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Chief Executive

AGENDA

Committee:	AUDIT
Date and Time:	Thursday 20th June 2013 at 7.30 p.m.
Venue:	Committee Room 1
Membership:	Councillors Walter (Chairman), Barrett, Brunt, Burch, and J.A.Payne.
Substitutes	Councillors Dick, E.Egan and Mrs King.
Officers attending:	Ian Stapleton – Financial Services Manager Craig Watts - Head of Performance and Service Support Linda Everard – Head of Internal Audit Edwina Mosuro – Community Support Manager (for agenda item 4)
Also attending	Lisa Clampin BDO
Enquiries:	John Riley, Ext. 2417

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 28.3.2013 is attached and action points arising.
- 4. Benefit Subsidy Assurance Report**
Report of the Community Support Manager is attached.
- 5. BDO Progress Report to Those Charged with Governance**
Report of the External Auditor is attached.
- 6. BDO Planning Letter 2013/14**
Report of the External Auditor is attached.

7. Treasury Management Report

Report of the Financial Services Manager is attached.

8. Summary Audit Progress Report

Report of the Head of Internal Audit is attached.

9. Head of Internal Audit Annual Report 2012/13

Report of the Head of Internal Audit is attached.

10. Annual Governance Statement 2012/13

Report of the Head of Performance and Service Support is attached.

Current Information Items (standing item)

- CIPFA Better Governance Forum Audit Committee Update: Helping Audit Committees to be Effective, Issue 10:
 - Public Sector Internal Audit Standards
 - Regular Briefing on Current Issues

(Please Note: The current information items will be made available by email and copies placed in the Members' Rooms).

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Audit Committee - 28.03.2013 – Action Sheet

31. PKF GRANT CLAIM CERTIFICATION FOR THE YEAR ENDED 31 MARCH 2012

At the next meeting of the Audit Committee, a representative of the benefits department to provide an update on PKF's recommendations and a general overview of benefit calculations.

AGENDA ITEM NO. 4

AUDIT COMMITTEE

20 June 2013

Subject: Benefit Subsidy Assurance Report

1. Purpose of Report

To provide Members of the Audit Committee with an update on the work that has been undertaken in relation to issues identified with the Benefit Subsidy Claim in the 2011/12 External Audit Grant Claims and Returns Certification.

2. Links to Council's priorities and objectives

The Benefit Service is linked to the Regeneration & Homes priority.

3. Recommendations

That Audit Committee notes the progress of actions itemised in the External Audit Grant Claims and Returns Certification, Appendix B.

4. Work undertaken following 2010/11 Subsidy Claim Qualification

- 4.1 Following the 2010/11 External Audit Grant Claims and Returns Certification, reported in January 2012, an internal Action Plan was developed in conjunction with the Internal Audit Manager to address issues that had been identified and to ensure a more robust and proactive approach to preparation of the Subsidy Claim.
- 4.2 Officers were provided with targeted training on subsidy classification codes for overpayments and how these apply in day to day assessment scenarios.
- 4.3 Sample management checks on classification of overpayments were completed by the Benefit Manager and this process has now been embedded into the monthly Subsidy monitoring process.
- 4.4 Particular focus was given to evidencing software related errors, fixes, and system testing that was impacting accurate assessment of benefits and subsequently impacting on the Subsidy Claim.

4.5 A regular schedule of monthly subsidy monitoring meetings was introduced to ensure ongoing monitoring of any issues relating to, or impacting on, subsidy including the following areas;

- the financial subsidy position (and how this compares to budget requirements)
- specific Cell errors affecting the Subsidy Claim
- monitoring the overpayment classification sample checks
- monitoring overpayment write off management sample checks
- identifying any emerging staff training needs
- identifying IT 'bugs', fault calls, fixes, releases, and future IT developments
- identifying legislative changes
- implementing audit findings (both internal and external)

4.6 Other areas of work (i.e. Discretionary Housing Payment uptake, market rent levels, and Overpayment recovery levels) are also examined in these meetings.

5. Actions identified in the 2011/12 Qualification

5.1 Incorrect Classification of Overpayments

5.1.1 Since March 2012 a regular sample management check of overpayments has been undertaken on a monthly basis. A weekly report is run of all overpayments created the week before and a random sample of 3 cases are selected and checked each week. This represents a 1.1% sample size (156 cases checked out of a total of 13,392 overpayments created in 2012/13).

5.1.2 The Benefit Manager checks the reason for the assessment that caused the overpayment, the accuracy of the overpayment dates and amounts, and the Subsidy reason code allocated to the overpayment. Evidence of the checks are supplied to the Community Support Manager in the monthly Subsidy Assurance Meeting. No errors have so far been identified and this monthly check is now ongoing and embedded into the monthly subsidy monitoring process.

5.2 Incorrect application of State Retirement Pension up-rating

5.2.1 The State Retirement Pension (SRP) consists of a Basic Element and Additional Elements which are awarded where the claimant meets certain criteria. DWP up-rating guidance requires that Local Authorities up-rate the SRP Basic Element by the Retail Price Index (RPI) rate, and any Additional Elements by the Consumer Price Index (CPI) rate.

5.2.2 Historically the Local Authority has always recorded SRP data under one income code in the Benefit system and therefore each year only one up-rate % rate has been applied to this code. In 2011/12 the SRP income was up-rated by the CPI rate of 3.1%. In 2012/13 the RPI rate (5.6%) was used.

5.2.3 Discussions have taken place with the Benefit software supplier and new codes have now been created in the Local Authority's Benefit system to facilitate the different Elements and different up-rate %'s. However, the Local Authority has not yet implemented these new codes onto any live cases because we do not currently hold an accurate breakdown of each customer's SRP Elements to enable the income to be correctly split between the codes. Only the total weekly SRP award figure is held in the Benefit system.

5.2.4 Two possible options for gathering this data are being considered;

- using DWP's Customer Information System (CIS),
- asking each claimant to provide their current SRP award notification letter.

It is imperative that any work to split the SRP Elements is based on accurate details of these components. For this reason no decision has yet been made on which of these options, if any, will produce the most accurate assessment. The Local Authority intends to undertake further discussions with The Pension Service and External Audit before a decision is made on which data source will be used.

5.2.5 In the meantime the SRP income for 2013/14 has been up-rated by the CPI rate and the Local Authority is considering whether to undertake a bulk claim up-rating exercise to revise this to the RPI rate which would reduce the risk of overpaid benefit awards and Local Authority Error. A final decision on this will be made following discussion with External Audit.

5.3 Incorrect Application of LHA Anniversary dates

5.3.1 These errors resulted from a fault within the Benefit system software, whereby rolling LHA (Local Housing Allowance) anniversary dates were randomly amended by the system after Officer's had completed routine change of circumstances to claims.

5.3.2 A 'fix' was provided by the software supplier and this was applied to the claim database on 27/03/2012.

5.3.3 The 40+ sample has not yet been conducted however this piece of work will be undertaken before the 2012/13 Claim is audited and any errors identified will be corrected within the 2013/14 Claim.

5.3.4 From January 2013 all LHA anniversary dates have been aligned to the 1st April each year. This issue is not therefore relevant to Subsidy Claims made after the 2012/13 Claim.

5.4 Incorrect award of Extended Payments

5.4.1 In December 2012 a 'one off' exercise was conducted to identify all Extended Payment cases paid in 2012/13. 174 cases were identified and a sample management check of 30 of these cases was completed.

5.4.2 The Benefit Manager checked that the claims met the correct legislative criteria for an extended payment and that the award had been correctly input. No errors were identified.

6. Corporate Implications

a. Financial Implications

It is anticipated that the ongoing work in relation to the SRP up-ratings and LHA anniversary dates will be completed before External Audit Certification of the 2012/13 Claim and therefore adjustments will be reflected in the 2013/14 Claim.

b. Legal implications

There are no legal implications.

c. Human resources and equality

There are no equality implications.

All work will be undertaken within existing Benefit resources.

d. Timescale for implementation and risk factors

The SRP up-rating and LHA anniversary date issues will be undertaken before the 2012/13 Claim is audited and any errors identified will be corrected within the 2013/14 Claim. Monitoring of progress will be undertaken via the monthly Subsidy Monitoring meetings and quarterly monitoring by Internal Audit.

7. Background Papers:

External Audit Grant Claims and Returns Certification - January 2013

Report Author: Eddie Mosuro, Community Support Manager

AUDIT COMMITTEE

20 June 2013

Subject: BDO Progress Report to Those Charged with Governance

1. Purpose of Report

To report on progress in delivering the 2012/13 Audit Plan.

2. Background

Attached is BDO's (the appointed External Auditor to the Council) Progress report to Those Charged with Governance.

A senior representative of BDO will present the key matters from this report to the Audit Committee and then respond to any questions of clarification by Members

3. Corporate Implications

(a) Financial Implications

None

(b) Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Audit Commission's Code of Audit Practice (the Code). By considering this report, the 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

Audit contributes to the delivery of all the Council's Priorities and Objectives.

5. Timescale for Implementation and Risk Factors

Timescales for delivering elements of the Audit Plan are set out in the progress report.

6. Conclusion

None

Recommendation

The Audit Committee notes the progress with the 2012/13 Audit Plan.

