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**Chief Executive**

## AGENDA

<b>Committee:</b>	<b>AUDIT</b>
<b>Date and Time:</b>	<b>Thursday 10th January 2019 at 7.30 p.m.</b>
<b>Venue:</b>	<b>Committee Room 1</b>
<b>Membership:</b>	<b>Councillors Cole (Chairman), Blackwell, Hart, May and Sharp</b> <b>Substitutes: Councillors Acott, Greig, Mumford and Riley</b>
<b>Officers attending:</b>	<b>Craig Watts, Head of Housing and Communities</b> <b>Andrew Barnes, Head of Internal Audit</b> <b>Ian Stapleton, Financial Services Manager</b> <b>Gurdip Bhambra, Audit Manager</b> <b>Dan Helps, Senior Manager, Counter Fraud &amp; Investigation Directorate</b>
<b>Also attending</b>	<b>Debbie Hanson, Associate Partner, EY</b> <b>Martina Lee, Manager, EY</b>
<b>Enquiries:</b>	<b>Ann Horgan, Ext. 2413</b>

### PART I

(Business to be taken in public)

- 1. Apologies:**
- 2. Members' Interests:**
- 3. Minutes:**  
A copy of the Minutes of the meeting held on 18th September 2018 is attached.
- 4. EY Annual Audit Letter for the Year Ended 31 March 2018:**  
Report of the External Auditor is attached.
- 5. Quarterly Monitoring Report of the Council's Governance Arrangements:**  
Report of the Head of Housing and Communities is attached.
- 6. Local Code of Governance:**  
Report of the Head of Housing and Communities is attached.

- 7. Counter Fraud & Investigation Directorate: Quarterly Performance Report:**  
Report of the Senior Manager, Counter Fraud & Investigation Directorate is attached.
- 8. Treasury Management and Investment Strategies 2019/20:**  
Report of the Financial Services Manager is attached.
- 9. Internal Audit Service, Quarterly Performance Report:**  
Report of the Head of Internal Audit is attached.

### ***Current Information Items***

CIPFA better Governance Forum, Audit Committee Update, Helping Audit Committees to be Effective, Issue 26, September 2018

- CIPFA'S Position Statement on Audit Committees in Local Authorities and Police
- Briefing on topical issues
- Audit Committee Training

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## AUDIT COMMITTEE

**18TH SEPTEMBER 2018**

**PRESENT:** Councillors Cole (Chairman), Acott,\* Blackwell, Hart and Sharp.

Councillor \*Acott attended as substitute for Councillor May.

Head of Housing and Communities, Craig Watts, Head of Internal Audit, Andrew Barnes, Financial Services Manager, Ian Stapleton, Audit Manager, Gurdip Bhambra, and Senior Manager, Fraud Investigation, Dan Helps, were also present.

An apology for absence was received from Councillor May (Councillor Acott substituting).

Apologies for absence were also received from Debbie Hanson and Martina Lee (EY).

### **10. MEMBERS' INTERESTS**

Councillor Sharp declared an interest under Minute 13 as he had used a company referred to in the report, Crowe Whitehall and Clarke, during the course of his business and remained in the room during the discussion of the item.

### **11. MINUTES**

The Minutes of the meeting held on 26th July 2018 were taken as read and signed as correct.

A Member expressed concern that three items raised at the end of the last meeting of the Committee had not been included in the minutes. The meeting co-ordinator explained that these items had been recorded and were being actioned, but as there had been no item for them on the agenda it was correct that they had not been referenced in the minutes.

It was agreed that further guidance would be obtained on the correctness of the procedure followed at the meeting.

### **12. QUARTERLY MONITORING REPORT OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS**

The Head of Housing and Communities presented a report to the Committee on the findings from the quarterly monitoring of the Council's governance arrangements.

Members discussed and commented on various aspects of the report relating to reporting on the outcomes of measures to assist budgetary control; operational arrangements for asset management; community engagement and the response to the Local Plan; ethical governance and the mechanisms in place applying to the Review Committee.

**Resolved** - That the Committee notes the assurance provided by the report with regard to the operation of the Council's governance framework.

### **13. COUNTER FRAUD AND INVESTIGATION DIRECTORATE: QUARTERLY PERFORMANCE REPORT**

Daniel Helps presented the progress made by the Counter Fraud and Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and work programme for 2018/19. The report also sought approval of the Council's revised Counter Fraud, Bribery and Corruption Policy and the revised Counter Money Laundering Policy, which were attached as appendices to the report.

During the debate, a Member sought and received assurance that the Committee would be kept appropriately informed of the progress on the tasks in the counter fraud work programme.

Another Member expressed his concerns that the Council did not always know who was living in its council housing. The Senior Fraud Manager would consider this and report back at the next meeting of the Committee.

**Resolved – 1.** That the performance of the Counter Fraud & Investigation Directorate to date is noted.

2. That the revised Counter Fraud, Bribery and Corruption Policy is approved.

3. That the revised Counter Money Laundering Policy is approved.

### **14. TREASURY MANAGEMENT ACTIVITY MID-YEAR REPORT**

A mid-year treasury report, as required by the Council's reporting procedures was presented to the Committee by the Financial Services Manager. The report summarised the Council's treasury management activity for the first five months of the current financial year. Supporting information was provided in two annexes to the report.

The report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council was required to comply with both Codes through Regulations issued under the Local Government Act 2003.



Members took the opportunity to ask a range of detailed questions concerning arrangements for interest received on investments, the use of returns on investments to undertake projects and money market funds and advisers. The Financial Services Manager would circulate a money market briefing note to members of the Committee.

**Resolved** – That the Treasury Management Activity Mid-Year report for 2018/19 is approved and submitted to the Council.

#### **15. EY ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018**

*The Chairman had agreed that this item should be considered as urgent business under Section 100B(4)(b) Local Government Act 1972 in order to avoid delay of the Committee's consideration of this report and assist completion of the external audit process for 2017-18.*

The External Auditor's Annual Audit Letter for 2017/18 was presented to the Committee by the Financial Services Manager on behalf of EY.

Members of the Committee expressed disappointment that representatives of EY were not present at the meeting to answer their questions on the report.

It was accordingly –

**Resolved** – That consideration of the report is deferred to a future meeting of the Committee.

#### **16. INTERNAL AUDIT SERVICE, QUARTERLY PERFORMANCE REPORT**

The Head of Internal Audit presented to the Committee a report on progress made in delivering the Internal Audit Strategy for 2018/19.

Appendix A to the report set out the current status of audit work planned for the year as at 24<sup>th</sup> August 2018.

Appendix B summarised the results of the audit work completed this year.

Appendix C set out issues arising from the self-assessment of compliance with the Public Sector Internal Audit Standards and the independent, external review of compliance completed by the Institute of Internal Auditors in October 2017.

Appendix D set out Stakeholder Survey Results 2018/19.

In response to questions from Members the Head of Internal Audit confirmed that there were still a number of vacancies in the Audit Team that were currently filled by contractors. It was planned to employ permanent staff however it had previously been difficult to recruit people, due to the Borough's proximity to

London. A Member suggested that the Council undertake some work with sixth form colleges to assist in the employment of staff with suitable qualifications that will ensure they are well placed to go on to undertake professional audit qualifications.

**Resolved** – That the progress made in delivering the 2018/19 Internal Audit Strategy is noted.

## **17. COMPLAINTS MONITORING**

The Committee was presented with a report on the monitoring of complaints, in response to Member debate at previous meetings.

During the debate a Member considered that a further report should be submitted on complaint numbers and the way in which they had been dealt with. He also considered that some complaints were simple to resolve and that the Council needed to be more flexible in the delivery of some street scene services to minimise these complaints.

**Resolved** – That the report is noted and that a review of complaints about street scene services is referred to the Overview and Scrutiny Committee.

Chairman

**AUDIT COMMITTEE**

**10th January 2019**

**Subject: EY Annual Audit Letter for the year ended 31 March 2018**

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**1. Purpose of Report**

To present the External Auditor's Annual Audit Letter for 2017/18 to the Audit Committee.

**2. Background**

Consideration of this agenda item was deferred from the last meeting of the Committee as the Council's External Auditors were unable to attend.

This Annual Audit Letter summarises the key issues arising from the work EY has carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.

It is intended to be a short document, aimed at the public, to inform them about the results of the audit. It should be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.

**3. Corporate Implications**

**(a) Financial Implications**

The cost to the Council of external audit for 2017/18 was reported to March Audit Committee to be £56,265 for the Code Audit and £21,801 for the certification work.

**(b) Legal Implications**

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Offices (NAO) Code of Audit Practice (the Code). By considering this report, the Audit Committee can satisfy itself that this requirement is being discharged.

**(c) Human Resources and Equality Implications**

**Human Resources**

None

**Equality Implications**

None.

**(d) IT and Asset Management Implications**

None

#### **4. Links to Council's Priorities and Objectives**

This audit work contributes to the delivery of all the Council's Aims and Objectives.

#### **5. Timescale for Implementation and Risk Factors**

The Accounts & Audit Regulations 2015 require this report to be considered by a committee of the authority as soon as reasonably practicable after the conclusion of the audit, following which it must be published on the website.

There are no significant issues arising from this report therefore there are no risks to highlight.

#### **6. Conclusion**

None

#### **Recommendation**

**The Audit Committee approves the EY Annual Audit Letter for the year ended 31st March 2018.**

#### **Background Papers**

- None

#### **Attachments**

- EY Annual Audit Letter for the year ended 31 March 2018



# **Castle Point Borough Council**

Annual Audit Letter for the year  
ended 31 March 2018

August 2018



Building a better  
working world

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Audit Fees



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Castle Point Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
► Financial statements	
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
► Public interest report	We had no matters to report in the public interest
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 July 2018
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP



02

## Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Audit Committee meeting on 26 July 2018, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan dated March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

## Financial Statement Audit

# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the Audit Committee meeting on 26 July 2018.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<b>Misstatements due to fraud or error</b> The financial statements as a whole are not free of material misstatements whether caused by fraud or error.  As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.  For Castle Point Borough Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud in revenue recognition.	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested journals that met our criteria and tested these to supporting documentation.</p> <p>We considered the accounting estimates relating to pensions and property valuations as the most susceptible to bias. We challenged the significant assumptions in the actuarial pension valuation and found no indication of management bias in these estimates. Our work on the property valuations found no material errors in the balances presented within the financial statements.</p> <p>We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other material transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.</p>





## Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p><b>Property, plant and equipment valuations</b></p> <p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We are satisfied that the Council's valuers, Wilks Head &amp; Eve, have the necessary qualifications and experience. We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's property, focusing in particular on specialised assets, which are valued on a depreciated replacement cost basis, which is a more judgemental valuation basis.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement of the value of property, plant and equipment.</p>
<p><b>Pension liability valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary: Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We have received reports from the Essex Pension Fund Auditor and the EY actuarial team.</p> <p>The report from the Essex Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end.</p> <p>As a result, the Council obtained a revised IAS 19 report and updated the accounts to reflect the new figures. This resulted in an increase in the pension liability of £1.429 million and a corresponding increase in the pension reserve.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.05 million (2016-17 £0.93 million), which is 2% of gross expenditure on provision of services reported in the accounts of £52.5 million. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all unadjusted audit differences in excess of £0.052 million (2016-17 £0.046 million)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits; and
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



## 04 Value for Money



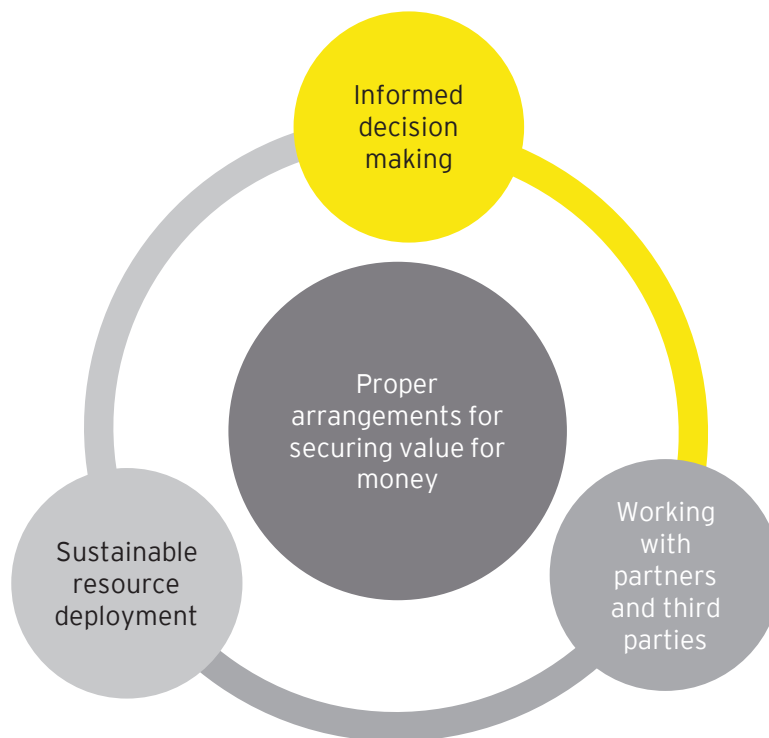
## Value for Money

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We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2018.

