representation is responsible for making the key decisions.

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 Head of Strategic Finance and Property is the Audit Champion for the Council and has monitoring meetings every three months with SIAS managers. Progress reports are submitted to four Audit and Governance Committee meetings per year.

The Shared Anti-Fraud Service (SAFS) is a partnership of six Hertfordshire Authorities. It is a 'sister' partnership with SIAS and has shared governance arrangements through the Partnership Board. The Council is represented on the Board and the Head of Strategic Finance and Property is the Council's Anti-Fraud Champion.

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 is operating.

The Council is one of seven partners of Hertfordshire Authorities in a Building Control joint venture due to launch in summer 2016, with the TUPE of existing building control staff into the new company. Senior officers will be appointed by East Herts Council to act as a shareholder representative and Director of the new company within the agreed governance structures of the joint venture.

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 did hold accreditation for the Charter for Member Development but when that came to the end of the four year term, it was replaced by a local Member Development Pledge (based on the same parameters as the Charter). The Pledge was originally signed in December 2014 by the leaders of all the political groups represented on the council at the time. It was then re-signed by the Leader on behalf of all Members at Annual Council in May 2015 and will be reviewed during 2016/17.

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 Group. With 22 new councillors elected in May 2015, on-going support was offered through a co-ordinated Mentor support programme. A key aspect of on-going peer-to-peer support for local problem solving is the use of Member Support Groups.

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

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- Consideration by the Corporate Business Scrutiny Committee.
- Consideration by the Executive
- Approval by the Audit and Governance Committee.

The review of effectiveness is informed by the work of the Leadership Team 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 legal 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 four 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 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 and Governance Committee

Ten Councillors sit on the Audit and Governance Committee, which has extensive terms of reference.

The Audit and Governance Committee's terms of references, 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 and Governance Committee as part of the SIAS update report. The Audit Champion monitors all other recommendations and reports progress to Leadership Team on a quarterly basis. All SIAS audit 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 and Governance 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 is required to have an independent external review of performance at least every five years.

The latest external review conducted in January 2016 was undertaken by Veritau Ltd (a local authority controlled company which provides internal audit, counter fraud and other governance services). The review concluded that SIAS 'generally conforms' to the PSIAS, including the Definitions of Internal Auditing, the Code of Ethics and the Standards. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

For performance management, a traffic light monitoring and reporting system is in place. Performance data is reported to Corporate Business Scrutiny on a quarterly 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 and Governance Committee.

The Head of Assurance's Annual report and opinion on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement. The opinion of the Head of Assurance in respect of 2015/16 is one of

substantial assurance in respect of both financial and non-financial

systems, giving significant confidence in the effectiveness of internal control arrangements of the Council. This report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2015/16, and is informed by the comments of external auditors and inspectors.

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

Wallfields
Pegs Lane,
Hertford
SG13 8EQ

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ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17

Significant governance issues

The following required enhancements to internal control arrangements were identified during 2015/16 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
Impact of Welfare Reform changes	Leadership Team	Oct 2016	• Impending Legislation will have an adverse financial impact on a significant number of residents. Officers will monitor the impact of these changes both on residents and the business of the Council. • Provide residents more support for services across the Council through staffing levels, budget management and the communication with residents. • Implement Council policies effectively.
Development of a District Plan that is approved by the planning inspectorate.	Leadership Team	Dec 2017	• Plan to be agreed within required timeframe.

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 Linda Haysey
Leader of the Council

Signed…………………………………..Dated……………………….

Liz Watts
Chief Executive

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

REPORT BY HEAD OF STRATEGIC FINANCE AND PROPERTY

AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

- This report provides the Audit and Governance Committee work programme for the 2016/17 civic year for consideration and approval.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:	
(A)	**The revised work programme for the Audit and Governance Committee be approved.**

1.0   Background

1.1   The revised work programme for the Audit and Governance Committee was approved by the Audit and Governance Committee on 15 June 2016.

2.0   Report

2.1   The revised Audit and Governance Committee work programme for the 2016/2017 civic year is given at **Essential Reference Paper 'B'.**

2.2   The following amendments have been made:

- Risk Management monitoring reports have been put back on the agenda.
- There will now be a report re members' Code of Conduct complaints provided at each meeting by the Head of Legal and Democratic Services.
- An Annual Performance Framework update report has been added to the agenda, commencing in March 2017.

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 and Governance Committee Work Programme 2016/17 Audit and
Governance Committee 15 June 2016.

Contact Member: Councillor Mark Pope, Chairman of Audit and
                   Governance Committee.
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                   Property, Extn: 2050.
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Report Author: Philip Gregory, Head of Strategic Finance and
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                   philip.gregory@eastherts.gov.uk

IMPLICATIONS/CONSULTATIONS:

Contribution to the Council's Corporate Priorities/ Objectives	Priority 2 – Enhance the quality of people's lives.
Consultation:	External and Internal Audit have been consulted during the compilation of the Work Programme. No public consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resources implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing implications to those already contained in this report.

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Audit and Governance Committee Work Programme 2016/17 Civic Year

Committee Date	Agenda Items
15 June 2016	- Draft Statement of Accounts 2015-2016. - Shared Internal Audit Service Annual Assurance Statement and Annual Report 2015/16. - Shared Internal Audit Service – Audit Plan Update Report. - Update on Implementation of Annual Governance Statement Action Plan. - Draft 2015/16 Annual Governance Statement. - Annual Review of Data Quality Strategy. - Risk Management monitoring report 1 January 2016 to 31 March 2016. - Committee Work Programme.
21 September 2016	- Training item – Statement of Accounts - External Audit – Audit Results Report. - Statement of Accounts 2015/16. 2015/16 Annual Governance Statement. - Treasury Management Strategy – 2015/16 Outturn - Annual Shared Internal Audit Service Board Report 2015/16. - Shared Internal Audit Service – Audit Plan Update Report. - Shared Anti-Fraud Service (SAFS) – report on the Council's anti-fraud arrangements and work undertaken by SAFS (2015/2016). - Risk Management monitoring report 1 April 2016 to 30 June 2016. - Report from Head of Legal and Democratic Services re Complaints lodged under the Members' Code of Conduct. - Committee Work Programme.
23 November 2016	- Training item - External Audit – 2015/16 Annual Audit Letter. - Council response to 2015/16 Annual Audit Letter. - External Audit – Planned Audit Fees for 2016/17. - Treasury Management Strategy – 2016/17 Mid-year Review. - Update on Implementation of Annual Governance

Audit and Governance Committee Work Programme 2016/17 Civic Year

	Statement Action Plan. • Risk Management monitoring report 1 July 2016 to 30 September 2016. • Report from Head of Legal and Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme.
25 January 2017	• Training item • External Audit – Grants Certification Report 2015/16. • Treasury Management Strategy Statement 2017/18. • Shared Internal Audit Service- Audit Plan Update Report. • Update on Implementation of Annual Governance Statement Action Plan. • Report from Head of Legal and Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme.
22 March 2017	• Training item • External Audit- Audit Plan. • Shared Internal Audit Service- Audit Plan Update Report. • Shared Anti-Fraud Service (SAFS) – report on the Council's anti-fraud arrangements and work undertaken by SAFS (2016/2017). • Internal Audit Plan 2017/18. • Update on Implementation of Annual Governance Statement Action Plan. • Risk Management Strategy. • Risk Management monitoring report 1 October 2016 to 31 December 2016. • Annual Performance Framework update (or June?) • Report from Head of Legal and Democratic Services re Complaints lodged under the Members' Code of Conduct. • Committee Work Programme 2017/18 Civic Year.