Resolution Required

Background Papers

- None

Attachments

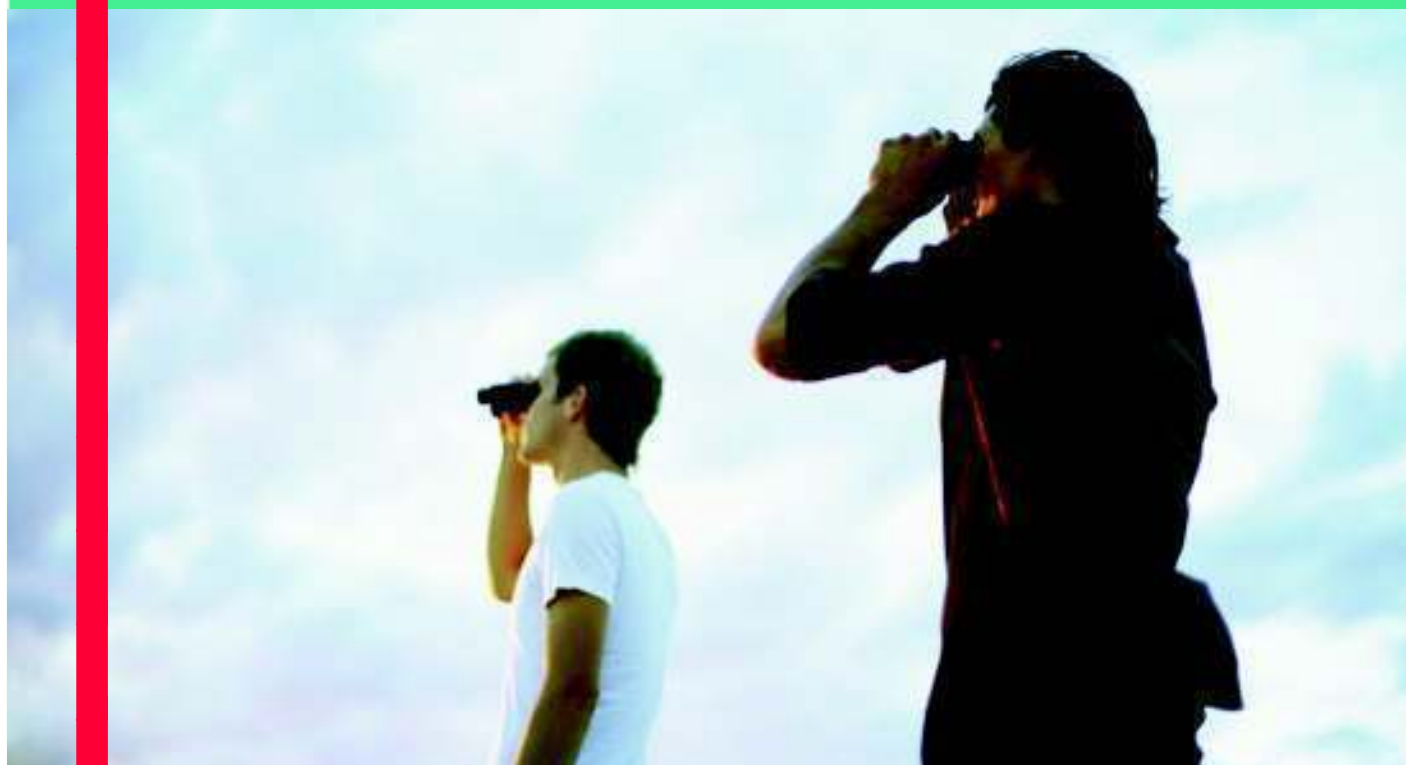
- BDO Progress report to those charged with governance

Report Author: Zoe Thompson, Senior Manager BDO

CASTLE POINT BOROUGH COUNCIL

Progress report to those charged with governance

June 2013



INTRODUCTION

Summary of progress

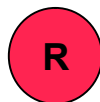
This report is intended to provide the Audit Committee with an update of the progress in delivering the 2012/13 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns as directed by the Audit Commission.

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions. This is included as a "RAG" assessment in the report.



RED

Unlikely to be able to meet reporting deadlines or modification of audit report or opinion



AMBER





Some concerns around meeting reporting deadlines or potential risk of modification of audit report or opinion








GREEN

On target to meet deadlines and no current concerns over issue of audit report or opinion

2012/13 Annual Audit Plan - progress summary as at 5 June 2013

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Planning	<p>Risk assessment and formulation of the annual audit and inspection plan.</p> <p>No Fee Letter required for 2012/13 due to the interim status of audit appointments between April and October 2012. The Audit Commission required that either a Planning Letter or a detailed Audit Plan be issued by 4 January 2013.</p>	<p>First phase of work completed.</p> <p>Planning for 2012/13 on-going until completion of the statement of accounts audit.</p>	<p>Fee Letter 2012/13 No separate fee letter required this year.</p> <p>Audit Plan 2012/13 Presented to January 2013 Audit Committee.</p>	
Financial statements				
Interim audit	<p>Audit of the key financial systems that support the financial statements of accounts.</p> <p>To be completed prior to commencement of the audit of the financial statements in July 2013.</p>	Work is largely complete. No significant deficiencies identified in the work completed to date.	<p>We report to management any deficiencies in internal control identified during the audit.</p> <p>Where we identify significant deficiencies in internal control identified during the audit we also report those in our Annual Governance Report.</p>	
Statement of accounts audit	<p>Audit of the draft statement of accounts to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year.</p> <p>Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2013.</p>	Work due to commence 1 July 2013.	<p>Annual Governance Report to those charged with governance to be reported in September 2013.</p> <p>Opinion on the statement of accounts Accounts publication deadline 30 September.</p>	
Whole of government accounts audit	<p>Audit of the consolidation pack for consistency with the audited statement of accounts.</p> <p>Consolidation pack opinion - deadline 4 October 2013.</p>	Work due to commence September 2013.	<p>Opinion on the WGA Consolidation Pack To be issued by 4 October 2013.</p>	

CASTLE POINT BOROUGH COUNCIL

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Use of Resources				
Use of resources	Review of use of resources based on: <ul style="list-style-type: none"> proper arrangements in place for securing financial resilience proper arrangements for challenging how the Council secures economy, efficiency and effectiveness. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2013.	Planning complete and initial meeting held with key officers. Work in progress.	Results to be reported in the Annual Governance Report in September 2013.	
VFM conclusion	Review to support a conclusion on whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2013.	Planning complete and initial meeting held with key officers. Work in progress.	VFM conclusion target issue date 30 September 2013.	
Reporting				
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2013.	To be drafted after completion of audit work.	Annual Audit Letter target issue date 21 October 2013.	
Grants certification				
Grants and returns	To audit and submit grant claims and returns by the relevant deadlines.	Work to commence in August and complete in November 2013.	All grants claims and returns to be audited in line with agreed schedule.	
Grants Report	Summary of our certification work completed on 31 March 2013 claims.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2014.	

BDO UK

3 Offices **250** Partners
2 Offices **3,500** Staff

No. 1 for exceptional client service ¹

90% of our clients would recommend us ² **and** **72%** already have ³

AN AWARD WINNING UK FIRM

in 2012 we won:

- ▶ AUDIT OF THE YEAR AWARD ³
- ▶ ACCOUNTANT OF THE YEAR AWARD ⁴
- ▶ TAX ADVISER OF THE YEAR ⁵
- ▶ BEST INNOVATION IN CLIENT SERVICE OR RELATIONSHIP MANAGEMENT ⁶

BDO INTERNATIONAL

US\$6 ⁷bn 2012 revenue

138 Countries **1,200** Offices
55,000 Staff

1. Independent research carried out by Lighthouse Global (Mid Market Monitor 2012)
2. Client Listening Programme 2011
3. British Accountancy Awards 2012
4. M&A Awards 2012
5. International Accounting Bulletin 2012
6. Managing Partners Forum (MPF) European Leadership Awards 2012
7. \$6.01bn (£4.63bn) total combined fee income 2012

AUDIT COMMITTEE

20 June 2013

Subject: BDO Planning Letter 2013/14

1. Purpose of Report

To present the External Audit Planning Letter for 2013/14 to the Audit Committee.

2. Background

As required by the Audit Commission's Code of Audit Practice 2010, the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk. It should be presented to the relevant committee as soon as possible after the start of the relevant financial year.

The auditor is required to present a "letter" setting out the proposed 2013/14 audit fee. A more detailed Audit Plan will be issued in late Autumn which will include any accounts risks identified after completion of the 2013/14 audit.

A senior representative of BDO (the appointed External Auditor to the Council) will present this report and respond to Members questions.

3. Corporate Implications

(a) Financial Implications

The fee scales and overall requirements of what needs to be undertaken by the external auditor are defined by the Audit Commission. The fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Planning Letter for 2013/14.

(b) Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Audit Commission's Code of Audit Practice (the Code). By considering this report, the 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

Delivery of the audit plan contributes to the achievement of all the Council's priorities and objectives.

5. Timescale for Implementation and Risk Factors

The current intention is for this plan to be completed by December 2014 when the Audit Plan will be produced.

Poor performance by the Council in the areas subject to review could result in either a qualified audit opinion or value for money conclusion and may also impact adversely on any corporate assessment

6. Conclusion

None

Recommendation

The Audit Committee approves the Planning Letter for 2013/14.

Resolution Required

Background Papers

- None

Attachments

BDO Planning Letter 2013/14

Report Author: Linda Everard, Head of Internal Audit



PLANNING LETTER 2013/14

Report to Audit Committee

Castle Point Borough Council

APRIL 2013



<http://www.bdo.co.uk/>

PROPOSED AUDIT FEES

Introduction

We are required to report to you our proposed fees and programme of work for the 2013/14 financial year.

The fee is based on the work required under the Audit Commission's *Code of Audit Practice* and our assessment of the audit resource required to complete this work, taking into account the strength of your control environment, coverage of internal audit work and previous audit experience.

The fee covers:

- audit of the financial statements
- value for money conclusion.

Proposed fees

A summary of the proposed fee, and how it compares to the current published Audit Commission scale fee for 2013/14 and the current proposed fees for 2012/13, is shown below:

Audit area	Proposed fee 2013/14 (£)	Current proposed 2012/13 fee (£)
Code audit work		
Scale fee	74,120	74,120
Certification fees		
Scale fee	27,800	26,500
Total proposed fees	101,920	100,620

Audit commission scale fee

In December 2012 the Audit Commission published a consultation document setting out the work programme planned for Local Government audited bodies for 2013/14, with the associated scales of audit fees. The Commission published the final work programme and scales of fees for 2013/14 in April 2013.

The Commission has not planned to make any changes to the work programme for Local Government for 2013/14 and so the Scale audit fees proposed have been set at the same level as the fees applicable for 2012/13.

The Commission has committed to undertaking an annual review of the work programme and fees and so will be revisiting Scale fees for future years in due course.

Variation to published scale fee

We have not proposed a variation to the scale fees of £74,120 for Code audit and £27,800 for certification work.

The certification scale fee has increased from the 2012/13 proposed fee because it is based upon the actual 2011/12 adjusted certification fee charged. The 2012/13 fee is based upon the actual 2010/11 adjusted certification fee. Certification fees vary from year to year depending on the number and complexity of issues identified especially regarding certification of the Housing and Council Tax Benefit claim.

Questions and objections

Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Non-audit assurance work

We have not proposed undertaking any non-audit work.

Billing

Your Code audit fee will be billed in four equal, quarterly instalments of £18,530 commencing in June 2013. Fees for the certification of grant claims and returns are billed on completion of the certificate for each claim or return.

Changes to proposed work and fees

If we need to propose any amendments to the audit fee during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Head of Resources and seek approval from the Audit Commission for a proposed variation of fee. If necessary we will also prepare a report outlining the reasons why the fee needs to change, for discussion with the Audit Committee.

PROPOSED WORK

Introduction

A separate Audit Plan will be issued once we have completed our risk assessment and the audit of the 2012/13 financial statements. This will detail the significant financial statements risks and value for money risks that we have identified, our planned audit procedures to respond to those risks and any associated changes in fee.

In this Planning Letter we outline the proposed work programme.

Financial Statements

Our audit strategy proposes that we obtain assurances over the financial statements using a combination of testing the effectiveness of the Council's internal controls, testing a sample of transactions and balances in the financial statements and analytical procedures.

We will seek to rely on the work of any management expert used to prepare items in the financial statements, such as land and property valuations provided and pensions actuaries for valuation of the Council's share of the pension fund assets and liabilities.