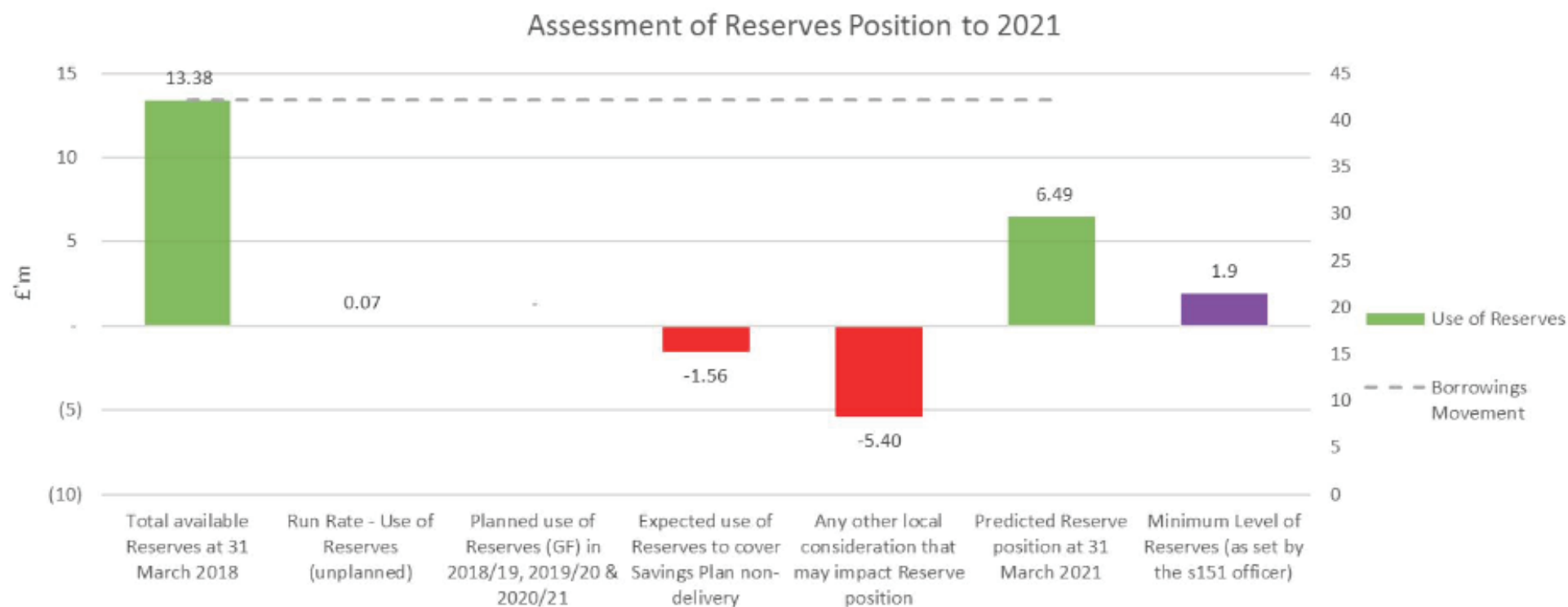
## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Achievement of savings needed over the medium term</b></p> <p>The Council faces significant financial challenges over the next three years. While the budget for 2018/19 has been balanced, the Medium Term Financial Forecast (MTFF) shows future gaps totalling £2.8 million over the next three years to 2021/22. Over the same period, the level of the general fund balance is projected to reduce from £5.5 million at the end of 2017/18 to just over £1.7 million at the end of 2021/22, which is below the current recommended minimum level of £1.9 million.</p> <p>Although the Council is continuing to develop plans to address these gaps, given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>The Council recognises it faces significant budgetary pressures and that a fundamental change is required to the way it operates in order to future-proof the Council's operations. While the budget for 2018/19 is balanced, future years are as yet not. This means the Council may have to rely on the use of reserves to meet spending plans during these years.</p> <p>We assessed the Council's reserves position up to 2020/21, which is one year less than the Council's MTFF. Our projections are based on the Council's MTFF, as well as our assessment of historic performance in delivering budgets, which results in an estimated increase in reserves of £0.07 million due to underspends against future budgets, which are not in the MTFF. As set out on page 16, we predict that the level of general fund and earmarked reserves at 31 March 2021 will be £6.49 million, with the general fund representing £3.46 million of this balance, which is above the minimum balance of £1.9 million. This is in line with the Council's own projections. Our review of the Council's MTFF has also concluded that it includes appropriate and prudent assumptions, including areas specific to Castle Point such as potential planning appeals and legal costs totalling £0.72 million. It also reflects the expected use of earmarked reserves of £4.68 million.</p> <p>We do however note that by 31 March 2022, the Council's MTFF expects the general fund balance to fall to £1.78 million, which is below the recommended minimum level. This reflects the fact that, if actions are not identified which bridge the budget gap for 2021/22, the Council will be forced to rely on the use of reserves. We are aware that the Council is taking steps to identify areas of income generation or where savings could be made as well as different ways of working to address the budget gap. It is important that actions are taken to progress these plans in order to ensure the general fund balance at the 31 March 2022 remains above the minimum level.</p> <p>The budget setting process is deemed to be robust and detailed, with prudent assumptions applied to uncertain income streams and future expenditure. The financial forecasts and Revenue Support Grant are based on the funding notified to the Council as part of the four year settlement. The Council is aware of the risks related to reductions in government funding and appropriate assumptions are made within the budget and medium term plans regarding the trajectory of government funding in general and the New Homes Bonus specifically. The reserve levels set are reflective of this risk.</p> <p>Savings are identified in advance of the following year's budget and are then built into individual service budgets, which indicates that savings have already been achieved when setting the budget. The delivery of savings are therefore monitored through the normal budget monitoring process.</p> <p>The Council is developing its commercial awareness through initiatives, including reviewing fees and charges and use of its assets. It is also considering other opportunities, such as smarter working and income generation.</p> <p>The arrangements put in place by the Council to balance its budget in future years, develop realistic savings plans and seek wider opportunities for commercialisation are assessed as adequate, given its size and location. The Council is aware of the financial risks it faces and has put in place appropriate monitoring and reporting arrangements to manage those risks.</p>

## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Development of the Local Plan</b></p> <p>In November 2017, the Secretary of State wrote a letter to 15 local authorities which had yet to adopt a 2004 Act Local Plan. The Secretary of State expressed concerns about the lack of progress made on plan-making and indicated the possibility of formal intervention if improvements were not made. Castle Point was one of these authorities. The Council responded to the Secretary of State in January 2018 with details of the actions being taken to progress this issue.</p> <p>In light of the importance of the adoption of a local Plan and the challenges the Council has faced, we identified this as a risk for our value for money conclusion.</p>	<p>The Council recognises the importance of, and risks associated with, developing a Local Plan as well as the particular challenges it has faced in doing this. A Special Council meeting was held in June 2018 to discuss the issue and agree a way forward. It was decided at this meeting that a new Local Plan for Castle Point would be developed to an accelerated timetable. The timetable shows the key stages for submission of the Plan to the Planning Inspectorate and we understand this was prepared after consultation with the Secretary of State's officials.</p> <p>The Council is currently working with other South Essex authorities, Basildon Borough Council, Brentwood Borough Council, Rochford District Council, Southend-on-Sea Council, Thurrock Council and Essex County Council to develop a South Essex Joint Strategic Plan. This is intended to support each authority in delivering their respective Local Plans.</p> <p>The preparation of the new Local Plan has formally started and is currently out for first consultation, with comments being sought from the public.</p> <p>There has been no further official correspondence from the Secretary of State on this matter since the letter received in November 2017. However, further comments are expected upon publication of the final draft of the new plan, which will be approved by Council for publication in November 2018.</p> <p>We are therefore satisfied that the Council has taken appropriate action, along with other local councils, to address the concerns raised by the Secretary of State and progress on the Plan is now being made. There is however still a considerable amount of work to be done and the Council and its Members need to continue to focus on this as a priority to ensure the timetable for delivering the Plan is met to avoid the risk of formal intervention by the Secretary of State.</p>

## Value for Money (cont'd)



### Our Assessment

In our assessment we considered:

- The Council's level of savings requirement to balance the General Fund budget in each of the next three years;
- The Council's planned use of reserves to support the General Fund budget in each of the next three years;
- The Council's planned use of earmarked reserves over the next three years;
- The Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- The Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- Any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Council's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the General Fund reserve balance at the 31 March 2021 will remain above the approved minimum level.



05

## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

## Other Reporting Issues (cont'd)

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### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee meeting on 26 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.





06

## Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Planning Report.

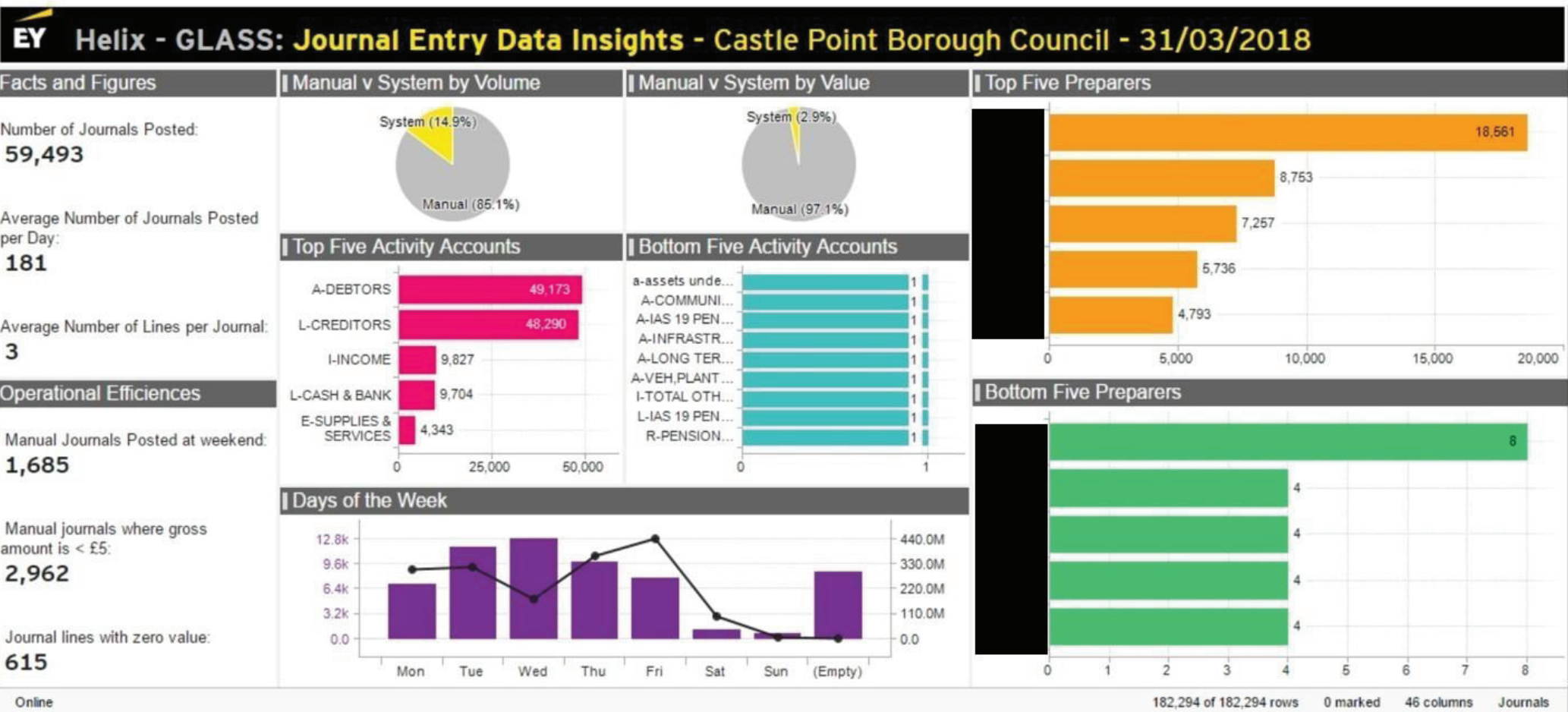
Some of the outputs from this work are shown on the following pages.

# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, as well as minimising the burden of compliance on management by reducing randomly selected samples.