To date, we have noted the following that may impact on our proposed approach to the audit of the financial statements for 2013/14:

Localisation of business rates and council tax

The Government's welfare reform and deficit reduction initiatives include the localisation of business rates and council tax support. The new schemes were implemented on 1 April 2013 with the aim of giving councils greater discretion over discounts and exemptions to encourage employment and to be consistent with the wider localisation agenda.

We will monitor the impact of localisation of business rates and council tax support on the Collection Fund and consider this when finalising our risk assessment and determining our audit approach, later in the year.

Value for money

We are required to assess the Council's arrangements to:

- **secure financial resilience:** the organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- **challenge how it secures economy, efficiency and effectiveness:** the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have noted the following that may impact on our value for money audit:

Medium term financial strategy

Government continues to reduce funding for local government over the Spending Review period, and combined with additional pressures arising from demographic and other changes, will have a significant impact on councils.

Changes to the arrangements for funding council tax support and the business rate retention scheme also brings added uncertainty to the medium term financial strategy.

We will continue to monitor the Council's financial position and will also review plans to address funding gaps in the medium term. The Council is in the process of developing and agreeing a new Corporate Plan and we will monitor how this is then implemented within the Council's strategic documents and performance management arrangements to drive delivery of those revised objectives.

PLANNED OUTPUTS

Reports and opinions

We plan to issue the following reports and opinions over the course of the audit:

- Audit Plan (December 2013)
- if appropriate, report on significant deficiencies in internal controls (May 2014)
- Annual Governance Report (September 2014)
- auditor's report with opinion on the financial statements and value for money conclusion (September 2014)
- auditor's report and assurance statement on the Whole of Government Accounts return (September 2014)
- Annual Audit Letter (October 2014)
- grant claims and returns certification report (January 2015).

AUDIT TEAM

Key members of the audit team

Engagement Lead - Lisa Clampin

email: Lisa.Clampin@bdo.co.uk

Tel: 01473 320716

Lisa will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Engagement Manager - Zoe Thompson

email: Zoe.Thompson@bdo.co.uk

Tel: 01473 320734

Zoe will manage and co-ordinate each aspect of the audit and will be the key contact with the Finance team.

Supervisor - Barry Pryke

email: Barry.Pryke@bdo.co.uk

Tel: 01473 320793

Barry will lead the delivery of the financial statements audit.

Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Lisa Clampin in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

AUDIT COMMITTEE

20 June 2013

Subject: Annual Report on the Treasury Management Service and Actual Prudential Indicators 2012/13

1 Purpose of Report

The annual treasury report is a requirement of the Council's reporting procedures. It covers both the treasury activity and the actual Prudential Indicators for 2012/13.

The report meets 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 is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

2 Links to Council's priorities and objectives

The scrutiny and approval of the Council's Treasury Management activity is linked to the Council's objective of Improving the Council through sound financial management.

3 Recommendations:

1. That following scrutiny, the Treasury Management Activity Report for 2012/13 is approved.
2. To approve the actual 2012/13 prudential indicators (shown at Annexe D).

Resolution required.

4 Background

4.1 The 2012/13 Treasury Management Strategy summarises the Council's obligations defined in the Code of Practice for Treasury Management in the Public Services, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.2 During 2012/13 the Council complied with its legislative and regulatory requirements.

5 Treasury Report for 2012/13 and scrutiny of treasury activity

- 5.1 As required by the Code, the activity report for 2012/13 is submitted at Annexe A for scrutiny by Audit Committee, prior to submission to Cabinet on 17 July 2013.
- 5.2 It is important to ensure that the Council's treasury management activities are subject to a robust process of scrutiny. This report provides Members with information on treasury management activity and variances in order to fulfil this process.

6 Corporate Implications

a Legal implications

This report is presented on behalf of Chris Mills in her role as "section 151 Officer" – the Officer appointed by the Council to have responsibility for the Council's financial administration. Submission of such a report is a requirement of CIPFA's Standard of Professional Practice on Treasury Management.

Under the revised Code of Practice, Cabinet was nominated at Special Council 16th February 2010 to ensure effective scrutiny of the treasury management strategy and policies. Accordingly this report will be submitted to the Cabinet meeting on 17 July 2013.

b Financial implications

There are no new implications.

c Human resources and equality implications

There are no new implications.

d Timescale for implementation and risk factors

No new targets applicable.

Report Author: Robert Greenfield - Accountant

Background Papers:

Chartered Institute of Public Finance and Accountancy: *Code of Practice for Treasury Management in the Public Services*.

CPBC: *Treasury Management Strategy Statement for 2012/13*.

CPBC: *Working paper: external loan calculation 2012/13*.

Treasury Management Activity Report for 2012/13

1 Introduction

- 1.1 This report summarises the Council's treasury management activity for 2012/13 and compares actual interest transactions with the revised estimates set for 2012/13.
- 1.2 The Council must comply with the Code of Practice on Treasury Management in the Public Services, issued by CIPFA and updated in 2011. The code requires the Council to annually set a Treasury Management Strategy. The strategy for the 2012/13 financial year was approved by Council on 22nd February 2012.
- 1.3 This report confirms that all Treasury Management activity during the year was undertaken in accordance with this strategy and in consultation, where appropriate, with our external advisers, Sector. The Council had no liquidity issues during the year.

2 The Economy

- 2.1 **Short-term interest rates.** The Bank of England base rate has remained at just 0.50% since March 2009 and the Council therefore continues to earn very low rates on its investments, while facing the challenge of increased counterparty risk, resulting in a significantly reduced number of counterparties that the Council can use.
- 2.2 After the end of the financial year on 9th May, Moody's the rating agency downgraded the Co-operative Bank plc's long-term rating to non-investment grade. Consequently the Council withdrew the amount held in the Co-op Call account and will continue to monitor the situation closely.

3 Borrowing

- 3.1 A summary of external borrowing at 31 March 2013 is at Annexe B.
- 3.2 The Council operated within treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement throughout the year. The outturn for the Prudential Indicators is shown in Annexe D.
- 3.3 Annexe B - GF also shows that interest paid on borrowings and chargeable to General Fund exceeded budget by only £48 (0.0%) for the year. Annexe B - HRA shows that interest paid on borrowings and loan arrangement fees and chargeable to the HRA exceeded budget by only £21 (0.0%) for the year.

4 Investments

- 4.1 The Council's investment policy is governed by CLG Guidance, which was implemented in the annual Investment Strategy approved by Council on 22nd

February 2012. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

4.2 Annexe C summarises the Council's activities for the year relating to the temporary investment of surplus funds. The average daily balance increased from £14.4 million in 2011/12 to £17.1 million in 2012/13.

4.3 Annexe C also shows that the amount of interest received on these investments was over budget by £7,373 (11.7%). The average interest achieved was 0.41% compared to the 7-day LIBID average of 0.39%.

5 Benchmarking

5.1 Three benchmark indicators for 2012-13, explained in the Annual Treasury Management Strategy, are reported as follows:

- **Security – Weighted Credit Rating Score for the year of 6.19 exceeded the target of 4.**
- **Liquidity – Weighted Average Life was at an extremely liquid level, averaging 1 day over the year.**
- **Yield – Interest received on investments – Income was over budget, as reported in paragraph 4.3 above.**

6 Regulatory Framework, Risk and Performance

6.1 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.

6.2 The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

**Summary of General Fund Loan Transactions and Interest Payable (accrued daily)
for the year to 31st March 2013**

Annexe B - GF

Loan Transactions Activity for the Period

Type of Loan	Amount o/s 01/04/12 £	Loans Repaid £	Amount o/s 31/03/2013 £
Public Works Loan Board	7,325,112	0	7,325,112
Total	7,325,112	0	7,325,112

**Interest Payable
Comparison of Estimate with Actual**

Original Estimate 2011/12 £	Actual Interest 31/03/2013 £	Variance 31/03/2013 £	
400,400	400,448	-48	
400,400	400,448	-48	0.0%

Interest Rates

Average interest rate on Castle Point B.C.
loans outstanding for the year to 31/03/13 5.47%

Interest Rates	From	Range	To
Public Works Loan Board	3.700%		9.375%

Bank Base Rates

	%
11/01/2007	5.25
11/05/2007	5.50
06/07/2007	5.75
06/12/2007	5.50
07/02/2008	5.25
09/04/2008	5.00
08/10/2008	4.50
06/11/2008	3.00
04/12/2008	2.00
08/01/2009	1.50
05/02/2009	1.00
05/03/2009	0.50
31/03/2013	0.50

Summary of HRA Loan Transactions and Interest Payable (accrued daily) for the year to 31st March 2013

Annexe B - HRA

Loan Transactions Activity for the Period

Type of Loan	Amount o/s 01/04/12 £	Loans Repaid £	Amount o/s 31/03/2013 £
PWLB HRA	36,451,000	0	36,451,000
Total	36,451,000	0	36,451,000

Interest Payable Comparison of Estimate with Actual

Original Estimate 2012/13 £	Actual Interest 31/03/2013 £	Variance 31/03/2013 £	
1,085,400	1,085,421	-21	
1,085,400	1,085,421	-21	0.0%

Interest Rates

Average interest rate on Castle Point B.C.
loans outstanding for the year to 31/03/13 2.98%

Interest Rates	Range From	To
Public Works Loan Board	2.310%	3.490%

Bank Base Rates

	%
11/01/2007	5.25
11/05/2007	5.50
06/07/2007	5.75
06/12/2007	5.50
07/02/2008	5.25
09/04/2008	5.00
08/10/2008	4.50
06/11/2008	3.00
04/12/2008	2.00
08/01/2009	1.50
05/02/2009	1.00
05/03/2009	0.50
31/03/2013	0.50

Summary of Temporary Investments and Interest Received (accrued daily) for the year to 31st March 2013

Type of Borrower	Amount Invested 01/04/2012 £	Investments Made in the Year £	Investments Repaid in the Year £	Amount Invested 31/03/2013 £	Carrying Amount 31/03/2013 £
Investments by Value:					
Debt Management Office	0	35,700,000	35,700,000	0	0
Local Authorities	0	0	0	0	0
Money Market Funds	10,400,000	45,363,361	43,563,361	12,200,000	12,203,595
Co-op Bank plc - Call Account	1,033,599	23,806,609	22,870,000	1,970,208	1,971,857
Building Societies	0	0	0	0	0
Total	11,433,599	104,869,970	102,133,361	14,170,208	14,175,452
Number of Investment Transactions:					
	Number	Number	Number	Number	
Debt Management Office	0	20	20	0	
Local Authorities	0	0	0	0	
Money Market Funds	16	45	39	22	
Co-op Bank plc - Call Account	6	140	137	9	
Building Societies	0	0	0	0	
Total	22	205	196	31	

Interest Received on Temporary Investments for the year to 31st March 2013

	£
Actual Interest Received	70,373
Original estimate	63,000
Variance	7,373 11.7%

Temporary Investments

Average Balance for the Year	17,121,389
Average Interest Rate for the Year	0.41%
Benchmark: Average 7-Day LIBID Rate	0.39%

Prudential Indicators

Indicator 1 - Key indicator of prudence - Gross Borrowing Requirement

"In order to ensure that over the medium term debt (i.e. gross external borrowing) will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The requirement is currently expected to be met for the forthcoming two financial years, but for 2012/13 actuals there is a 0.46% excess of gross borrowing over the capital financing requirement, due to variations in timings of capital expenditure and debt repayments. This is not considered to be significant.

Indicator 2 - Capital Expenditure

	2012/13 Revised Estimate £000s	2012/13 Actual £000s
General Fund	4,327	3,322
Housing Revenue Account	1,400	1,110
Total	5,727	4,432

Indicator 3 - Indicator of Ratio of Financing Costs to Net Revenue Stream

	2012/13 Revised Estimate %	2012/13 Actual %
General Fund	5	6
Housing Revenue Account	30	31

This indicator shows financing costs such as interest charges and the minimum revenue provision as a percentage of the net General Fund and HRA revenue budgets.

Indicator 3B - Local Indicator of Ratio of Financing Costs to Net Revenue Stream

	2012/13 Revised Estimate %	2012/13 Actual %
General Fund	23	21
Housing Revenue Account	30	31

This is a variation on the above indicator, which includes in the financing costs any revenue contributions made to fund capital expenditure. There is a large figure for the General Fund calculation as a result of the Waterside Farm Sport Centre refurbishment project being included in the capital programme.

Indicator 4 - Indicator of Capital Financing Requirement (CFR)		
	2012/13 Revised Estimate £000s	2012/13 Actual £000s
General Fund	7,275	6,922
Housing Revenue Account	36,451	36,451
The CFR is a measure of the capital expenditure incurred historically by the Council that has yet to be financed.		

Indicator 5 - Incremental Impact of Capital Investment		
	2012/13 Revised Estimate £	2012/13 Actual £
Band D Council Tax	85.84	64.23
Average Weekly Housing Rents	0.00	0.00
This indicator shows how the changes in capital financing charges to revenue from year to year affect the Council Tax and Housing Rent for the year in question. There is a large figure for the 2012/13 calculation, again as a result of the Waterside Farm Sport Centre refurbishment project.		

Indicator 6 - Authorised Limit for External Debt		
	2012/13 Revised Estimate £000s	2012/13 Final £000s
Borrowing	46,994	46,994
Other Long -Term Liabilities	305	305
	47,299	47,299
This indicator shows the overall limit for total external debt, including allowances for changes in the CFR, contingencies, risks, unusual cash flow movements and so on.		

Indicator 7 - Operational Boundary for External Debt		
	2012/13 Revised Estimate £000s	2012/13 Final £000s
Borrowing	45,918	45,918
Other Long -Term Liabilities	305	305
	46,223	46,223
This indicator shows a similar calculation to the previous indicator, without all of the above allowances for contingencies, etc.		

Indicator 8 - Upper Limits of Fixed and Variable Exposure		
	2012/13 Revised Estimate £m	2012/13 Actual £m
Upper Limit - Fixed Rates	50	44
Upper Limit - Variable Rates	(5)	(11)
This indicator identifies upper limits for net investment / borrowing at variable and fixed rates. Currently all borrowings are at fixed rates and investments are generally at variable rates. Because of this the fixed rate limit is a positive amount and the variable rate is a negative amount. Both indicators were within the limits at year end.		

Indicator 9 - Maturity Structure of Fixed Rate Borrowing			
	Upper Limit %	Lower Limit %	Actual %
within 1 year	50	0	6
within 2 years	50	0	6
within 5 years	60	0	6
within 10 years	80	0	22
after 10 years	100	0	78
These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.			

Indicator 10 - Housing Revenue Account limit on indebtedness	
The debt limit imposed by the Department for Communities and Local Government as at the date of implementation of self financing is £37,470,000. This limit of indebtedness exceeds the value of the HRA self financing settlement and therefore allows some flexibility to accommodate additional future investment.	

For further information on prudential indicators including revised estimates for 2012/13 please refer to sections 10 and 11 of the Policy Framework and Budget Setting report for 2013/14, presented to the Special Meeting of the Council on 20 February 2013.

AUDIT COMMITTEE

20 June 2013

Subject: Summary Audit Progress Report

1. Purpose of Report

To update the Audit Committee on progress made in delivering Internal Audit's Strategy for 2012/13 and the Audit Plan for 2013/14.

2. 2012/13 Performance Targets

Appendix A shows that the joint Internal Audit team had performed well against the 2012/13 targets given the staffing issues experienced during the year, in that:

- productivity was above target and time lost through sickness absence remained low
- the audit plan was substantially complete by the end of May 2013
- external audit was able to rely on internal audit's work and the team's audit approach complies with relevant professional standards
- clients remained satisfied with the work of internal audit.

3. 2012/13 Audit Plan

Appendix B shows the current status of planned audits for the year. Any updates made to the status of each audit since the last meeting are shown in **bold** for ease of reference.

The focus this quarter has been on completing the financial systems audits. This includes checking that last year's recommendations relating to these systems have been implemented.

The contract management review in Housing Services is substantially complete. The review of the IT software application relating to implementation of the new Council Tax Discount Scheme commenced in June 2013.

The key financial systems work covers Council Tax, National Non-Domestic Rates, Housing Benefit, General Ledger, Accounts Receivable, Accounts Payable, Payroll, Cash and Banking and Treasury Management.

Appendix C summarises the audit opinions given for each of these systems covering:

- design evaluation
- controls testing.

It has been possible to conclude from this work that:

- systems design is at least satisfactory in all cases, which means that the processes should deliver what is required of them
- the checks built into these systems are working consistently throughout the year in most cases.

Opportunities to strengthen these arrangements have been identified. These include:

- ensuring supplier requests to change payment details are genuine before making the amendments. This control weakness was fully addressed in October 2012 so subsequent requests should have been independently verified by a Council instigated contact with a known company representative (Accounts Payable)
- providing services with clear guidance on how to code VAT correctly on invoices raised and proportionately checking to ensure this is complied with (Accounts Payable)
- ensuring the process to recover overpayments is effective (Housing Benefit)
- ensuring appropriate evidence is retained to demonstrate that journals above a material value are properly authorised (General Ledger).

Action plans have been agreed for each system covering both system design and system operation.

Resourcing

An auditor has been appointed on a six month contract starting in May 2013. Arrangements have been made to purchase supervisor cover through the framework contract in the short term.

A review of the team structure and longer term resourcing needs will take place in June / July 2013.

Implementing recommendations made

Action plans are now being followed up in full when all the agreed implementation dates have passed.

REPORTS	RECOMMENDATIONS AGREED			RECOMMENDATIONS OUTSTANDING			
	H	M	Total	H	M	N/A	Total
Safeguarding Arrangements	9	0	9	9	0	0	9
Leisure Services Income – Runnymede Pool	5	7	12	0	0	0	0

N/A = no longer applicable

Safeguarding Arrangements

In January 2012, a report was issued which concluded that:

- the framework adopted by the Council for safeguarding vulnerable children and adults was in line with that set out by Essex County Council (the responsible body)
- the Council needed to take action in order to be able to demonstrate it had robust but proportionate arrangements in place to meet the required standards consistently and in full.

As there has been little progress made in implementing the recommendations a meeting has been held with senior management to discuss the issues and agree an appropriate and timely way forward.

Leisure Services Income – Runnymede Pool

Action has been taken by the department to address all the recommendations made. There is evidence that these controls now form an integral part of the manner in which the service operates for all but one, which will be tested at a later date.

4. Audit Plan 2013/14

Appendix D summarise the current position with regards to the 2013/14 Audit Plan.

5. Corporate Implications

(a) Financial Implications

The audit plan was delivered within the approved budget.

(b) Legal Implications

The Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6 states:

1. A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
2. Any officer or member of a relevant body must, if the body requires:
 - a. make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
 - b. supply the body with such information and explanation as that body considers necessary for that purpose.
3. A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
4. The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control by the relevant committee or body this has been delegated to.

The standards required of internal audit are set out in the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy.

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective; otherwise, the Council will be in breach of its statutory responsibilities under the Regulations.

The Code recommends that progress against the audit plan is regularly reported to Members. This report contributes to discharging this duty.

(c) Human Resources and Equality Implications

Human Resources

People issues that are relevant to the delivery of the Audit Plan are raised in the body of this report.

Equality Implications

The relevance of equality and diversity is considered during the initial planning stage of the audit before the Terms of Reference are agreed.

(d) IT and Asset Management Implications

None

6. Links to Council's Priorities and Objectives

The Audit Plan contributes to the delivery of all of the Council's Priorities and Objectives.

7. Timescale for Implementation

The Audit Plan covered the 2012/13 financial year.

8. 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 and priorities.

Failure to complete the Audit Plan due to:

- the external supplier not delivering contracted in work within the required deadlines to the expected quality standards
- temporary or permanent reduction in staff resources either through budget cuts, departures or sickness without additional funds to purchase cover or
- a significant number of unplanned investigations arising meaning staff time is spent on those investigation rather than the reviews included in the audit plan.

9. Conclusion

None

Recommendations:

The Audit Committee notes the progress made in:

- **delivering the Internal Audit Strategy for 2012/13**
- **starting work on the Audit Plan for 2013/14.**

Background Papers

- The Accounts and Audit (England) Regulations 2011
- CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010

Appendices

- Appendix A: 2012/13 Performance Indicators
- Appendix B: Internal Audit Plan 2012/13
- Appendix C: Key Financial Systems Audit Opinions 2012/13
- Appendix D: Internal Audit Plan 2013/14

Report Author: Linda Everard, Head of Internal Audit

2012/13 PERFORMANCE INDICATORS

COST

DESCRIPTION	TARGET	ACTUAL
Service is provided at a competitive cost. Historically, the CIPFA Benchmarking service has been used to provide a measure of this indicator. This is no longer used as the cost of providing the data outweighed the benefits received. The Head of Internal Audit is currently exploring alternative more cost effective and useful benchmarking options.	SERVICE IS COMPETITIVE	THIS WILL BE REPORTED IN SEPTEMBER 2013

PRODUCTIVITY OF STAFF AS AT 31 MARCH 2013

DESCRIPTION	TARGET	ACTUAL
Percentage of total staff days available spent on audit related tasks across the joint team (i.e. managing the audit plan, delivering audits and reporting to Audit Committee)	75%	79%
Average number of days lost due to sickness absence is no more than 5 in 2012/13 per full time equivalent (FTE)	3.3 days	1.3 DAYS

OPERATING ARRANGEMENTS

DESCRIPTION	TARGET	ACTUAL
<i>Delivery of the 2012/13 Audit Plan</i>		
Percentage of the audit plan is delivered by 30 April 2013 (measured by issuing a final report)	90%	82%

DESCRIPTION	TARGET	ACTUAL
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Quality of Work

External Audit relying on Internal Audit work	YES	YES
Compliance with CIPFA Code of Practice	YES	YES

IMPACT AS AT 31 MARCH 2013

DESCRIPTION	TARGET	ACTUAL
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Improvement in the system of internal control

Progress made in implementing actions required to mitigate control risks identified is reported upon in the summary progress report each quarter.