## Data Analytics (cont'd)

### Journal Entry Testing

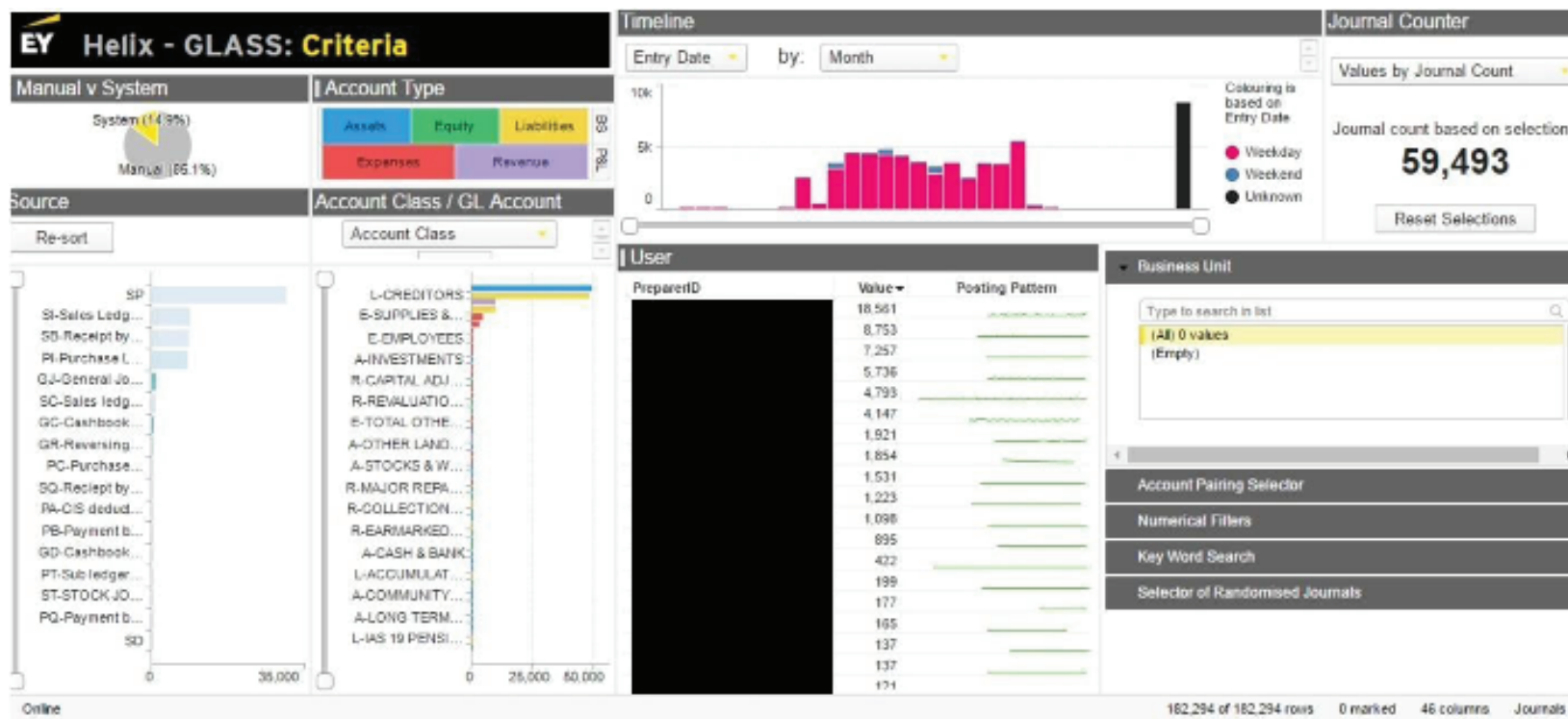
#### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

#### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our Audit Planning Report.

Journal entry data criteria – Castle Point Borough Council – 31 March 2018



#### What did we do?

We obtained general ledger journal data for the period, which comprised all transactions recorded by the Council, including invoices, BACS receipts and payments from the sub-ledgers.

We have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

#### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



07

Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"><li>▶ Reclassify existing financial instrument assets</li><li>▶ Re-measure and recalculate potential impairments of those assets; and</li><li>▶ Prepare additional disclosure notes for material items.</li></ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>▶ Leases;</li><li>▶ Financial instruments;</li><li>▶ Insurance contracts; and</li><li>▶ For local authorities: Council Tax and NDR income.</li></ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed - that due to the revenue streams of Local Authorities, the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities, who lease a large number of assets, the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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**Committee:                   AUDIT COMMITTEE**

**Date:                           10th January 2019**

**Subject:                      Quarterly Monitoring Report of the Council's  
Governance Arrangements**

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**1.     Purpose of Report**

To present the findings from the quarterly monitoring of the Council's governance arrangements.

**2.     Background**

- 2.1 Part of the requirement of the Council's governance arrangements is a quarterly report on the operation of the assurance framework for the Council. The assurance process includes the work of external auditors and is supplemented by the work of the internal audit service, as well as other assurance processes, including internal officer and member processes.
- 2.2 The Committee will be aware that governance arrangements include individual staff leads who have taken responsibility for the governance processes set out below and are members of the Governance Group. This report was developed in consultation with officers from the governance group.

**3.     Monitoring Results for Key Governance Processes**

**3.1    Community Engagement**

- 3.1.1 Assurance arrangements are satisfactory. Services undertake specific consultation as required and there are a number of customer satisfaction surveys. The most significant recent consultation has been for the local plan. Further consultation is planned for the re-development of the Paddocks site and the arrangements will continue to be monitored.

**3.2    Business Planning and Strategy**

- 3.2.1 The arrangements for business strategy and planning are adequate. Service plans and team plans are in place. A Corporate Plan was developed earlier this year and was agreed by Cabinet and then full Council in September. A refresh of the service planning process for the next financial year was initiated in the autumn.

**3.3    Financial Planning, Reporting and Budgetary Control**

- 3.3.1 Robust processes are evident to be assured that the arrangements for financial planning, reporting and budgetary control are effective. For example, a budget exception report is considered by the Executive Management Team and Cabinet Members monthly. Variances at year end are reported on all service areas, with commentary on those more than +/- £10k, and analysis of changes in income and expenditure from the previous financial year. External assurance will be provided by the annual audit of the Council's Statement of Accounts and the



work of external audit. The processes in place give adequate officer and member assurance.

- 3.3.2 The Council maintains a five-year rolling financial forecast which is reviewed and reported through to Cabinet on a bi-monthly basis unless there is no significant change to report. The forecast is supported by three years detailed budget workings with the final two years of the forecast being adjusted for future anticipated cost pressures. Assumptions adopted in the forecast are contained in a detailed report made to Special Council in February annually.
- 3.3.3 The Council maintains a level of reserves more than the minimum level recommended by the Council's Chief Finance Officer and has set a balanced budget for 2018/19. Full Council agreed the Policy Framework and Budget Setting report in February 2018 which includes the financial planning strategy, the medium term financial forecast and a summary of completed efficiency work.
- 3.3.4 However, significant savings are still required for the medium term and the Council is undertaking several actions through the efficiency programme and the Commercial Strategy.

### **3.4 Asset Management**

- 3.4.1 There are adequate routine assurance processes for Asset Management, which include quarterly meetings in respect of buildings and land assets, which are integrated into programmed meetings of the Operational Management Team. Significant Asset Management based projects are subject to the Councils project management methodology (PROMPT) and are reported to Cabinet.
- 3.4.2 A strategic asset group, led by the Chief Executive has been established to oversee the progression of key corporate asset related projects.
- 3.4.3 There are action plans for Corporate Buildings Asset Management and the Housing Asset Management Strategy. These set out progress in asset management activities contributing towards the short, medium and long term aims and objectives of the Council.
- 3.4.4 A programme of annual planned repairs and maintenance is in place for corporate buildings. Funding provision has been earmarked and completion of all works is planned within the lifetime of the current medium term financial forecast.
- 3.4.5 Contracts are also in existence for statutory inspections and cyclical servicing to the Council's corporate buildings.

### **3.5 Policy Framework**

- 3.5.1 The policy framework operates satisfactorily, and policies and strategies largely continue to be refreshed by services. A register of policies and strategies is in place. The policy framework is set out in the Business Planning and Budget Framework and was reported to Cabinet in October.

### **3.6 Risk Management**

- 3.6.1 The Risk Management Policy and Strategy was refreshed and approved by Audit Committee in January 2018.
- 3.6.2 A corporate risk register continues to be in place and is subject to monitoring by Executive Management Team and the Audit Committee. Risks have been identified as part of the development of team and service planning and risks get escalated to the corporate risk register should the identified issue be considered significant. The design of the corporate risk register is currently under review and will be reported at the March meeting of the Audit Committee.

### **3.7 Health and Safety**

- 3.7.1 A new Corporate Health and Safety Advisor (CHAS) was appointed in mid-October 2018.
- 3.7.2 Key areas of Health and Safety risk management are judged to be compliant, but there will continue to be work undertaken by CHAS to review, maintain and where necessary, to secure improvements in Health and Safety performance within the organisation. It is hoped that the new advisor will be able to bring some significant external experience to the Council and help all services with the management of risks posed to the health, safety and welfare of employees and others affected by our work activities.

### **3.8 Business Continuity**

- 3.8.1 Arrangements in place are satisfactory, with business impact assessments undertaken by all service areas. A review and revision of service level Business Continuity action plans was completed in the spring of 2018.
- 3.8.2 A corporate generic BC response plan exists, which is subject to full review and revision every three years.
- 3.8.3 The subject of business continuity is incorporated into the quarterly risk management sections of Operational Management Team meetings.
- 3.8.4 The Council's emergency planning and business continuity framework document produced in 2018, describes how the Council will go about its duty to be suitably prepared for dealing with emergencies, as well as disruptions to the organisation's ability to deliver its critical services to the public.

### **3.9 Performance Management**

- 3.9.1 Core processes operate satisfactorily, including highlight reporting to Corporate Management Team and the production of a corporate scorecard which is considered quarterly by Cabinet, and was last considered in November 2018.
- 3.9.2 Control arrangements include the production of quarterly reports of performance indicators by all services for consideration by EMT. The last detailed report was sent to EMT in November last year.

### **3.10 Data Quality**

- 3.10.1 Arrangements are satisfactory. The service planning process includes a requirement for team managers and heads of service to sign a declaration which includes consideration of data quality and the commitment to spot checking of data. Internal Audit undertake spot checks of data quality as part of some Internal Audit work.

### **3.11 Value for Money**

- 3.11.1 The external auditors, EY, are required to issue an annual value for money conclusion, for which they consider whether the Council has put in place "proper arrangements" to secure economy, efficiency and effectiveness on its use of resources. In their report for the 2017/18 financial year they have stated that:
- "We identified two significant risks in relation to these arrangements" (These relate to development of the local plan and the requirement for achievement of savings needed over the medium term), and
  - "We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2018).”

3.11.2 Further information can be found within the EY Annual Audit Letter for the year ended 31 March 2018.

### **3.12 Procurement**

3.12.1 There are satisfactory arrangements in place and the assurance processes are operating appropriately. Procurement is integrated into the meetings of the Operational Management Team and assists in the implementation of corporate requirements.

3.12.2 The Council's Commissioning and Procurement Strategy was updated in 2016 and the Procurement Toolkit refreshed in 2018, to reflect changes in legislative requirements.

### **3.13 Partnerships**

3.13.1 Assurance processes are subject to further development work. A partnership strategy and framework is required to help clarify the arrangements currently in place and how these link to the objectives of the authority. Further development work is planned in the spring and will need to incorporate the work of the South Essex 2050 partnership.

### **3.14 Project Management**

3.14.1 The arrangements are satisfactory. The service plans include an indication of planned projects with a prioritisation. These have been incorporated into a corporate programme which is monitored by CMT. The most significant projects identified include the development of the local plan, the planned refurbishment of the Paddocks and development of more social housing.

### **3.15 Complaints**

3.15.1 Complaints monitoring was considered by the Audit Committee in a separate report in September. Members debated the process for making a complaint and how service complaints were resolved. It was noted that a significant number of these 'complaints' were in fact service requests and were resolved quickly by service areas before they escalated to complaints that would require to be logged on the corporate complaints database.

3.15.2 Discussion around street scene issues and possible greater flexibility in the Council's arrangements led to the Committee deciding that these matters should be picked up in the review of street scene services being undertaken by the Scrutiny Committee.

3.15.3 Other development work on complaints handling and monitoring is ongoing and a refresh of the complaints page on the Council's website is in progress so that customer service requests and initial complaints are routed directly to the appropriate service department. This work also includes directing complainants to other service providers. For example, Essex County Council with regard to highways issues including winter gritting and repairs to potholes.

### **3.16 Ethical Governance**

3.16.1 Satisfactory arrangements are in place. Codes of conduct are in place for both staff and members. There are appropriate Human Resource policies to underpin the arrangements for staff and a Review Committee for members.

3.16.2 During the autumn, some work was undertaken by the Good Governance Group to:

- Further develop the Council's understanding of what constitutes its ethical governance framework

- Ensure the processes for obtaining evidence throughout the year are operating as designed.

3.16.3 As a result of this work, ethical governance has incorporated officer conduct to ensure an appropriate focus.

### **3.17 Information Governance**

3.17.1 The Council has implemented an information governance strategy, which is underpinned by associated guidance. The Council's Head of Law acts as the Senior Information Risk Owner. The 'How it Works' guidance also contains a section on information governance.

3.17.2 The General Data Protection Regulation (GDPR) became a statutory requirement from the 25<sup>th</sup> May 2018, and together with the new Data Protection Act 2018 which has superseded the Data Protection Act 1998 it expands the rights of individuals to control how their personal information is collected and processed, and places a range of new obligations on organisations to be more accountable and transparent when processing personal data. The Council has made good progress in working towards meeting the requirements of GDPR and this work is led by the Head of Law.

## **4. Corporate Implications**

### **a. Legal implications**

There are no direct legal implications arising from this report.

### **b. Financial implications**

There are no direct financial implications arising from this report.

### **c. Human Resource & Equality**

The monitoring and development of the assurance framework is delivered within existing resources.

The Council's equality policy is applied as an inherent element of the assurance processes. Equality is also an area that is subject to audit scrutiny. All key decisions require an Equality Impact Assessment.