Client satisfaction

<p>Percentage of client surveys obtained express an overall satisfaction rating of 'good' indicating that the individual audit completed:</p> <ul style="list-style-type: none"> • was well timed and completed in a timely fashion • addressed key existing and or emerging risks was carried out professionally and courteously by staff • communicated audit findings in a clear and balanced way • made useful and practical recommendations that added value to the service 	90%	Feedback will be obtained for systems work once reports are finalised.
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APPENDIX B: INTERNAL AUDIT PLAN 2012/13

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS AS AT 31 MAY 2013
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MANAGING THE BUSINESS

BUSINESS MANAGEMENT PROCESSES

All	Annual	H	• Manager Assurance Statements	Completed June 2012.
All	Annual	H	• Corporate Assurance Statements	Completed March 2013.
All			KEY CORPORATE BUSINESS PROCESSES	
	Not reviewed	H	• Performance Management in Departments	Completed April 2013.
	Not reviewed	H	• Planning to Deliver Services and Setting Performance Targets for Staff	Completed September 2012.

Business Management Processes

45

KEY FINANCIAL SYSTEMS

				SYSTEM EVALUATION	TESTING
H&C	Annual	H	• Council Tax	Action plans agreed	
H&C	Annual	H	• National Non-Domestic Rates		
H&C	Annual	H	• Housing Benefit		
H&C	Annual	H	• Housing Rents		
H&C	Annual	H	• Accounts Receivable (Debtors)		
H&C	Annual	H	• Cash and Banking (Income)		
Res	Annual	H	• General Ledger (Main Accounting)		
Res	Annual	H	• Accounts Payable (Creditors)		
Res	Annual	H	• Payroll		
Res	Annual	H	• Treasury Management		

APPENDIX B: INTERNAL AUDIT PLAN 2012/13

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS AS AT 31 MAY 2013
H&C / Res	Annual	H	<ul style="list-style-type: none"> Summary Financial Systems Audit Report 	<p>As no significant issues have arisen a summary report has not been produced.</p> <p>Action plans have been agreed for each system.</p> <p>Summary findings have been included in the summary audit progress report for the June Audit Committee.</p>
Key Financial Systems				185
All	All	H	Quarterly Follow Up of Recommendations Made	Complete Q1, Q2, Q3 and Q4
Implementing Recommendations				20
TOTAL: MANAGING THE BUSINESS				250
DELIVERING SERVICES				
MANAGING SERVICE RISKS				
H & C			RISK BASED JOBS	
			Housing	
	2010/11 (exc: S.E.H)	H	<ul style="list-style-type: none"> Contract Management, including the South Essex Homes contract 	Audit substantially complete.
			Revenues and Benefits	
	New activity	H	<ul style="list-style-type: none"> Council Tax Discount Scheme 	Work due to commence June 2013.
	New activity	H	<ul style="list-style-type: none"> New Business Rate Scheme 	This work will be undertaken in 2013/14 as the implementation progresses.

APPENDIX B: INTERNAL AUDIT PLAN 2012/13

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS AS AT 31 MAY 2013
Env			RISK BASED JOBS	
			Leisure	
	Not reviewed	H	<ul style="list-style-type: none"> Waterside Refurbishment: Contract Management 	Two quarterly reviews completed. Given that no issues have arising from this work to date the planned final review has not been undertaken.
			Environmental Health	
			CRITICAL FRIEND / UNPLANNED WORK	
			<ul style="list-style-type: none"> Unplanned review in Environmental Health Services 	Completed August 2012.
			<ul style="list-style-type: none"> Baseline review of Environmental Health Services 	This work will now be completed in 2013/14.
Res			RISK BASED JOBS	
			ICT	
	Not reviewed	H	<ul style="list-style-type: none"> Service Review of the IT Function 	Completed February 2013.
	Not reviewed	H	<ul style="list-style-type: none"> Penetration Testing of Council IT Systems 	Completed February 2013.
CROSS CUTTING SERVICE RISKS				
			RISK BASED JOBS	
	2010/11	H	<ul style="list-style-type: none"> Cross Department Compliance Testing: Fees and Charges 	This work has not been completed due to resourcing constraints.
TOTAL: MANAGING SERVICE RISKS				110

APPENDIX B: INTERNAL AUDIT PLAN 2012/13

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS AS AT 31 MAY 2013
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MANAGING THE AUDIT PLAN

N/A	N/A	N/A	Audit Planning, Resourcing and Managing the IT audit work	
N/A	N/A	N/A	Reporting to Management Team and Audit Committee	

TOTAL: MANAGING THE AUDIT PLAN

25

TOTAL NUMBER OF AUDIT DAYS

385

APPENDIX B: INTERNAL AUDIT PLAN 2012/13

RESOURCE ALLOCATION		
	% OF AUDIT PLAN	% OF AUDIT DAYS
Business Management Processes	12	12
Key Financial Systems	36	48
Implementing Recommendations	12	5
Managing Service Risks	37	29
Ad Hoc Work	0	0
Managing the Audit Plan	3	6
TOTAL	100%	100%

KEY TO LEAD DEPARTMENTS	
H&C	Housing and Communities
Env	Environment
R&N	Regeneration and Neighbourhoods
Res	Resources
L&G	Legal and Governance

KEY FINANCIAL SYSTEMS AUDIT OPINIONS 2012/13

Key to overall opinion

Control design and control operation opinions are considered together to form the overall opinion as follows:

Control design opinion	Good	Improvement required	Adequate	Good
	Adequate	Improvement required	Adequate	Adequate
	Improvement required	Improvement required	Improvement required	Improvement required
		Improvement required	Adequate	Good

Opinion on the applications of controls in place

KEY FINANCIAL SYSTEMS AUDIT OPINIONS 2012/13

Key to control design and control operation opinions

Individual control design and control operation opinions are reached as follows:

Control design opinion	Good	Adequate	Improvement required
Explanation	<p><i>All required controls are designed into the system.</i></p> <p><i>If the controls are applied the system will consistently deliver the outcomes required of it</i></p>	<p><i>Most of the required key controls are designed into the system.</i></p> <p><i>If the controls are applied the system will deliver most of the key outcomes required of it</i></p> <p><i>However there is opportunity to develop or add some controls to further improve the likelihood all required outcomes will be achieved</i></p>	<p><i>A significant number of required key controls are missing from the system's design.</i></p> <p><i>It is unlikely the system will deliver the key outcomes required of it with the current level of controls</i></p>
Control operation	Good	Adequate	Improvement required
Explanation	<p><i>All controls that are designed into the system were found to be working consistently and effectively</i></p>	<p><i>Most of the controls that are in designed into the system were found to be working consistently and effectively</i></p> <p><i>However, there is an opportunity to apply controls, including at least one key control, more consistently</i></p>	<p><i>A significant number of key controls designed into the system were not working consistently or effectively</i></p>

KEY FINANCIAL SYSTEMS AUDIT OPINIONS 2012/13

Summary of Audit Opinions

Control design opinion	Good			<ul style="list-style-type: none">• Treasury Management• General Ledger• Cash Receipting and Banking• Accounts Payable• National Non-Domestic Rates• Payroll• Accounts Receivable
	Adequate		<ul style="list-style-type: none">• Housing Benefits	<ul style="list-style-type: none">• Housing Rents• Council Tax
	Improvement required			
		Improvement required	Adequate	Good
Opinion on the application of controls in place				

KEY FINANCIAL SYSTEMS AUDIT OPINIONS 2012/13
Number of recommendations made per system

SYSTEM	PRIORITY 1	PRIORITY 2	TOTAL
General Ledger	1	1	2
Payroll	1	0	1
Accounts Payable	1	5	6
Accounts Receivable	1	0	1
Treasury Management	0	1	1
Cash Receipting and Banking	0	2	2
Housing Benefit	1	5	6
Council Tax	0	6	6
National Non-Domestic Rates	0	3	3
Housing Rents	0	7	7
TOTAL	5	30	35

APPENDIX D: INTERNAL AUDIT PLAN 2013/14

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS	
MANAGING THE BUSINESS					
DELIVERING GOOD GOVERNANCE					
CE		H	<ul style="list-style-type: none">CIPFA / SOLACE Delivering Good Governance / Risk Management		
Delivering Good Governance				15 days	
KEY FINANCIAL SYSTEMS					
				Evaluation	Testing
H&C	Annual	H	<ul style="list-style-type: none">Council Tax		
H&C	Annual	H	<ul style="list-style-type: none">National Non-Domestic Rates		
H&C	Annual	H	<ul style="list-style-type: none">Housing Benefit		
H&C	Annual	H	<ul style="list-style-type: none">Housing Rents		
H&C	Annual	H	<ul style="list-style-type: none">Accounts Receivable (Debtors)		
H&C	Annual	H	<ul style="list-style-type: none">Cash and Banking (Income)		
Res	Annual	H	<ul style="list-style-type: none">General Ledger (Main Accounting)		
Res	Annual	H	<ul style="list-style-type: none">Accounts Payable (Creditors)		
Res	Annual	H	<ul style="list-style-type: none">Payroll		
Res	Annual	H	<ul style="list-style-type: none">Treasury Management		
All	Annual	H	<ul style="list-style-type: none">Summary Financial Systems Report (if required)		
All	New area	H	<ul style="list-style-type: none">Automated workflows in financial systems (IT Review)		
Key Financial Systems				185 days	
All	All	H	<ul style="list-style-type: none">Follow Up of Recommendations Made		
Implementing Recommendations				15 days	
TOTAL: MANAGING THE BUSINESS				215 days	

APPENDIX D: INTERNAL AUDIT PLAN 2013/14

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS
DELIVERING SERVICES				
MANAGING SERVICE RISKS				
H & C			RISK BASED JOBS	
			Housing	
	Never	H	<ul style="list-style-type: none"> Upgrade and Use of the Housing Management System (IT Review) 	
			<ul style="list-style-type: none"> Housing Operational Systems 	
			Revenues and Benefits	
	New area	H	<ul style="list-style-type: none"> New NNDR Arrangements 	
Env			RISK BASED JOBS	
			Leisure	
	2012/13	H	<ul style="list-style-type: none"> Waterside Refurbishment: Contract Management 	Not Required
			<ul style="list-style-type: none"> Waterside, systems and processes 	
			Environmental Health	
	2012/13		<ul style="list-style-type: none"> Environmental Health Services, systems and processes 	Terms of Reference Agreed
R & N			RISK BASED JOBS	
			<ul style="list-style-type: none"> Licensing, systems and processes 	Work in Progress
Res			RISK BASED JOBS	
			<ul style="list-style-type: none"> No high risk areas identified this year 	
TOTAL: MANAGING SERVICE RISKS				106 days

APPENDIX D: INTERNAL AUDIT PLAN 2013/14

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS
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MANAGING THE AUDIT PLAN

N/A	N/A	N/A	Audit Planning, Resourcing and Managing the IT audit work	
N/A	N/A	N/A	Reporting to Management Team and Audit Committee	

TOTAL: MANAGING THE AUDIT PLAN

17 days

TOTAL COUNCIL AUDIT DAYS

338 days

OTHER AUDITS THAT WILL BE ADDED TO THE PLAN IF AND WHEN RESOURCES BECOME AVAILABLE

DEPT	LAST AUDITED	PRIORITY H / M	AUDIT ACTIVITY	CURRENT STATUS
All			<ul style="list-style-type: none"> Quality of performance appraisals 	
R&N			<ul style="list-style-type: none"> Billing and Income Collection in Development Control and Building Control 	
R&N			<ul style="list-style-type: none"> Planning, systems and processes 	
R&N			<ul style="list-style-type: none"> Section 106 Agreements, systems and processes 	

APPENDIX D: INTERNAL AUDIT PLAN 2013/14

RESOURCE ALLOCATION		
	% OF AUDIT PLAN	% OF AUDIT DAYS
Business Management Processes	5%	5%
Key Financial Systems	50%	55%
Implementing Recommendations	8%	4%
Managing Service Risks	33%	31%
Ad Hoc Work	0%	0%
Managing the Audit Plan	4%	5%
TOTAL	100%	100%

KEY TO LEAD DEPARTMENTS	
CE	Chief Executive
H&C	Housing and Communities
Env	Environment
R&N	Regeneration and Neighbourhoods
Res	Resources
L&G	Legal and Governance

AUDIT COMMITTEE

20 June 2013

Subject: Head of Internal Audit Annual Report 2012/13

1. Purpose of Report

To provide the rationale for and an audit opinion on the adequacy and effectiveness of the Council's system of internal control during 2012/13.

2. Audit Opinion

The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding both the design of its system of internal control and how well it has operated throughout the year.

The opinion is predominantly based upon work performed during the year on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. This is outlined in the risk based audit plan agreed with the Executive Management Team (EMT) and the Audit Committee.

All audit reports have been agreed with the relevant service managers and Head of Services or Strategic Directors before being finalised. The opinion and summary findings from audit reviews have been reported to the Executive Management Team and the Audit Committee throughout the year.

Internal Audit has not reviewed all risks and assurances relating to the Council's activities.

HEAD OF INTERNAL AUDIT OPINION FOR THE YEAR ENDED 31 MARCH 2013

In my opinion, the system of internal control designed to support the delivery of the Council's objectives is adequate and controls are generally being applied.

THE BASIS FOR FORMING THIS OPINION IS AN ASSESSMENT OF:

- The design and operation of the underpinning business management and governance arrangements
- The range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these activities
- Whether management implement recommendations to mitigate identified control risks within reasonable timescales

- The impact of any issues arising from cumulative audit knowledge and other available information regarding the Council's system of internal control.

3. Supporting Commentary

GOVERNANCE AND CORPORATE MANAGEMENT ARRANGEMENTS

The framework for conducting the Council's business was set out in its **Local Code of Governance** and subject to an annual review. In response to the updated CIPFA / SOLACE Framework, **Delivering Good Governance** in Local Government issued during the year, the Council updated its arrangements for obtaining assurance that its governance arrangements remain proportionate but effective. The new framework which was approved in March 2013 is sound. It will be fully implemented in 2013/14.

A **Corporate Peer Challenge** undertaken under the auspices of the Local Government Association in March 2013, which included governance and decision making as well as financial planning and viability. This provided independent assurance that overall these arrangements were sound.

Some areas highlighted where further work would help develop organisational effectiveness and capacity to deliver future ambitions and plans, included:

- finalising the new corporate plan, focusing it on the key priorities and using it to drive business forward in the changing context that the Council is operating in
- reviewing strategic and operational partnerships and the outcomes they deliver in the light of future capacity constraints as well as ensuring there is a criteria for delivery partnerships in place
- reviewing whether capacity is in the right place and focused appropriately
- ensuring there is robust organisational planning and succession development for members and officers
- continuing to work with members to improve the performance of the policy and scrutiny committees so they add real value.

Throughout the year, quarterly reports produced by the Head of Performance and Service Support were presented to and challenged by the Executive Management Team and the Audit Committee regarding the operation of the Council's **key business management arrangements**. No significant concerns were reported. Opportunities to strengthen or develop arrangements were highlighted in year as they arose.

During the summer of 2012, audits were undertaken of the Council's overall **performance management arrangements**, including **service planning and the staff appraisal process**. This identified the potential to improve these processes as not all Department Management and Service Teams could consistently demonstrate they regularly and effectively received and scrutinised their performance. Service plans and individual team members' appraisals did not always make clear links between service and individual objectives and corporate priorities.

This work was used to help inform the exercise that was undertaken to simplify and integrate these performance arrangements and business management processes within a document called 'How it Works'. This was challenged and approved by both the Executive Management Team and Audit Committee in September 2012. Services were required to adopt the new framework when planning for 2013/14. Following the appointment of a new HR Manager late in the financial year, work is underway to review the staff appraisal process.

In 2012/13, services stopped using the corporate performance management system Covalent to record such information. Therefore in future the focus will be on ensuring that services have adequate performance management collection, reporting and data quality arrangements in place. Further work is planned in 2013/14 to ensure this new framework is fully implemented and effective. (*Adequate audit opinion*)

Manager assurance statements were completed again this year. Service managers have concluded that they have generally applied the Council's key business management processes throughout the year. The two areas requiring further work highlighted from this exercise being business continuity plus performance management including staff appraisals.

The Good Governance Group, which consists of officers who are responsible for ensuring that these processes are fit for purpose, has reviewed and challenged these statements this year. A programme of work has been produced from this to confirm that during 2013/14 these assessments are supported by the relevant evidence and therefore are robust.

The Council has continued to maintain a **corporate risk register** throughout the year which is periodically reported to and challenged by the Corporate Management Team and the Audit Committee. Further work is required in 2013/14 to update the policy, strategy and supporting guidance to help ensure good risk management is effectively and consistently applied throughout the Council in all areas of activity.

The Council updated its **Anti Fraud & Corruption, Whistleblowing and Anti Money Laundering** policies and strategies during the year. The Council has assessed how well its arrangements meet the requirements of Fighting Fraud Locally, the National Fraud Strategy for Local Government and identified what actions it will take in 2013/14 to implement this fully. It has also been investigating potential frauds identified from the Audit Commission's National Fraud Initiative 2012.

Whilst the **Audit Committee** has not undertaken a performance assessment this year:

- it has continued to operate as in the same manner as in previous years, with the same work programme
- the action points arising from the last review have been addressed.

Therefore, it is possible conclude that the Audit Committee operated appropriately during the year.

SERVICE DELIVERY RISKS

Given the financial significance of the **Waterside Leisure Centre refurbishment** work, a review was undertaken to assess whether there were robust arrangements in place to effectively manage the contract throughout the lifecycle of the project.

The overall contract management arrangements were found to be substantially in line with good practice and include good monitoring and reporting arrangements that were being consistently followed. There was also evidence that:

- comprehensive monthly reports were received from the building contractor detailing progress of works and the project manager contractor regarding finance
- monthly meetings were held with key stakeholders to discuss progress and any issues arising
- contract variations were controlled through clear proposal and approval protocols to ensure they all came through the project manager and were approved by officers
- invoices were authorised for payment following receipt of assurance from the project manager that the building contractor had completed relevant works to the required standard. This was supplemented by weekly inspections by the project manager and ad hoc visits from officers.
(*Good audit opinion*)

When undertaking a **service review of the IT function**, it was concluded that an adequate IT operational control framework had been designed and operated consistently.

Opportunities were identified to:

- further develop and embed an on-going supportive relationship between the IT team and the operational services to ensure that appropriate IT professional and technical support is provided:
 - to services at the right time when purchasing or developing the Council's IT infrastructure, systems and assets to maximise the use of IT throughout the Council and thereby help deliver cost-efficient services
 - when implementing new IT systems or enhancements to functionality so that key risks to achieving this are effectively mitigated.
- improve the design of the IT Strategy, so that the IT Service's objectives link more clearly with those of operational services. These objectives, if fulfilled, should clearly show how, as an integral support service, the IT team helps support the effectively delivery of the wider Council's business. Work is underway to do this. (*Adequate audit opinion*)

The annual **IT Healthcheck service** provided via a third party contract had adequate penetration testing, and covered a number of required good practice or mandatory areas. A few areas were highlighted where the penetration testing identified weaknesses or was not clear in its findings, thus reducing the level of assurance provided that the Council's systems were robust.

In view of this and subsequent to the review, action was therefore taken to ensure that all future penetration testing reports:

- conclude on whether the wireless infrastructure is compliant with the required standards
- explicitly state which applications are tested as part of the scanning process.

The Council has agreed to put in place an appropriate formal contract with the supplier on renewal.

(Adequate audit opinion)

During the year, Internal Audit became aware of issues relating to the effectiveness and efficiency of operational practices and therefore the internal control environment within the **Environmental Health Services**. Action has been taken during the year to redesign the service as well as operational processes, thus strengthening working practices. This will be subject to audit in 2013/14.

In January 2012, a report was issued which concluded that:

- the framework adopted by the Council for **safeguarding vulnerable children and adults** was in line with that set out by Essex County Council (the responsible body)
- the Council needed to take action in order to be able to demonstrate it had robust but proportionate arrangements in place to meet the required standards consistently and in full.

As there had been little progress made in implementing the recommendations a meeting was held with senior management to discuss the issues and agree an appropriate and timely way forward. *(Improvement required audit opinion)*

FINANCIAL SYSTEMS

This year, ten financial systems were reviewed to evaluate the adequacy and effectiveness of the system design as well as test whether the key controls identified operate consistently, where this was possible. They were council tax, national non domestic rates, housing benefit, general ledger, account receivable, accounts payable, payroll, cash and bank and treasury management.

It was possible to conclude for all key financial systems that:

- the systems design was at least satisfactory, which means, if it is applied, transactions should be processed as required
- the key management checks built into these systems were generally working consistently, throughout the year.

Therefore reliance could be placed on the information posted to the general ledger from these financial systems. Action plans have been produced for each system highlighting opportunities to improve its design or ongoing operation as required.