### **d. IT and Asset Management implications**

There are no direct IT or Asset Management implications arising from this report.

## **5. Links to Council's priorities and objectives**

All assurance processes and improvement work support the corporate priority of Efficient and Effective Customer Focussed Services.

## **6. Timescale for implementation and risk factors**

The monitoring of the effectiveness of the assurance framework will be undertaken every three months and reported to the Audit Committee. The Council will not be able to fully achieve its objectives and priorities without a robust assurance framework.

### **Recommendation:**

**The Audit Committee notes the assurance provided by this report with regard to the operation of the Council's governance framework.**

**Background Papers:** Local Code of Governance

**Report Author:** Craig Watts, Head of Housing and Communities

**AUDIT COMMITTEE**

**10th JANUARY 2018**

**Subject: Local Code of Governance**

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**1. Purpose of Report**

To present to the Audit Committee a revised Local Code of Governance, which has taken into consideration the requirements of the updated CIPFA / SOLACE Framework, Delivering Good Governance in Local Government 2016 (the Framework) for consideration.

**2. Background**

The Local Code of Governance (the Code) is regularly updated and a proposed revision is attached.

The overall aim of the Framework is to help local authorities adopt governance arrangements that:

- are proportionate to the risks faced – i.e. a ‘one size fits all’ is not appropriate
- are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for the service users and communities.

It also reinforces the importance of having processes that provide assurance throughout the year that these arrangements are effective.

**3. Requirements**

It is important that the governance framework adopted by the Council:

- remains proportionate and fit for purpose
- takes account of partnership arrangements, collaboration, commissioning, shared services and other less traditional ways of service provision as these new ways of working provide additional challenges with regard to managing risk, ensuring transparency and demonstrating accountability.

**4. Governance Arrangements**

The Framework identifies the systems / processes required to maintain a strong governance framework, it does not define:

- how they should operate or



- how ongoing assurance is to be obtained that they are operating as designed.

Therefore the arrangements to support this overall Framework are outlined below.

## **5. Operation of the Overall Framework**

This includes maintaining a Local Code of Governance, which sets out the Council's governance framework. This is attached at **Appendix 1** and has been amended to consider the updated approach to annual review which includes an assessment against the eight principles of the CIPFA framework for good governance.

The Code includes a Good Governance Group of officers to ensure that the governance framework remains appropriate and effective.

In summary, the core framework will consist of:

- maintaining a ' How To Do It ' guide for officers, providing training where necessary in its application;
- annual completion of a Corporate Assurance Statement and Manager Assurance Statements by policy / procedure owners and service managers;
- periodic challenge of aspects of the Corporate Assurance Statement to supporting evidence by the Good Governance Group;
- annual challenge of a sample of Manager Assurance Statements to supporting evidence by the Good Governance Group;
- the Good Governance Group looking for assurance from departmental management teams that action plans arising from Manager Assurance Statements are being dealt with properly and in a timely manner;
- assessment of the operation of the code against the eight CIPFA core principal requirements with evidence updated annually.

The Good Governance Group will also ensure that the action plan arising from the assessment against the CIPFA / SOLACE Framework is delivered.

This work is reflected in the quarterly monitoring report that goes to Executive Management Team and the Audit Committee regarding the operation of the Council's governance framework and support the production of the Annual Governance Statement.

## **6. Governance Statement**

The purpose of the governance statement is report on the extent to which the Council's Code of Governance has been complied with, including how the effectiveness of governance arrangements have been monitored in year and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.

## **7. Corporate Implications**

### **(a) Financial Implications**

None

### **(b) Legal Implications**

This Framework has been given 'proper practices' status by the Department for Communities and Local Government. So complying with the framework enables the Council to deliver the statutory requirements contained in the Accounts and Audit (England) Regulations 2011 Regulation 4, which cover:

- ensuring that the financial management of the body is adequate and effective and the body has a sound system of internal control which facilitates the effective exercise of that bodies functions and includes the management of risk;
- conducting a review at least annually of the effectiveness of its system of internal control and reporting this to council or nominated committee;
- requiring council or the nominated committee to approve an annual governance statement following the annual review.

### **(c) Human Resources and Equality Implications**

#### **Human Resources**

All members and staff need to adopt the principles and values outlined in the Code and apply the business management processes required within their service areas.

#### **Equality Implications**

This is reflected in both the principles, values and business management processes to be adopted. An Equality Impact Assessment has been carried out and the impact of the proposal is neutral.

### **(d) IT and Asset Management Implications**

None

## **8. Links to Council's Priorities and Objectives**

Operating robust governance arrangements contributes to the delivery of all Council aims and priorities i.e.:

Public Health and Wellbeing

Environment

Transforming our Community

Efficient and Effective Customer Focussed Services

## **9. Timescale for Implementation and Risk Factors**

The new Code will apply from 1 April 2019.

Failure to operate robust governance arrangements can potentially lead to poor management, performance, stewardship of public money, public

engagement and ultimately, poor outcomes for citizens and service users. It increases the risk that corporate priorities won't be delivered.

**Recommendation**

**The Audit Committee approves the Local Code of Governance and recommends its adoption to Cabinet.**

**Resolution Required****Background Papers**

- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.
- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Guidance Note for English Authorities
- The CIPFA Finance Advisory Network, The Annual Governance Statement, meeting the requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulation 2006, Rough Guide for Practitioners.
- The Accounts and Audit (England) Regulations 2011

**Report Author: Craig Watts, Head of Housing and Communities**



# LOCAL CODE OF GOVERNANCE

Produced by: Head of Housing and Communities

Next Review: January 2020

Approved by: **Executive Management Team: December 2018**

**Audit Committee: To be Considered January 2019**

# **LOCAL CODE OF GOVERNANCE**

## **WHAT DO WE MEAN BY GOVERNANCE?**

Good governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. All authorities should aim to meet the standards of the best and governance arrangements should not only be sound but also be seen to be sound.

The Council recognises that achieving high standards of governance encourages stakeholders to have confidence in it and allows the Council to more effectively undertake the role of Community Leader.

## **PURPOSE OF THE FRAMEWORK**

Castle Point Borough Council (the Council) is accountable for the proper conduct of public business. This means ensuring that the Council operates in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In doing this, each local government body operates through a governance framework that brings together an underlying set of values, legislative requirements, governance principles and management processes that enables it to achieve its aims and objectives.

This Local Code of Governance (the Code) sets out the governance framework adopted by the Council in line with good practice guidance<sup>1</sup>, including the principles that underpin it. The governance framework established is proportionate to the overall risk environment facing the Council.

These principles should be considered in the light of the four key roles for local authorities, which are:

- to engage in effective partnerships and provide leadership for and with the community
- to ensure the delivery of high quality local services whether directly or in partnership or by commissioning
- to perform a stewardship role which protects the interests of local people and makes the best use of resources
- to develop citizenship and local democracy.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework (2016) (CIPFA Framework), reflecting the eight core principles from *The International Framework: Good Governance in the Public Sector* (2014) by CIPFA / IFAC.

## LOCAL CODE OF GOVERNANCE

The Council then discharges accountability for the proper conduct of public business, through the publication of an annual governance statement that will make the adopted practice open and explicit.

This document sets out:

- accountability as well as the principles and values by which the Council operates
- how the principles are put into practice in order to enable service delivery to reflect community need and ongoing evidence is obtained that they operate effectively throughout the year
- the annual reporting process
- how the Code is communicated to members, staff and other relevant parties.

## ACCOUNTABILITY

The Council delegates responsibility for independently checking that an effective governance framework (which includes a sound system of internal control) exists and operates effectively throughout the year to the Audit Committee.

The Leader and Chief Executive of the Council:

- are accountable for ensuring good governance in their authority
- sign the Annual Governance Statement on behalf of the Council.

## PRINCIPLES

**At an organisational level**, the Council has adopted the eight core principles from the CIPFA Framework as the basis on which it wants to operate as outlined below.





## LOCAL CODE OF GOVERNANCE

**Appendix A** expands on these core principles to show how they will be applied in practice.

These put high standards of conduct and leadership at the heart of good governance, placing responsibility on members and staff to demonstrate leadership by behaving in ways that exemplify high standards of conduct and so set the tone for the rest of the organisation.

### VALUES

In discharging their roles and implementing the principles outlined above **at an individual level**, members and employees are expected to adopt;

- the ***Nolan Committee's Seven Principles of Public Life***, refer to **Appendix B**,
- the ***Council's own values*** as outlined below.
  - **Equality**: Fair treatment for all
  - **Respect**: Respect for others
  - **Integrity**: Integrity and impartiality in all our decisions
  - **Caring**: Listening and acting on staff and customer need
  - **Innovation**: New, improved and sustainable ways of working
  - **Teamwork**: Working together and valuing everyone's contribution
  - **Accountability**: Openness and accountable to local residents, customers and partners.

This will ensure that their own conduct complies with these overarching good governance principles.

### PUTTING THE PRINCIPLES INTO PRACTICE

All organisations, whether public or private, large or small, need to operate the same core management processes in order to enable them to set and deliver their vision, aims and objectives. These processes are explained in **Appendix C** and structured below under the four main management activities that all successful organisations discharge well.

#### MANAGING CUSTOMERS

- Community Engagement
- Customer Satisfaction (*performance management*)
- Complaints, Compliments and Comments (*performance management*)

#### MANAGING PEOPLE

- Workforce Development Planning
- Ethical Governance

#### MANAGING PERFORMANCE

- Business Strategy and Planning
- Committee Structure, Constitution, Policy Framework and Procedures
- Performance Management
- Risk Management, Whistleblowing and Business Continuity
- Data Quality
- Data Management and Security
- Contract Management

## LOCAL CODE OF GOVERNANCE

- Staff Performance Management (*performance management*)
- Health and Safety (*risk management*)
- Project Management
- Change / Transformation Management

## MANAGING RESOURCES

- Financial Planning, Budgetary Control and Treasury Management
- Asset Management
- Fraud & Corruption and Insurance (*risk management*)
- Procurement and Value for Money

Whilst this sets out the processes that need to be in place to demonstrate good governance arrangements, it does not explain how each process works. Therefore a “How it Works” guide is maintained which sets out the minimum expectations in order to ensure management processes that are proportionate but fit for purpose

The Council also has a very specific responsibility for ensuring that:

- the financial management of the body is adequate
- it has a sound system of internal control which facilitates the effective exercise of its functions and which includes its arrangements for the management of risk.

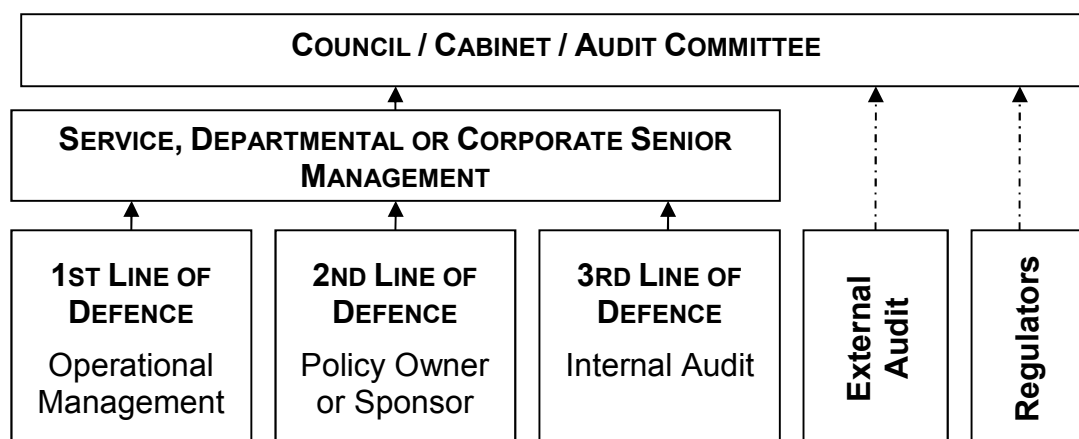
All services are responsible for maintaining proportionate but sound operational procedures and processes that adequately mitigate risks that may result in a service failure or the failure to deliver service objectives.

Application of the framework outlined should put the Council in a strong position to successfully deliver whatever services it chooses to.

## EVIDENCING EFFECTIVE IMPLEMENTATION

### THE APPROACH

In order to ensure that the governance framework set out above is in place and operating properly throughout the year, the Council has adopted the concept contained in the **THREE LINES OF DEFENCE<sup>2</sup>** model, as shown below.



<sup>2</sup> Based upon general industry good practice, more specifically guidance issued by the European Confederation of Institutes of Internal Auditing “*monitoring the effectiveness of internal control, internal audits and risk management systems*” September 2010

## LOCAL CODE OF GOVERNANCE

Ongoing evidence that the governance framework is being applied is obtained via:

### The first line of defence which is:

Operational management, who are **responsible** for the effective and consistent application of these requirements in their area of operation (which includes both behavioural as well as procedural arrangements)

### The second line of defence which is:

The 'owner' or 'sponsor' who is **accountable** for the overall operation of the corporate management or service specific process and should ensure that:

- it is fit for purpose (e.g. based upon relevant good practice), regularly reviewed and approved by senior management and members
- it is constructed so that evidence of its application is easily produced i.e. as 'business as usual'
- there are proportionate and cost-effective mechanisms in place to enable them to confirm that operational managers are applying it effectively and consistently
- informative, regular and timely reports are provided to senior management to confirm the process has been operating effectively and consistently, identifying any remedial actions required should this not be the case.