IMPLEMENTING AGREED RECOMMENDATIONS

Recommendations are made to address internal control weaknesses identified during all audit reviews. When all the implementation dates in a report have past, Internal Audit will retest to ensure the agreed action has taken place and is being applied consistently.

The majority of recommendations arising from audit reports were implemented, properly and in a timely manner. The corporate process for monitoring that control weaknesses identified in audit reports are addressed is generally robust.

4. Internal Audit Performance

It is possible to conclude that the Council maintained an adequate and effective internal audit service during 2012/13 as there is sufficient evidence to demonstrate that:

- professional standards as set out in the CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) have been adhered to
- the requirements of the CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010 have been substantially met
- the team delivered on the majority of its performance targets, despite having to deal with resourcing issues during the year which resulted in an overall reduction in work delivered.

This year, the performance assessment was independently challenged by the Head of Performance and Service Improvement at Castle Point Borough Council.

Some opportunities have been identified to further strengthen the team's operating arrangements and an action plan has been produced to address them.

5. Issues for the Annual Governance Statement

No issues have come to my attention this year other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

6. Corporate Implications

(a) Financial Implications

The audit plan was delivered within approved budgets.

(b) Legal Implications

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective otherwise the Council will be in breach of its statutory responsibilities under the Accounts and Audit (England) Regulations 2011. The Code of Practice for Internal Audit in Local Government in the UK (2006) CIPFA (the Code) recommends that progress against Audit Plans is regularly reported to Members. This report contributes to discharging this duty.

The Accounts and Audit (England) Regulations 2011, require councils to have an adequate and effective system of internal audit. This is now defined as compliance with proper professional practice i.e. the Code and it requires Internal Audit to report on whether recommendations made are being implemented. Therefore failure to do so would be a breach of a statutory duty.

The Code also requires the Head of Internal Audit to deliver an independent and objective annual opinion on the Council's control environment.

(c) Human Resources and Equality Implications

Human Resources

There are no direct human resources issues as a result of this report.

Equality Implications

There are no direct diversity or equal opportunities issues as a result of this report.

(d) IT and Asset Management Implications

There are no direct IT and Asset Management Implications as a result of this report.

7. Links to Council's Aims and Priorities

Audit work contributes to the delivery of all Council aims and priorities.

8. Timescale for Implementation

The audit plan was completed prior to the production of this report.

9. 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 which may impact of the Council's ability to deliver its corporate objectives.

10. Conclusion

None

Recommendations

- **The Audit Committee:**
 - **accepts the Head of Internal Audit's Annual Report for 2012/13**
 - **takes account of this report when considering the Council's Annual Governance Statement.**

Resolution Required

Background Papers

- The Accounts and Audit (England) Regulations 2011
- CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010

Report Author: Linda Everard, Head of Internal Audit

Committee: **AUDIT COMMITTEE**

Sub-Committee:

Date: **20 June 2013**

Subject: **Governance Statement 2012/13**

Report of the: **Head of Performance & Service Support**

Report author: **Craig Watts**

1 Purpose of Report

To present the Annual Governance Statement for 2012/13 to the Committee.

2 Background

The responsibility for ensuring that there is a sound system of internal control rests with the Council. It is required to report on this annually via its Governance Statement which is published with the financial statements.

In order to do this, the Council should seek regular assurance that its systems of internal control are functioning effectively. It should also ensure that the system of internal control is effective in managing significant risks in the way that it would expect.

The Council has delegated responsibility for monitoring and reporting on the adequacy and effectiveness of its system of internal control to the Audit Committee.

Therefore the Committee is required to satisfy itself that the Annual Governance Statement is consistent with its view on the Council's system of internal control based upon the assurance presented to it throughout the year.

3 Legal implications

Accounts and Audit Regulations 2011 section 4 states that:

(1) The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

(2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

(3) The findings of the review referred to in paragraph (2) must be considered—

(a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and

(b) in the case of a smaller relevant body, by the members of the body meeting as a whole, and

following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

(4) The relevant body must ensure that the statement referred to in paragraph (3) accompanies—

(a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or

(b) any accounting statement it is obliged to prepare in accordance with regulation 12

For this purpose, proper practice is considered to be the 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.

4. Report

The Annual Governance Statement is attached as Appendix 1.

5. Financial implications

None

6. Human Resource, Equality, IT, Asset Management Implications

None.

7. Links to Council's priorities and objectives

Operating robust governance arrangement contributes to the delivery of all Council aims and priorities but specifically to the Council Priority: Improving the Council and the Corporate Key Objective of Improving Council Performance.

8 Timescale for implementation and risk factors

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.

Recommendations:

The Committee approves the Annual Governance Statement 2012/13 and recommends its adoption to Council.

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 Regulations 2011

Appendix:

- **Appendix 1: Governance Statement 2012/13**

ANNUAL GOVERNANCE STATEMENT

1 SCOPE OF RESPONSIBILITY

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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code is on our website at www.castlepoint.gov.uk or can be obtained from the Head of Performance & Service Support by e-mail crwatts@castlepoint.gov.uk or by phone on 01268 882419. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at Castle Point Borough Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

Operation of the governance framework

The governance framework ensures the Council's vision and key priorities are effectively promoted and progressed through its corporate governance arrangements and business planning processes. The key elements of the governance framework are as follows:

- Community Engagement
- Business Strategy and Planning
- Financial Reporting including Budgetary Control
- Asset Management
- Policy Framework
- Risk Management including Fraud and Corruption, Whistleblowing, Health and Safety and Business Continuity
- Performance Management
- Information Governance
- Data Quality

ANNUAL GOVERNANCE STATEMENT

- Value for Money
- Procurement
- Partnerships
- Project Management
- Complaints
- Codes of Conduct for Members and Staff

These areas form the main sources of assurance to be considered in any review of the internal control environment. In support of the review process, a code of governance has been produced setting out the detailed procedures to be reviewed in each area before an opinion on the effectiveness of the system of internal control can be expressed.

The Head of Performance & Service Support has been given the responsibility for overseeing the implementation and monitoring of the Code, through a process which consists of:

- quarterly reports to Executive Management Team and the Audit Committee which set out:
 - weaknesses identified in the governance arrangements;
 - any corrective action necessary to resolve concerns identified
- an annual review of the governance framework supported by officer assurance statements certified by service managers
- an annual report to Executive Management Team and the Audit Committee on the adequacy of governance arrangements
- an annual refresh of the Local Code of Governance.

During the year the Council established a governance group of officers responsible for the implementation and monitoring of key governance processes. The group provided a challenge of the operation of the processes and some of their findings and further work have been incorporated into the views expressed in this governance statement. The Council's key governance and business planning processes are also subject to audit on a risk basis. This work forms part of the evidence in support of the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's systems of internal control.

3 REVIEW OF EFFECTIVENESS

Reviewing the effectiveness of the framework

Castle Point Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies. In this respect the Council participated in a Peer Challenge process managed by the Local Government Association which reported in March 2013. The review is set out in this statement which is subject to consideration by the Audit Committee.

CIPFA/SOLACE Core Principle 1:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

The Council's processes ensured some notable successes during 2012/13. This includes the highly successful Olympic Mountain Biking event at Hadleigh which was undertaken in successful partnership with other agencies. The work included participating in a range of complex operations from traffic management and control to stewarding the route of the Olympic Torch with the participation of the vast majority of staff from the Council. The Council also achieved a highly complementary Peer Challenge report and secured some very significant savings, for example from the successful procurement of the Information Communication Technology contract.

ANNUAL GOVERNANCE STATEMENT

The Council's major policy objectives were detailed in an annual corporate programme which was referenced to the Council's medium term priorities in the corporate plan for 2007 to 2012. Service priorities are subject to consultation through service specific work. For example consultation was undertaken with Sheltered Housing Tenants as part of a review of Sheltered Housing in the autumn of 2012, and significant consultation was undertaken as part of the implementation of the Local Council Tax Scheme, which was agreed by full Council in November 2012. Further development will include the creation of a register of consultation activities during the 2013/14 financial year.

There continue to be significant development of strategic partnership working. The Council maintains its commitment to the Local Strategic Partnership with Rochford Council, and operates partnership working with the Thames Gateway South Essex Partnership and the Regeneration Partnership. Partnership work has further developed across Essex with the establishment of an Essex Integration Board with a focus in five theme areas with associated project groups. For example a project group has been established to for cross agency working in dealing with families with complex needs in Castle Point and Rochford.

There are further opportunities to strengthen the governance arrangements in this area and the Council has accepted recommendations from the Peer Challenge that includes conducting a review of strategic and operational partnerships and the outcomes they deliver considering the future capacity constraints. This will consider the changing priorities and partnerships for the Council, and in this respect, the Council recognise the need to develop a new corporate plan. This process has begun through the work of the Policy and Resources Sub Committee. The plan will be subject to community consultation in accordance with another recommendation from the Peer Challenge team.

The annual corporate programme is also underpinned by department improvement plans that were periodically monitored by the Programme Board to ensure that the envisaged improvement is being delivered. The Programme Board consists of senior officers, and the Leader of the Council and has the key role of ensuring improvement planning is achieving key milestones. Discussion of improvement work is also regularly undertaken at Executive Management Team. There is an opportunity to develop the monitoring arrangements to encompass a greater number of stakeholders and further work will be progressed in this area.

The Council has a service planning process and associated guidance. A review of the manager's assurance statements demonstrates that whilst most services stated compliance, there were several that set out partial compliance. Furthermore an Internal Audit of the Council's Performance Management arrangements identified the potential to improve the service planning process as service plans did not always make clear links between individual, service and corporate priorities. During the financial year the Council worked to strengthen the approach and simplified its business process which are summarised in a guide for Managers entitled 'How it Works'. A post implementation review of this guidance will be undertaken in the summer of 2013 to ensure it is operating effectively.

The Council has faced significant budgetary restraints following the reduction of Revenue Support Grant funding from central government. However the Council has robust financial management and has identified savings of £1.097m for the financial year 2012/13 and a further £666k for 2013/14. A balanced budget is profiled for 2013/14 and the Council has identified the need for further savings of approximately £1m for 2014/15. The Council continues to implement an efficiency review work programme over the year, and work is detailed in the medium term financial plan and includes assumptions of significant financial savings obtained from improved procurement activity as well as service reviews. The Council will continue to closely monitor the effectiveness of the work in place, and has accepted a peer challenge recommendation to investigate the strategic options and demand management.

ANNUAL GOVERNANCE STATEMENT

Key corporate performance indicators and targets are monitored on a quarterly basis by the Executive Management Team and the Cabinet. These are related to corporate priorities and key improvement initiatives. A review of the manager's assurance statements demonstrates that whilst most services stated compliance, there were several that set out partial compliance in this area. Performance Management was subject to an Internal Audit as well as a review and simplification during the financial year, and a post implementation review of the guidance in place and the operation of the processes in this area will be undertaken.