### The third line of defence which is:

Internal Audit who provide **independent assurance** to senior management and the Audit Committee, on how effectively the first and second lines of defence have been operating.

## SYSTEM OF INTERNAL CONTROL

Within this, it is incumbent on all staff to ensure that:

- sufficient checks (controls) are built into all systems, processes and activities to ensure that they consistently and effectively deliver the objectives required of them (risk management / mitigation)
- they obtain sufficient evidence throughout the year (key management controls) that these checks are operating as they should and therefore that the systems, processes and activities objectives are being delivered.

## OTHER POTENTIAL ASSURANCE

This can be obtained from external sources such as external audit, regulators and peers and considered as a fourth line of defence where any of this third party activity is relevant and robust.

## KEY COMMITTEES

Full Council is responsible for ensuring the organisation has good governance arrangements. It can discharge this duty itself or delegate this role to a committee although accountability for this remains with Council.

## LOCAL CODE OF GOVERNANCE

Although the Council has delegated this function to the Audit Committee, there are four key member groups (other than full council) that have a significant role to play within the governance framework, i.e.:

- **Cabinet** is responsible for leading the community and organisational planning process, setting the policy framework, priorities and budget, monitoring performance and approving the overall governance arrangements.
- **Review Committee** responsibilities include promoting and maintaining high standards of conduct by Members and hearing and determining complaints about members.
- **Scrutiny & Policy Committees** are responsible for the review and development of policies and strategies and undertake specific development work at the request of Cabinet.
- **The Audit Committee** is responsible for independently checking that appropriate governance arrangements (including the system of internal control) are in place, operating effectively throughout the year and that actions required to strengthen these arrangements are addressed, in a timely manner. Its work programme is designed to provide it with sufficient evidence to conclude that the Annual Governance Statement accurately reflects the governance arrangements as operated for the year in question.
- **The Council's Monitoring Officer** is responsible for promoting and maintaining high standards of conduct by the members and co-opted members, and assisting them to observe the Council's code of conduct.
- **The Council's Section 151 Officer** is responsible for the proper administration of the Council's financial affairs and is required to report to all Members if there is, or is likely to be, unlawful expenditure or an unbalanced budget.

This means that it is necessary sometimes for information to go to more than one committee in order for them to discharge their respective responsibilities.

## GOOD GOVERNANCE GROUP

The Council has a Good Governance Group that meets quarterly to oversee the delivery of the governance framework. There is a terms of reference for this group and the findings of the group are reported to Executive / Corporate Management Team.

## ANNUAL REVIEW AND REPORTING

Local Authorities are required to undertake an annual review of their governance arrangements and evidence that they are:

- up to date, fit for purpose and comply with the CIPFA Framework
- consistently applied across the organisation at all service levels
- being strengthened as necessary where improvement opportunities have been identified.

Such reviews should be reported on both within the council, to the audit committee and externally with the published accounts. The annual report should also be submitted to the council so it can satisfy itself that appropriate governance arrangements are in place.

## **LOCAL CODE OF GOVERNANCE**

As with the in year arrangements for obtaining evidence that the governance framework is operating as it should, annual assurance is also provided by management as well as internal and external audit.

### **MANAGEMENT EVIDENCE**

Management contribute to this annual requirement by asking for assurance statements from:

- the owners or sponsors of key management processes regarding the adequacy of and compliance with these arrangements
- operational managers who confirm the degree to which key management processes have been applied in their service areas throughout the year
- other significant functions / service providers (e.g. project / contract managers) that confirms compliance with the relevant corporate approach or requirements.

The Head of Governance will undertake to confirm the successful transaction of Council business over the year.

Members of the Good Governance Group will challenge a sample of these assurance statements each year, produce reports summarising the results of this work, highlighting any areas that require senior management attention. Departmental Management Teams will monitor delivery of these action plans through the normal performance management process. This work will also provide evidence that the governance framework is being applied throughout the year. The governance processes will also be assessed against CIPFA eight core principal requirements and any evidence will be updated by the group.

Other manager assurance is provided by:

- annual reports on:
  - the Council's risk management arrangements (including those relating to fraud and corruption)
  - compliance with the treasury management policy
- the approval of the financial statements
- Self-assessments by the Head of Internal Audit and the Section 151 officer against the CIPFA statements on the role of these functions.

### **INDEPENDENT EVIDENCE**

Evidence primarily takes the form of:

- the Head of Internal Audit's annual report, which includes an opinion on the overall system of internal control and whether the internal audit functions has complied with professional standards
- the external auditor's Annual Governance Report to Those Charged with Governance.

### **ANNUAL GOVERNANCE STATEMENT**

The Annual Governance Statement is produced by the Good Governance Group, considered by the Executive / Corporate Management Team before being reported to

## **LOCAL CODE OF GOVERNANCE**

the Audit Committee. The Audit Committee considers whether the Annual Governance Statement accurately reflects its understanding of how the Council's governance arrangements have operated for the year in question. It either approves the Annual Governance Statement or recommends it to Council for approval.

The Annual Governance Statement is then signed by the Leader and the Chief Executive on behalf of the Council as part of the approved statement of accounts.

## **COMMUNICATION STRATEGY**

This Code is available on the internet. It is therefore accessible to all staff, members, the public and other stakeholders.

Training on aspects of the governance framework or the application of key business management processes is provided as required.

The Head of Housing and Communities can be contacted on 01268 882419 with any queries regarding the Code.



**Core Principle: A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Behaving with Integrity	<ul style="list-style-type: none"> <li>• Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols</li> </ul>
	<ul style="list-style-type: none"> <li>• Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice</li> </ul>
2. Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> <li>• Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners</li> </ul>
	<ul style="list-style-type: none"> <li>• Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop and maintain an effective standards committee</li> </ul>
	<ul style="list-style-type: none"> <li>• Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority</li> </ul>
3. Respecting the rule of law	<ul style="list-style-type: none"> <li>• Ensure members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.</li> </ul>
	<ul style="list-style-type: none"> <li>• Create the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.</li> </ul>
	<ul style="list-style-type: none"> <li>• Deal with breaches of legal and regulatory provisions</li> <li>• Effectively.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensuring corruption and misuse of power are dealt with Effectively.</li> </ul>

**Core Principle B: Ensuring openness and comprehensive stakeholder engagement.**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Openness	Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes.
	Provide clear reasoning and evidence for decisions in our reports and be explicit about the criteria, rationale and considerations used.
	Ensure that the impact and consequences of those decisions are clear.
	Using formal and informal consultation and engagement to determine the most appropriate and effective courses of action.
2. Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> <li>Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.</li> </ul>
	<ul style="list-style-type: none"> <li>Ensuring that partnerships are based on: <ul style="list-style-type: none"> <li>— trust</li> <li>— a shared commitment to change</li> <li>— a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit</li> </ul> </li> </ul>
3. Engaging with individual citizens and service users effectively.	Establish a clear policy on the types of issue on which the Council will meaningfully consult on or engage with the public and service users, including a feedback mechanism for those consultees to demonstrate what has changed as a result
	Ensure that communication methods are effective and that members and officers are clear about their roles with regard to community engagement.
	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.
	Implement effective feedback mechanisms to demonstrate how views have been taken into account.

**Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Defining Outcomes	<ul style="list-style-type: none"> <li>• Produce a corporate plan with a clear vision and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions.</li> </ul>
	<ul style="list-style-type: none"> <li>• Use service planning to underpin the outcomes and to ensure that achievement can be sustained.</li> </ul>
	<ul style="list-style-type: none"> <li>• Produce a risk register to manage the risks involved in the achievement of outcomes.</li> </ul>
2. Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> <li>• Ensure the economic, social and environmental impact is considered in all our significant plans and helps to inform decision making and our priorities.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure our significant plans consider the balance between sustainable economic, social and environmental benefits as well as consider community needs through consultation.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure as much as possible, that there is fair access to our services for all sections of the community.</li> </ul>

**Core Principle D: Determining the interventions necessary to optimise the achievement of intended outcomes**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Determining Interventions	<ul style="list-style-type: none"> <li>• Produce clear evidence based reports which help inform robust decision making with the consideration of different options as well as risks as appropriate.</li> </ul>
	<ul style="list-style-type: none"> <li>• Use the results of consultation to help inform decisions about service improvements or where services are no longer required.</li> </ul>
2. Planning Interventions	<ul style="list-style-type: none"> <li>• Ensure an effective service planning process is in place for all Council Services.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop a set of performance indicators to ensure there is an understanding of performance in key services.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure we adequately consider risks with a corporate risk register that is updated regularly.</li> </ul>
3. Optimising the achievement of intended outcomes	<ul style="list-style-type: none"> <li>• Annual refresh a medium term financial strategy which integrates our service priorities, affordability considerations and other resource constraints.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop a balanced budget that is in accordance with our medium term financial plan and ensures our objectives are adequately financed.</li> </ul>

**Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Developing the entity's capacity	<ul style="list-style-type: none"> <li>• Review operations, performance and use of assets on a regular basis to ensure their continuing effectiveness.</li> </ul>
	<ul style="list-style-type: none"> <li>• Use benchmarking as appropriate when evaluating performance and when undertaking service reviews to ensure resources are allocated effectively and planned outcomes can be achieved.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop and maintain effective workforce planning.</li> </ul>
2. Develop the capability of the entity's leadership and other individuals.	<ul style="list-style-type: none"> <li>• Maintain a Council constitution that specifies the type of decisions that are delegated and those that are reserved for the collective decision making of the government body.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that members and officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged.</li> </ul>
	<ul style="list-style-type: none"> <li>• Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.</li> </ul>
	<ul style="list-style-type: none"> <li>• Holding staff to account through regular performance reviews which take account of training or development needs.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.</li> </ul>

**Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Managing Risk	<ul style="list-style-type: none"> <li>• Maintain a risk management policy and framework that ensures risk management is an integral part of all activities and considered in all aspects of decision making.</li> </ul>
	<ul style="list-style-type: none"> <li>• Regularly report on the effectiveness of the risk management arrangements to Audit Committee.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure cabinet reports for decisions make reference to and consider key risks.</li> </ul>
2. Managing Performance	<ul style="list-style-type: none"> <li>• Maintain highlight reporting arrangements to ensure service delivery is effectively monitored.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that there is an effective scrutiny function which provides constructive challenge and debate on policies and objectives, before during and after decisions are made.</li> </ul>
	<ul style="list-style-type: none"> <li>• Provide regular reports to Cabinet on performance and progress in achieving key service improvements.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure consistency of reporting between budgets and financial outturns.</li> </ul>
3. Robust Internal Control.	<ul style="list-style-type: none"> <li>• Ensure effective counter fraud and anti-corruption measures arrangements are in place.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor,</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure an audit committee, which is independent of the executive and accountable to the governing body:               <ul style="list-style-type: none"> <li>• provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</li> <li>• that its recommendations are listened to and acted upon</li> </ul> </li> </ul>
4. Managing Data.	<ul style="list-style-type: none"> <li>• Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensuring effective arrangements are in place and operating effectively when sharing data with other Bodies.</li> </ul>



5. Strong Public Financial Management	<ul style="list-style-type: none"><li>• Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance.</li></ul>
	<ul style="list-style-type: none"><li>• Provide sound financial management that is integrated at all levels of planning and control, including management of financial risks and controls.</li></ul>

**Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

<b>Supporting Principle</b>	<b>The Council will</b>
1. Implementing good practice in transparency	<ul style="list-style-type: none"> <li>• Produce reports in a clear understandable style that are fair and balanced and appropriate to the intended audience.</li> </ul>
	<ul style="list-style-type: none"> <li>• Strike a balance between providing information that satisfies good transparent practice whilst not being too onerous in detail.</li> </ul>
2. Implementing good practice in reporting	<ul style="list-style-type: none"> <li>• Provide an annual report as part of the corporate plan.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure there is a robust process for producing an annual governance statement which accurately assesses the degree of compliance with the code of governance and associated assurance arrangements.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure performance information with financial statements includes comparison with other similar organisations.</li> </ul>
3. Assurance and effective accountability	<ul style="list-style-type: none"> <li>• Ensure recommendations from internal and external audit are acted upon.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure accountability arrangements with partnerships are clear.</li> </ul>
	<ul style="list-style-type: none"> <li>• Effective arrangements in place to obtain assurance on risks associated with delivering services through third parties.</li> </ul>

## **APPENDIX B: NOLAN COMMITTEE'S PRINCIPLES OF PUBLIC LIFE**

### **INTRODUCTION**

The Council has set out the principles of good governance it applies in its Local Code of Governance which is consistent with the CIPFA / SOLACE Guidance Delivering Good Governance in Local Government Framework (2007).

However members and employees are required to comply with the Nolan Committee's *Seven Principles of Public Life*, as set out below, to ensure that their own conduct complies with these overarching good governance principles.

### **SELFLESSNESS**

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

### **INTEGRITY**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

### **OBJECTIVITY**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

### **ACCOUNTABILITY**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### **OPENNESS**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### **HONESTY**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### **LEADERSHIP**

Holders of public office should promote and support these principles by leadership and example.

## APPENDIX C: HOW TO RUN A SUCCESSFUL ORGANISATION

WHAT DO YOU NEED TO DO?	MANAGEMENT PROCESS
Find out what your customers want	Community Engagement
Produce a plan outlining how you are going to meet that need	Business Strategy and Planning
Calculate how much this is going to cost you	Financial Planning / Treasury Management
Identify how you are going to finance this	
Identify what assets / people you are going to need to deliver this	Asset Management / Workforce Development Planning
Create the 'entity' and supporting constitution / policy structure	Committee Structure, Constitution, Policy Framework, Procedures, Ethical Governance and Codes of Conduct.
Define roles and responsibilities between executive and non executive members and create supporting operational structures	
Manage activities on a day to day basis	Performance Management including that applicable to staff
Understand where things could go wrong and cause you problems in delivering your services	Risk Management including Fraud & Corruption, Health & Safety, Insurance and Business Continuity
Check to see whether you are getting sufficient income in to pay your bills with an appropriate reserve	Budgetary Control
Ensure that the information you use to decide whether you are delivering what is expected is complete and accurate	Data Quality
Ensure that you are not holding information about others you should not be, that it is secure and is not being used inappropriately	Data Management and Security
Ensure that you buy your stock / assets / services cost effectively	Procurement and Value for Money, Contract Management
When undertaking one off projects, draw up a detailed plan to enable you to do this by the pre-determined date, within the allocated resources and to the required quality standards	Project Management

**AUDIT COMMITTEE**

**10th January 2019**

**Subject: Counter Fraud & Investigation Directorate (CFID): Quarterly Performance Report**

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**1. Purpose of Report**

To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation strategy at Castle Point Borough Council for 2018/19.

To approve the Council's revised Counter Fraud, Bribery & Corruption Policy and the revised Counter Money Laundering Policy.

**2. Proactive Counter Fraud Work Plan**

**Appendix A** outlines the progress made in delivering the agreed proactive counter-fraud work plan for this year.

If during the year any changes or additions to the plan are proposed between the CFID and the Section 151 Officer, these will be brought back to the Committee and included in the work plan.

The Proactive work plan included the revision of the Council's policies for Countering Fraud, Bribery & Corruption and Countering Money Laundering, these were presented to the previous quarter's Audit Committee.

The work plan details actions taken by CFID in specific areas along with a name for the responsible member of the management team within CFID.

**3. Investigations**

The CFID continues to deliver investigations into incidents of suspected fraud or other economic crime for the Council. The flow of casework in to CFID to date has been:

- Number of suspected fraud reports received (Q1-Q3): **13**
- Number of ongoing investigations: **10**
- Number of Closed investigations (Q1-Q3): **11**
- Value of suspected fraud currently under investigation: **£575,900**

#### **4. Contribution to Council's Aims and Priorities**

Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

##### **Financial Implications:**

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

##### **Legal Implications:**

The Accounts and Audit Regulations 2015 Section 3 requires that:

*The relevant authority must ensure that it has a sound system of internal control which:*

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

##### **People Implications:**

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

##### **Property Implications:**

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

##### **Consultation / Equalities Impact Assessment:**

None

##### **Risk Assessment:**

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.



A closer working relationship is being sort with the internal audit team to ensure that any overlapping areas of concern can be detected early and corroborative working can be utilised. To assist with this, CFID will produce monthly reports to the Head of audit detailing the investigations of CFID and the appropriate risk area.

It is also the hope of the CFID that a return in monthly reporting will be completed by the internal audit team, identifying the current audits taking place and if any concerns are being identified. This will capture early warnings of risk to the authority and allow officers from the CFID to assess if intervention is required in specific circumstances where criminality may be present.

#### **Value for Money:**

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

As can be seen from the results already obtained from the CFID actions, actively seeking and identifying criminality allows the authority to gain back money that would have otherwise left the budgets of various service areas of the authority. This in itself is a positive step; however the subsequent message sent to those who seek to abuse the financial stability of the authority is such a deterrent that further 'unmeasured' savings will be made by deterring future criminality against the authority.

#### **Community Safety Implications and Environmental Impact:**

None

#### **Recommendations**

##### **The Audit Committee:**

- **The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate to date.**

#### **Background Papers**

- Fighting & Corruption Fraud locally, The Local Government Fraud Strategy
- Crowe Whitehall & Clarke Annual Fraud Indicator 2017

#### **Appendices**

- Appendix A: Proactive Counter Fraud Work Plan

**Report Author: Daniel Helps, Senior Manager, Counter Fraud & Investigation Directorate**

## Appendix A - Counter Fraud & Investigation Directorate

### Counter Fraud Work Plan

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Council-wide	Fraud risk matrix assessment to be delivered to all service areas	July – Mar 2019	Accepted by Chris Mills and Audit Committee, on-going programme of meetings with service managers being delivered.	Daniel Helps	On-going meetings are taking place into next quarter.
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	October 2018	Questionnaire now developed and being tested at Thurrock Council before being circulated across CPBC	Michael Dineen	ICT have been liaised with and will be adding the MetaCompliance questionnaire to the system for all staff to answer.
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	October 2018	Questionnaire now developed and being tested at Thurrock Council before being circulated across CPBC	Michael Dineen	ICT have been liaised with and will be adding the MetaCompliance questionnaire to the system for all staff to answer.
Proactive Fraud Drives	Conduct proactive activity to disrupt and detect fraud affecting the Council.	Throughout 2018/19	Proactive work continues to be undertaken across the high-risk areas. So far this year activity has been conducted in: <ul style="list-style-type: none"> <li>Housing</li> <li>Right to Buy</li> </ul>	Michael Dineen	There was a proactive drive on 'empty' business premises to identify those not entitled to exemptions. Another is planned for 'small business relief' in early 2019. RTB

## Appendix A - Counter Fraud & Investigation Directorate

### Counter Fraud Work Plan

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
			<ul style="list-style-type: none"> <li>NNDR</li> </ul>		applications continue to be assessed by CFID with intelligence being passed to the correct departments.
Investigation Review	Review of insider threat investigations with Human Resources to reviews action and learning points	Throughout 2018/19	Meetings continue throughout the year when allegations are received. This is an on-going action. Most recent meetings have been in November 2018	Daniel Helps	On-going action with no completion date.
Fraud Awareness Training	Training to be delivered to high risk areas – housing officers, housing allocations, temporary accommodation and right to buy	Ongoing to December 2018	Training now being booked with assistance from CFID business support team.	Michael Dineen / Nicola Spencer	On-going action with no completion date due to rolling programme of training delivery.
Referral Training to Housing	Specific training to Housing Services due to lack of referrals and information suggesting that they are conducting criminal investigation themselves	September 2018	Meeting took place with John Grisley and mechanisms are in place to refer allegations. CFID staff member also on site to liaise with housing every Tuesday and Thursday.	Daniel Helps / Michael Dineen	Completed 20/09/2018

**Appendix A - Counter Fraud & Investigation Directorate**  
Counter Fraud Work Plan

<b>Risk area</b>	<b>Tasks</b>	<b>Planned for</b>	<b>Current status</b>	<b>Responsible CFID Officer</b>	<b>Completed Activity Date</b>
Update to Council website	Updates to the Council's website on local government fraud, detailing what the Council does to investigate provide advice to signpost referrers.	November 2018	Request sent on 21/11/2018 to ICT at CPBC but as yet, no response.	Dave Nash	ICT have been contacted and this is in the process of taking place
Policy update and review	Update the Council's Counter Fraud, Bribery & Corruption Policy and; Counter Money Laundering Policy.	September 2018	Policies updated to national standard and to support legislative changes. To be presented to audit committee on 17 <sup>th</sup> September 2018	David Kleinberg	Completed 17/09/2018

**AUDIT COMMITTEE****10th January 2019**

Subject: **Treasury Management and Investment Strategies 2019/20**

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**1. Purpose of Report**

The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.

**2. Links to Council's priorities and objectives**

The scrutiny and approval of the Council's Treasury Management and Investment Strategy is linked to the Council's priority of Efficient and Effective Customer Focused Services. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

**3. Recommendation**

That following scrutiny, the Treasury Management and Investment Strategies for 2019/20 are approved for onward submission to Council on 20th February 2019 as sections 12 and 13 of the overall Policy Framework and Budget Setting Report.

**Resolution required.**

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**4. Treasury Management and Investment Strategies 2019/20**

The strategies for 2019/20 are attached to this report.

**5. Corporate Implications****(a) Legal implications**

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

The Council continues to comply with all of the relevant statutory and regulatory requirements.

**(b) Financial implications**

Setting Treasury Management and Investment Strategies are cornerstones for effective treasury management and essential for sound management of the Council's finances. They are an integral part of the Budget Framework. All implications arising from this strategy have been incorporated into the budget due to be approved by Council in February 2019.

**(c) Human resource and equality implications**

There are no new implications.

**(d) Timescale for implementation and risk factors**

The Code of Practice for Treasury Management states that the Council must receive a report on annual strategy and plan in advance of the year. The Council complies with this by submitting the strategies to the annual Council budget-setting meeting in February. Failure to do this effectively or in a timely manner, could adversely affect the security of investments and increase reputational risk for the Council.

**Report Author:** Robert Greenfield, Accountant

# Treasury Management Strategy

## Definition of Treasury Management

- 1 Treasury management is:-  
*"The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP's) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council's policy statement and TMP's and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

## Treasury Management Strategy for 2019/20

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Treasury Solutions Ltd. trading as Link Asset Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

## Balanced budget requirement

- 4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

## Brexit, economic uncertainty and interest rates

- 5 It will be some time until it is clear what the country's trading arrangements will be with the EU and rest of the world post Brexit, and consequently it is likely there will be prolonged economic uncertainty.
- 6 The Bank of England base rate started 2018/19 at **0.50%** and was increased in August 2018 to **0.75%**. Growth in the UK economy is expected to remain low and Link expects five 0.25% increases in the base rate over the next three years and that rates may hit **2.00%** by March 2022. It is expected that the 50-year Public Works Loan Board (PWLb) long-term rate for maturity loans will be in the range of **2.80%** to **3.00%** during 2019/20.
- 7 The Council adheres to strict investment criteria. It is anticipated that investments will continue to have an overall short-term average maturity (less than 3 months). As it remains difficult to predict longer-term rates accurately the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.



### Current debt position and requirements for 2019/20

- 8 A summary of external debt that is expected to be outstanding at 31 March 2019 is as follows:-

<b>Table 12.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/19 £000's</b>
Public Works Loan Board – General Fund	5,250
Public Works Loan Board – Housing Revenue Account	36,451
<b>Total</b>	<b>41,701</b>

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and also the unexpired period at the time of repayment.
- 10 External borrowing can arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The proposed programme of capital expenditure due to be approved by Council in February 2019 is not currently anticipated to trigger a requirement for new borrowing in 2019/20. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is the difference between the Capital Financing Requirement (CFR) and the level of external borrowing. At the end of 2019/20 this is expected to be **£1.5m**. This is a very low proportion of the total investments and debt and is, in the opinion of the S151 Officer and Link, a satisfactory situation financially. This position is called moderately "under-borrowed". If external debt exceeded the CFR then the Council would be "over-borrowed". The position will fluctuate from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.
- Borrowing Strategy**
- 12 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore the financial impact on the longer-term budget positions for both the General Fund on the Medium Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and Business Plan the General Fund has annual budget gaps to be closed, and the HRA also faces challenges, such as the impact of changes in Central Government policies including the 4 year rent reductions, as detailed within the separate HRA budget setting report.

- 15 The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to access the preferential rate should the need arise. Although there are no current plans to borrow, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund debt is long at **35 years**, and none of the debt portfolio is due to mature before 2052 so there is no refinancing risk in the foreseeable future. Subject to any future changes in borrowing or planned capital projects the General Fund will not be affected by increased borrowing margins in the short or medium term.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes introduced is set to mature at different times between 2021/22 and 2041/42. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1.0m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, the borrowing cap would be removed, so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30 year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

#### **Borrowing in advance of need**

- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:-
- It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three year planning period; and
  - The Council would not look to borrow more than 18 months in advance of need.
- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council’s Investment Strategy.

#### **Treasury management indicators**

- 21 The Council is required to calculate a number of Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

#### **Borrowing maturity structure**

- 22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:-

<b>Table 12.2 Maturity structure of fixed rate borrowing</b>				
<b>Maturity</b>	<b>General Fund</b>		<b>Housing Revenue Account</b>	
	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

### **Borrowing – limits of fixed and variable rate exposure**

- 23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows:-

<b>Table 12.3 Upper limits of fixed and variable exposures</b>						
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper limit – fixed rates	47	47	47	47	40	40
Upper limit – variable rates	-16	-16	-16	-8	-10	-9

### **Borrowing - interest rate sensitivity**

- 24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios:-
- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
  - a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

### **Debt management objectives**

- 25 A summary of the Council's debt management objectives for 2019/20 is therefore as follows:-
- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
  - to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;
  - to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
  - to borrow at the best interest rates achievable in relation to estimated future rates;
  - to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
  - if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
  - to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
  - to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

# Investment Strategy

## Investment guidance

- 1 This Council has regard to the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

## Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
  - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
  - Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

- 3 Under the Guidance investments made by local authorities are classified into two main categories:
  - Investments held for treasury management purposes
  - Other investments

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2019-20 this amount will be **£50k**.

<b>Table 13.1 General Fund investment income</b>						
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Forecast investment income	164	165	139	110	122	120

- 4 The Guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

## Financial Investments

- 5 Under the Guidance Financial Investments fall in to three categories:
  - Specified investments - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year.
  - Loans – for example to local enterprises, charities etc. The Council has none
  - Non-specified investments – all others, may be less secure.

Specified Investment instruments identified for use in the financial year are listed in table 13.2 on the following page. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, however the Council will have no Non-specified Investments in the foreseeable future.

## Non-financial Investments

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers,

scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

### **Liquidity**

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2019/20 to range between **£21m** and **£36m**.

### **Risk Assessment and Risk Appetite**

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
- a very high average credit weighting for the portfolio, typically AA+
  - a diversified portfolio
  - short-term weighted average maturity typically 1 to 2 months
  - strict, stepped limits on lower-rated, but still high grade (A-rated) investments of up to £6m.
  - Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

### **Credit ratings**

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Table 13.2 also sets out the Council's minimum credit ratings that it considers appropriate for each category of investment. All funds are invested in institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

### **Monitoring of credit ratings**

- 10 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset Services, also alerts the Council to changes in ratings as they occur.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

**Table 13.2 Specified Investments for the Financial Year 2019/20**

<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Debt Management Agency Deposit Facility (DMADF)</b> (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
<b>Treasury Bills</b> issued by the UK Government (currently maximum 6 month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
<b>Term deposits</b> with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
<b>Term Deposits</b> with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Money Market Funds</b> (i.e. a collective investment scheme as defined in SI 2004 No 534) These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Certificates of Deposit</b> issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Covered bonds</b> (maximum 364 day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Reverse repurchase agreements "repos"</b> (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

- All Specified Investments listed above must be sterling-denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure.

### **Country, group and sector limits**

- 11 The Council selects counterparties according to credit quality as well as the additional information in paragraph 14 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 16.

### **Money Market Funds**

- 12 As has been the practice for a number of years, the Council continues to place a high proportion of its investments in Money Market Funds. By January 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value, with the result that the principal value could slightly increase or decrease whereas before it remained constant. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

### **Markets in Financial Instruments Directive (MiFID)**

- 13 From 3<sup>rd</sup> January 2018 changes in regulatory legislation required the Council to opt up to "professional" status (rather than the default status of "retail" client) with several of its counterparties in order to continue using some investments other than simple deposits.

### **Use of additional information other than credit ratings**

- 14 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

### **Bail-in legislation**

- 15 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all of their deposits are converted into equity which could be worth less than the original investment. Consequently the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

### **Internal stricter guidance**

- 16 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, taking into account information and advice supplied by Link Asset Services, the Council's treasury adviser. Changes to the internal guidance are approved by the Strategic Director (Resources).

### **Use of derivative instruments**

- 17 Local authorities have the ability to use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **Investments defined as capital expenditure**

- 18 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue



resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.

19 Investments in Money Market Funds are not treated as capital expenditure.

20 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

#### **Provisions for credit-related losses**

21 If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

#### **Investment strategy to be followed in-house**

22 The Council's in-house managed funds are mainly cash flow derived. Due to the level of these funds and uncertainty in the current climate, the Council has no proposals to invest for periods over 364 days. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

#### **The Council's banking arrangements**

23 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31<sup>st</sup> March 2020 so will go out to tender in 2019-20 in accordance with the Council's Contract Procedure Rules.

#### **Risk benchmarking**

24 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

25 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

26 **Security** – The Council's maximum security risk benchmark for the current portfolio is:-

- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.

27 **Liquidity** – In respect of this area the Council seeks to maintain:-

- Bank overdraft - **£200,000**. Higher overdraft facilities are available on request.
- Liquid short term deposits of at least **£1.0m** available with a day's notice.
- Weighted Average Life benchmark is expected to be up to 4 months, with a maximum of one year.

28 **Yield** – Local measures of yield benchmarks are:-

- Investments – returns above the 7-day LIBID rate.

#### **Treasury management adviser**

29 Link Asset Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment

instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.

- 30 Whilst Link Asset Services provides support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

#### **Member and officer training and experience**

- 31 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link Asset Services both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and an average of over 10 years' experience in local authority treasury.

#### **Investment activity reporting and publication**

- 32 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

#### **Code Update**

- 33 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the Investment principles stated in paragraph 2 above.

- 34 The 2017 edition also included:

- Three key principles of Treasury Management, which are unchanged from the previous publication.
- Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
- Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition, but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

#### **Changes in accounting standards**

- 35 IFRS9 Financial Instruments becomes effective from 2018/19 and replaces IAS 39 Financial Instruments: Recognition and Measurement. It specifies how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting sets out how it applies to Councils. Officers have consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they are not expected to be material to the Financial Statements, only affecting presentation and disclosure of the financial instruments and liabilities.

**AUDIT COMMITTEE**

**10th January 2019**

**Subject: Internal Audit Service, Quarterly Performance Report**

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**1. Purpose of Report**

To update the Audit Committee on progress made in delivering the Internal Audit Strategy for 2018/19.

**2. Internal Audit Plan Status**

**Appendix A** sets out the current status of the audit work planned for the year as at 14th December 2018. This also highlights where audits contained in the original plan considered by the Audit Committee in March 2018 have changed.

No changes have been made to the Audit Plan since it was last reported to the Audit Committee in September 2018.

**3. Audit Opinions and Themes**

**Appendix B** summarises the results of the audit work completed since the last Audit Committee.

**4. Performance Targets**

As outlined in the Strategy presented to the March 2018 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.

As at 14th December 2018:

- the team has had seven days of sickness absence since April 2018 (which impacts on productivity) and equates to 0.96 days per FTE
- of the 26 jobs in the plan:
  - 8 final reports have been issued
  - 1 report has been drafted and is with the Council for review
  - 6 audits were in progress
  - 11 were planned for the final quarter (5 of which are follow ups and 1 is a grant certification).

**Appendix C** sets out the issues arising from the:

- self-assessment of compliance with the Public Sector Internal Audit Standards as reported in the Annual Report presented to the Audit Committee in June 2017
- independent, external review of compliance completed by the Institute of Internal Auditors in October 2017.

Reasonable progress is being made to address these issues. The action plan will continue to be reported to Audit Committee until all the outstanding actions are complete.

Stakeholder surveys are completed throughout the year as audits are completed. Three individuals have been interviewed to date in 2018/19, covering three audit reports. A summary of the results is attached at **Appendix D**.

Overall the feedback obtained remains positive, with the results showing that stakeholders find the service to be flexible, communicative, collaborative and of value to the organisation. The results also show that the service needs to develop its skills around discussing assurance opinions and the criteria by which they are given with stakeholders effectively.

## **5. Resourcing**

The refreshed Collaborative Working Agreement for Internal Audit sets out that all the posts for the combined team will be part of Southend-on-Sea Borough Council's establishment. This approach has been taken as it is felt that:

- this will increase the chance of filling the remaining vacancies
- it will create a more cohesive team.

Therefore, the combined structure consists of:

- two Audit Managers (both in post)
- two Senior Auditors (one post vacant – recruitment to commence shortly)
- four Auditors (three posts vacant – recruitment to one post to commence shortly)
- cash (in the form of vacant posts) to buy in specialist and other services on behalf of both sites.

## **6. Corporate Implications**

### **Financial Implications**

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### **Legal Implications**

The Accounts and Audit Regulations 2015 requires the Council to undertake an effective internal audit taking into account the UK Public Sector Internal Audit Standards. These require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

## **7. Human Resources and Equality Implications**

### **Human Resources**

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

Regular updates are provided to the Audit Committee on how the service is being resourced (as required by the Internal Audit Standards).

### **Equality Implications**

The relevance of equality and diversity will be considered during the initial planning stage of each audit, before the Terms of Reference are agreed.

### **IT and Asset Management Implications**

People or asset management issues that are relevant to an audit will be considered as part of the review.

## **8. Links to Council's Aims, Targets and Objectives**

Audit work contributes to the delivery of all of the Council's Aims, Targets and Objectives.

## **9. Timescale for Implementation**

The Audit Plan relates to the 2018/19 financial year. This is a key piece of evidence available to the Audit Committee when reviewing the Annual Governance Statement, which will be presented to the Audit Committee at the end of the financial year.

## **10. Risk Factors**

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its Corporate Aims, Targets and Objectives. A key mitigating factor is the work of the Good Governance Group (the Group). Assurance provided by this Group is summarised in the Quarterly Monitoring Report of the Council's Governance Arrangements.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource at all or in a timely manner;
- possibility that the external supplier won't deliver contracted out work within the required deadlines to the expected quality standards; and
- need to maintain relationships with clients / partners while the service is being rebuilt.

<b>Recommendations: The Audit Committee notes the progress made in delivering the 2018/19 Internal Audit Strategy.</b>
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## **Background Papers**

- The Accounts and Audit Regulations 2015
- UK Public Service Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: Audit Committee update (issue 26): Helping audit committees to be effective.

## **Appendices**

Appendix A Internal Audit Plan 2018/19

Appendix B Opinions and Summaries

Appendix C PSIAS Action Plan

Appendix D Stakeholder Survey Results 2018/19

Appendix E CIPFA: Audit Committee update (issue 26): Helping audit committees to be effective.

**Report Author: Andrew Barnes, Head of Internal Audit**

## Internal Audit Plan 2018/19

Dept	Service Activity	Fraud risk	Status as at 14 <sup>th</sup> December 2018
<b>Managing the Business</b>			
<b>All Aims</b>			
Res	<b>Emergency Planning</b> To assess the robustness of the Council's preparedness to respond to a civil emergency under the Civil Contingencies Act 2004.	No	Fieldwork commenced in November (PWC).
SD, MO	<b>Information Governance, General Data Protection Regulation (GDPR)</b> To assess whether the Council is suitably compliant with the requirements of GDPR.	No	Fieldwork commenced in November (PWC).
Res	<b>IT Strategy</b> To assess whether the IT Strategy supports the development, maintenance and enhancement of IT systems, to enable the achievement of wider business objectives.	No	Fieldwork commenced in November (PWC).
Res	<b>Engagement and management of casual and agency staff</b> To assess whether the Council has a mechanism in place for managing their staff establishment within the levels of resource and financial budgets in two areas, the leisure and refuse & recycling services.	No	Draft report being reviewed by Council.

## Internal Audit Plan 2018/19

Dept	Service Activity	Fraud risk	Status as at 14 <sup>th</sup> December 2018
<b>Managing Service Delivery Risks</b>			
<b>Aim: Public Health and Wellbeing</b>			
H&C	<b>Homelessness</b> To assess whether the Council has a clear strategy and appropriate arrangements in place for dealing with homelessness, in line with the Homelessness Reduction Act 2017.	Yes	Planned for January to March 2019. Resources being agreed with contractor (Mazars).
<b>Aim: Environment</b>			
<i>Implementing Action Plans*</i>			
H&C	<b>Environmental Health: Noise &amp; Nuisance and Rubbish &amp; Accumulations</b>	Yes	Planned for January to March 2019.
<b>Aim: Transforming Our Community</b>			
H&C	<b>HRA New Property Build Projects</b> To assess whether appropriate business case, procurement and contract management arrangements are in place to select and deliver new Council housing properties.	Yes	Terms of reference agreed, fieldwork commenced in November.
<i>Implementing Action Plans*</i>			
H&C	<b>Right to Buy</b>	Yes	Planned for January to March 2019.
<b>Aim: Efficient and Effective Customer Focused Services</b>			
H&C	<b>Housing Property Management and Maintenance</b> To be determined with the business, as the review of the SLA progresses.	Yes	Planned for January to March 2019. Resources being agreed with contractor (PWC).
H&C	<b>Licensing</b> To assess whether licence applications are effectively and promptly processed and all due income is received.	Yes	Fieldwork commenced in November.



## Internal Audit Plan 2018/19

Dept	Service Activity	Fraud risk	Status as at 14 <sup>th</sup> December 2018
<i>Implementing Action Plans*</i>			
Res	Cyber Security Governance	Yes	Fieldwork commenced in November (PWC).
H&C	Health and Safety of Housing Stock	No	Report issued in August and reported to Audit Committee in September 2018.
H&C	Housing Allocations	Yes	Planned for January to March 2019.
Res	Income Collection	Yes	Report issued in September 2018 and reported to Audit Committee in January 2019.

Key Financial Systems			
All Aims			
<b>Key financial systems 2017/18</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.			
All	Business Rates	Yes	Planned for January to March 2019.
All	Council Tax	Yes	Planned for January to March 2019.
All	Housing Benefit	Yes	Planned for January to March 2019.
All	Housing Rents	Yes	Planned for January to March 2019.
All	Treasury Management	Yes	Planned for January to March 2019.
<b>Key financial systems 2016/17</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.			
All	General Ledger	Yes	Report issued in August and reported to Audit Committee in September 2018.
All	Income, Receipting and Banking	Yes	Report issued in September 2018 and reported to Audit Committee in January 2019
All	Accounts Payable	Yes	Report issued in August and reported to Audit Committee in September 2018.

## Internal Audit Plan 2018/19

Dept	Service Activity	Fraud risk	Status as at 14 <sup>th</sup> December 2018
All	Accounts Receivable	Yes	Report issued in September 2018 and reported to Audit Committee in January 2019.
All	Payroll	Yes	Report issued in August and reported to Audit Committee in September 2018.
<b>Grant Claims</b>			
Env	<b>Disabled Facilities Capital Grant Determination</b> To confirm the monies have been spent in accordance with the terms of the grant.	Yes	Completion of 2017/18 grant certification audit work, undertaken in 2018/19 completed August 2018.
SD, Mo	<b>Interreg Go Trade Grant</b> To confirm the monies have been spent in accordance with the terms of the grant.	Yes	First sign-off for 2018/19 completed September 2018. Second sign-off due Feb 2019.
<b>Advice and Support Work</b>			
	None		
<b>Managing Delivery of the Audit Plan</b>			
	Audit Planning and Resourcing		
	Managing Audit Plan Delivery		
	Reporting to Executive Management Team and Audit Committee		

\* **Implementing Action Plans** - To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.

## Internal Audit Plan 2018/19

<b>Audit Activities</b>	<b>Resource allocation</b>
Managing the Business	15%
Managing Service Delivery Risks	54%
Key Financial Systems	8%
Grant Claims	5%
Advice and Support	0%
Managing Delivery of the Audit Plan	18%
<b>Total</b>	<b>100%</b>
<b>Total Council Audit Plan Days</b>	<b>242</b>

The days required to revisit and retest action plans from previous reports are included under each heading.

<b>Analysis Over Departments</b>		
Env	Environmental	4%
H&C	Housing	41%
Res	Resources	23%
SD, MO	Strategic Director, Monitoring Officer	11%
All	Cross cutting	10%
All	Managing Delivery of the Audit Plan	11%
	<b>Total</b>	<b>100%</b>

Risk Watch List	
Env	Income Generation from Waste Collection Services
H&C	Safeguarding
H&C	Strategic Housing Strategy
H&C	Working with Partners, Strategic Partnership Framework
Res	Business Continuity
Res	Replacement of the Telephony Systems
Res	The Paddocks Project
SD, MO	Building Control
SD, MO	Development Control Support Team, Effectiveness Review and Revisited
SD, MO	Leases and Licenses Revisited
All	Ethical Governance
All	Health and Safety

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

## Appendix B: Opinions and Summaries - Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit report have been implemented and are now effectively embedded into the day-to-day operation of the service.

### Income Receipting and Banking Revisited



### Objective

To assess whether the key controls in the Income Receipting and Banking system effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing Castle Point Borough Council's (the Council) Statement of Accounts.

### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
1	0	0	0

### Summary

A new Post Policy has been developed to include the processes and procedures of opening post in the Revenues and Benefits area, including the use of CCTV in the post opening room.

The Revenues team decided that it was not beneficial to keep a log of cheques received as a new monthly report 'non-payment of receipts due in the month' would address the risk of missing cheques. This new report shows all debts that have not received payment, and as a result a missing cheque causing non-payment would be highlighted when contacting the customer to pursue payment. The monthly report is run by the Revenues team and sent to enforcement for following up and monitoring.

## Appendix B: Opinions and Summaries - Audits Revisited

### Accounts Receivable



### Objective

To assess whether the key controls in the Accounts Receivable system effectively prevent or detect on a timely basis, material financial errors, so that this information can be relied upon when producing Castle Point Borough Council's (the Council) Statement of Accounts.

### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
8	0	0	1

### Summary

The Sundry Debtor Credit Policy and procedures have been updated to include the need for the Revenues team to carry out sample checks of invoices before they are issued.

The Revenue team has reviewed all outstanding debts and those that were more than one year old were followed up. A process has been introduced whereby the Revenues team inform the service area of bad debts, so that they can stop providing further services to minimise the risk of increasing the debt. Furthermore, there is now a consistent approach to agreeing the income due from agreed instalment plans across the service areas.

## Appendix B: Opinions and Summaries - Audits Revisited

### Income Collection



### Objective

For a sample of non-statutory income streams, assess whether all income due is accurately raised and collected fully in accordance with Castle Point Borough Council's (the Council) policies / fees and charges framework.

### Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	No longer relevant
2	3	0	1	2

### Summary

The Sundry Debtor Credit Policy has been reviewed and updated. However, the policy does not currently detail how stage payments<sup>1</sup> are to be authorised for debtors wishing to pay by this method and therefore the policy will need to be extended to include how stage payments are agreed and authorised.

An Exceptions Policy for sundry debt has been drafted and is yet to be approved by the Strategic Director (Resources). This policy will cover exceptions to the payment terms outlined in the Sundry Debtor Credit Policy. Once the policy is approved it will be incorporated into the Sundry Debtor Credit Policy.

The current fee setting policy for chargeable services has been discussed between the Strategic Director (Resources) and the Cabinet Member and it was decided that the current policy should continue. This allows service departments to configure charges appropriate to their service, instead of the Cabinet having to approve each and every charge.

The Revenues Team informs the service areas of non-payment of invoices related to their area when a second reminder has been issued to the customer. This process was agreed between the Revenues team and each service area but has not been formalised. This replaces the need for a monthly report to be provided to and reviewed by each service area.

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<sup>1</sup> Stage payments are a method of spreading the cost of services over a period of time or 'stages'.

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
<b>Attribute Standards</b>		
<b>1100 Independence and Objectivity</b>		
<b><i>1111 Direct Interaction with the Board</i></b>		
Re-establish annual Audit Committee performance assessments in line with good practice.	<p>New good practice guidance was published in May 2018. Good practice workshops were undertaken in September 2018.</p> <p>At some point, an assessment of compliance with it should be produced. This can then be considered as part of a wider review of the Council's governance and assurance framework.</p>	HoIA, 31 March 2019
<b>1200 Proficiency and Due Professional Care</b>		
<b><i>1230 Continuing Professional Development</i></b>		
Continue with the recruitment programme for professional audit staff during 2017/18.	<p>No further recruitment was undertaken in 2017/18.</p> <p>During 2018/19 a:</p> <ul style="list-style-type: none"> <li>- new Head of Internal Audit was appointed from July to replace the previous incumbent who left at the end of May</li> <li>- Senior Auditor on the team has been promoted to Audit Manager</li> <li>- current Council employee has been seconded into an Audit trainee role and has now been made permanent.</li> </ul> <p>As a result there are currently four vacancies, two of which plan to be recruited to in 2019.</p>	Ongoing



## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate.	The Business Support Team is in the process of taking over the relevant functions from the two teams.  The capacity of the team to deliver the increased workload is being monitored over the winter.	HoIA, January 2019
<b>1300 Quality Assurance and Improvement Programme</b>		
Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.  This is not currently a priority due to the positive outcome of the PSIAS Inspection in October 2017, but will be introduced when there is sufficient resource in the team.	To be determined
<b>1311 Internal Assessments</b>		
Reinstate a full set off performance indicators once the team is more fully resourced with in-house staff.	This has now been built into the Audit Strategy presented to Audit Committee in March 2018 and will be implemented as soon as is practical.	To be determined
<b>Performance Standards</b>		
<b>2000 Managing the Internal Audit Activity</b>		
<b>2010 Planning</b>		
Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit.  Present the list periodically to senior management and the Audit Committee as part of the audit planning process.	This will form part of the papers presented to support the 2019/20 Audit Plan.	HoIA, 31 March 2019

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
<p>Consider how to split out time allocated to a review on:</p> <ul style="list-style-type: none"> <li>pure audit work</li> <li>advice and support.</li> </ul>	The time recording system will be amended to capture advice and support given throughout audits. This will be reviewed for effectiveness over the next six months.	AMs, 31 March 2019
<b>2040 Policies and Procedures</b>		
<p>Refresh the Audit Manual and supporting forms to reflect:</p> <ul style="list-style-type: none"> <li>updates in the Standards</li> <li>current working practices</li> <li>any issues arising from the independent external assessment.</li> </ul>	<p>Most of this work is still in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.</p> <p>Work is also needed to update the Audit Manual to ensure the audit approach will be compliant with the General Data Protection Regulations (GDPR) from May 2018.</p>	AMs, 31 March 2019
<b>2050 Co-ordination and Reliance</b>		
At all clients, further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round.	This work commenced as part of the Audit Planning process in 2018/19. This will be developed throughout the year as audit work is completed and as part of the 2019/20 audit planning process.	AMs, 31 March 2019
<p>Request that the Good Governance Group (GGG):</p> <ul style="list-style-type: none"> <li>makes this a work stream using all the intelligence it currently has</li> <li>reconsiders the practicalities of building "assurance" into the risk management process as part of the update of the framework currently being undertaken.</li> </ul>	Work with the GGG to integrate all its intelligence into the audit risk assessment in time for producing the 2019/20 Audit Plan.	HoIA, 31 March 2019

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
<b>2100 Nature of Work</b>		
<b>2110 Governance</b>		
Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.	<p>The Head of Internal Audit and the Head of Housing and Communities are undertaking a piece of work during 2018/19 to set out the Council's ethical governance framework.</p> <p>It was decided not to include such a review until this document is in place.</p>	AMs, Risk assess for 2019/20
<b>2200 Engagement Planning</b>		
<b>2210 Engagement Objectives</b>		
Make sure that the audit approach makes the links to performance management as part of the planning process.	<p>The audit planning form requires auditors to consider what criteria or measures of success management have established to determine whether the activity's objectives are being achieved.</p> <p>Focus will be given to assess the effectiveness and appropriateness of these measures in future audits.</p>	AMs, 31 March 2019

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
<b>2300 Performing the Engagement</b>		
<b>2330 Documenting Information</b>		
Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.	<p>This project is well underway with document disposal and retention work being undertaken on all client files.</p> <p>Disposal of paper files is complete and the review of electronic files continues.</p> <p>A Disposal and Retention Log is in use, which also serves as the service's Information Asset Register.</p>	Implemented
<b>2400 Communicating Results</b>		
<b>2410 Criteria for Communicating</b>		
<p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> <li>• feedback findings at the conclusion of fieldwork</li> <li>• discuss the draft report.</li> </ul>	<p>Operational protocol documents for in house staff (Audit Management Checklist) and the "Ways of Working" document with contractors are clear about discussing draft reports with clients.</p> <p>Both documents need to be amended to clarify expectations that:</p> <ul style="list-style-type: none"> <li>• findings will be fed back during the audit, so there are no surprises</li> <li>• all auditors will have a final feedback meeting on conclusion of the fieldwork.</li> </ul>	AMs, 31 March 2019
Reassess the reporting templates as part of updating the Audit Manual, to see how underlying issues with the Council's governance arrangements could be highlighted.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 March 2019

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
<b>2420 Quality of Communications</b>		
Build triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if there are delays in producing them.	<p>Work outstanding is to:</p> <ul style="list-style-type: none"> <li>• amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff</li> <li>• add this to the “Ways of Working” document with contractors.</li> </ul> <p><i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i></p>	AMs, 31 March 2019
Reinstate target for issuing draft reports once the team is more fully resourced.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be a focus of the team from now on.	Implemented
Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.	This work has been paused whilst the Business Support Manager reviews the list of improvements and changes required to the database’s functionality with the new Head of Internal Audit.	BSM, 31 January 2019
Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.	<p>APACE, in conjunction with the Internal Audit Resource Schedule, is now being used to:</p> <ul style="list-style-type: none"> <li>• allocate, phase and cost audits</li> <li>• allow the Business Support Team to monitor the delivery of audits against both the Audit Plan and the financial profile.</li> </ul> <p>Reports on job budget monitoring are being provided to the Audit Managers on a weekly basis.</p> <p>Opportunities to do this more effectively are being considered in the project noted above.</p>	Implemented

## Appendix C: Compliance with UK Public Sector Internal Audit Standards Action Plan (CPBC version) as at 14<sup>th</sup> December 2018

Action required	Current status	Date
Include a requirement in the Audit Manual about: <ul style="list-style-type: none"> <li>issuing the guidance to and discussing it with clients within the draft terms of reference</li> <li>attaching it as an appendix to the report.</li> </ul>	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 March 2019
<b>2431 Engagement Disclosure of Non-Conformance</b>		
Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 March 2019
<b>2500 Monitoring Progress</b>		
Introduce the process for management to provide the Audit Committee with this assurance for reports with high and satisfactory audit opinions.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 January 2019
Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 January 2019
Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 January 2019

Key:

- HoIA, Head of Internal Audit
- AM, Audit Manager
- BSM, Business Support Manager

## Appendix D: Stakeholder Surveys, Compliance with Professional Standards

<b>Setting up and planning the audit (PSIAS 1200 / 2200)</b>		
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	100%
<b>Performing the audit (PSIAS 2300)</b>		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	100%
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	100%
<b>Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)</b>		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	83%
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	83%
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	67%
<b>Independence and Objectivity (PSIAS 1100)</b>		
7	Did we provide relevant evidence to back up our findings if required?	83%
8	At the end of the audit, did you understand the rationale for the overall opinion given?	50%
<b>Managing the Internal Audit Activity (PSIAS 2000)</b>		
9	Do you think internal audit adds value to the Council?	83%