Financial monitoring reports are informed by a risk assessment and focus on the Council's large, high risk or volatile budgets. Departures from budget, and corresponding operational performance information, are reported to Executive Management Team and Cabinet on a regular basis.

CIPFA/SOLACE Core Principle 2:

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

There are effective and constructive working relationships between senior officers and members. As a result, a number of significant decisions have been made. Recent examples include the agreement of the Local Council Tax Scheme and the agreement of the Tenancy Strategy, as well as the successful Peer Challenge process.

The Monitoring Officer is responsible for the maintenance of the Constitution and for reviewing its relevance and effectiveness. Any changes to the Constitution are approved by Full Council following consideration of a report made by the Chief Executive.

Decisions made by the Cabinet may be Called-in (in accordance with the procedure for a Call-in, which is shown in the Overview and Scrutiny Procedure Rules). A decision made by Cabinet is published within 4 working days of the Cabinet meeting and can be called-in for consideration by the Overview and Scrutiny Committee within 5 working days of the publication by either the Chairman of the committee or by 3 committee members.

There are four Policy and Scrutiny Committees which may make proposals in relation to their particular functions, including the review and development of policy items, whose proposals support the Council's published priorities. During the year significant progress was made in the development of an approach to car parking charges as well as planning design guidance and the development and subsequent agreement by Cabinet of the Tenancy Strategy.

The Council maintains a generic Corporate Business Continuity Plan and Service Level Business Continuity Plans. A review and revision of the Council's Disaster Recovery plan for Information Communications Technology and the main office is currently underway to ensure future arrangements are adequate. An examination of manager's assurance statements indicates that a number of services partially comply with the requirements of business continuity and further work is necessary to establish whether arrangements can be developed to ensure greater compliance.

The Council has established project management arrangements with a process based on PRINCE2 principles. Whilst the process is sound and applied in a variety of significant projects, the control and governance processes are not always consistently applied and a review of the arrangements has been undertaken. A new process to record and monitor smaller projects is being implemented during 2013/14 and will be subject to evaluation.

ROLE OF THE CHIEF FINANCIAL OFFICER

The Section 151 Chief Financial Officer (CFO) occupies a key position in the Council, managing the Council's finances and ensuring that resources are used wisely to secure positive results.

ANNUAL GOVERNANCE STATEMENT

In order to support the post holder in the fulfilment of their duties and ensure that the Council has access to effective financial advice, in 2010 the Chartered Institute of Public Finance and Accounting (CIPFA) issued a Statement on the Role of the Chief Financial Officer in Local Government. The statement sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role, and includes five key principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. These statements are set out below

- 1) The CFO in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- 2) The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.
- 3) The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
- 4) The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- 5) The CFO in a local authority must be professionally qualified and suitably experienced.

The Council has the necessary arrangements and procedures in place which ensure that these principles are either directly complied with or, where not directly complied with, there are alternative procedures in place so that the necessary outcomes and objectives are still achieved and suitable controls are in place. For example the CFO is a member of the leadership team (Executive Management Team) and reports directly to the Chief Executive.

CIPFA/SOLACE Core Principle 3:

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

The Council has an established set of organisational values which underpin the approach to engaging with staff and the community.

The Council has Codes of Conduct for Members and staff within the Council's constitution. The Code of Conduct for Members was developed by an Essex Wide legal partnership and has been adopted by a number of Council's within Essex.

As a condition of office all members are required to sign an undertaking that they will observe the Code of Conduct. There is a requirement to re-sign this undertaking when there are any major revisions to the Code as well as on election or re-election. The staff code of conduct sets out policies and expectations for staff conduct and is published on the Intranet and a copy is issued to every new starter as part of the induction pack.

ANNUAL GOVERNANCE STATEMENT

Arrangements to investigate breaches of proper standards of conduct include a staff handbook which outlines expected codes of conduct and procedures for dealing with breaches e.g. disciplinary procedures for staff. The Council has recently adopted a revised localised system for dealing with allegations concerning member misconduct to ensure member standards are met and maintained. The Standards Committee has developed criteria for assessing complaints to enable the Standards Committee to properly discharge its functions as detailed in the constitution and to ensure that the crucial elements of independence and impartiality are part of the referral and determination process.

The Council communicates its complaints policies and whistle blowing procedures, and ensures all stakeholders have access through the Internet. Awareness has been promoted through briefing sessions with staff, which has included leaflets on fraud and corruption and whistle blowing.

A detailed complaints procedure is in place, which reflects good practice requirements and has a three stage process for the resolution of complaints. There is a central corporate complaints and compliments database on the Councils intranet, although complaints are not always consistently recorded. Further work is planned during 2013/14 to investigate the operation of the complaints system and to examine whether it needs any further development.

CIPFA/SOLACE Core Principle 4:

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

The Head of Service in consultation with the Head of Legal Services identifies any forthcoming relevant legislation and is responsible for ensuring that Executive Management Team are appraised of the implications and what action the Council may need to take to ensure compliance. The Head of Legal Services ensures the Cabinet is appraised of the implications of legislation that affects the Council corporately.

The corporate risk register was monitored during the year as a standing item at Corporate Management Team and has been updated by Heads of Service. It has been reported to the Audit Committee and the Executive Management Team. Risks and health and safety issues were also discussed at team meetings during the year. A corporate health and safety risk register was regularly considered by Corporate Management Team. A summary report on risk management issues was produced periodically and reported to Executive Management Team and the Audit Committee.

Whilst the core process is in place, risk management requires further development in the understanding of the risk management process, identification and scoring of risks and establishing organisational appetite and tolerance to risk. As a result a review is planned to investigate how the process can be simplified and easier to understand. Furthermore training and development sessions for risk management will be undertaken during the year.

The Council continues to maintain a corporate Health and Safety process. For example, risk assessments are recorded on a corporate database, and there is monthly reporting of any significant health and safety issues to Corporate Management Team. The process is to be subject to further development, as it is not clear how well embedded arrangements are at a service level. As a result a self assessment and performance analysis process is to be introduced for services to help enable them to understand how well their current arrangements operate and any potential for further development.

The processes for Information Governance are in place and guidance has been incorporated into the 'How it Works' document. Further work will include the development of a register of consultation activities to help inform the governance arrangements are operating effectively for information governance as well as consultation and engagement.

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The Council has a comprehensive procurement toolkit and strategy and associated governance processes which have been subject to an annual review by the Head of Legal Services. A high value and important procurement of grounds maintenance and street scene services was successfully progressed during the 2012/13 financial year. Further work includes investigation into purchasing order compliance for small value large volume procurements.

Guidance on the importance of data quality requirements was set out in the 'How it Works' document and communicated to all managers. Some work to improve data quality has been undertaken, for example, a full stock condition survey of the housing stock. An Internal Audit of performance management arrangements concluded that data quality could be further strengthened by random checks undertaken by service managers. The implementation of this recommendation will be subject to review over the year.

Policy and Scrutiny Committees operated effectively with decisions made in some potentially contentious areas such as the agreement of a Tenancy Strategy and the progress of a car parking review.

Internal Audit

The annual risk based audit plan was prepared in consultation with Heads of Service, Executive Management Team and the Audit Committee. The audit plan was delivered with reports issued to senior managers at the conclusion of each audit highlighting internal control weaknesses identified and the actions required to address them. Recommendations were also reviewed to ensure they were implemented properly, by the due date. A quarterly summary audit report was taken to Executive Management Team and the Audit Committee. The Head of Internal Audit annual report and opinion was also considered by the Audit Committee.

External audit relies on the work internal audit complete on financial systems where it is relevant to its audit of the Council's financial statements. An annual assessment of compliance with relevant professional standards is undertaken by internal audit and reported to Executive Management Team and the Audit Committee. This is subject to independent challenge and formal external review every three to five years.

Audit Committee

The Audit Committee consists of a chairman and four other members. The committee provides independent assurance of the adequacy of the risk management framework and associated control environment. It also undertakes an independent scrutiny of the authority's financial and non-financial performance, and it oversees the financial reporting process.

External Audit

External Audit is undertaken by BDO LLP and reviews the design of controls in place within the core financial systems if relevant to their audit opinion. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Final Report to those Charged with Governance.

External Inspections

There were no external inspections of Council services in 2011. However, as already stated, the Council undertook a Peer Challenge process in February 2013. The findings are incorporated into the body of this report and the letter outlining the review findings can be found on the following link: <http://www.castlepoint.gov.uk/documents/corporate%5Cpeerchallenge%2FCastle%20Point%20-%20Corporate%20Peer%20Challenge%20-%20feedback%20letter%20-%20Final%20-%20050313.pdf>

ANNUAL GOVERNANCE STATEMENT**CIPFA/SOLACE Core Principle 5:****Developing the capacity and capability of members and officers to be effective.**

Members are subject to continuous development including developed profiles for Cabinet members which are reviewed and updated annually with the relevant Cabinet member and the Leader of the Council. Training and development is also targeted to meet particular committee requirements, for example Development Control and Licensing Committee Members receive regular training and briefing sessions before committee business.

The Council has an appraisal system in place and has been operating consistently across all Council services for a number of years. A recent Internal Audit review of performance management arrangements did identify the potential for improving the appraisal process as service plans and individual team member's appraisals did not always make clear links between service and individual objectives and corporate priorities. Implementation of this recommendation will be monitored.

The Council has effective recruitment and retention arrangements and staff development programmes to ensure staff skills are further developed to improve the capacity of the Council and the continued development of staff. Development and training is varied and includes professional programmes such as CIPFA qualifications to generic training such as managing meetings. The Council also makes use of online training programmes such as training in health and safety arrangements.

Like all other Council's the Council faces significant financial challenges and needs to prepare for future change. In this regard the Council has accepted a recommendation from the Peer Challenge which encourages the Council to ensure that capacity is in the right place and there is organisational planning and succession development, including ensuring sufficient corporate resources are available to effectively manage and deliver change and transformation going forward.

CIPFA/SOLACE Core Principle 6:**Engaging with local people and other stakeholders to ensure robust public accountability.**

The Council continues its commitment to neighbourhood involvement, with a series of Community Liaison Group throughout the Borough. These were used to help engage with local people in such areas as Hadleigh Master Planning and the development of the Local Plan. The Council also works closely with Canvey Island Town Council and a partnership protocol is in place.

During the year the Council undertook planned consultation with residents on a variety of service specific issues. This included consultation on a range of service specific issues for example, Leaseholders were consulted as part of the procurement process for the grounds maintenance contract, tenant consultation was also undertaken to help inform housing services and to review satisfaction with repairs. Consultation was also undertaken to help develop the Tenancy Strategy as well as the development of the design guidance.

The Council ensures its services provide clear expectations for service users and members of the public through a set of service standards. These standards are publically available through service access points including the internet site as well as reception areas and through newsletters. The internet address for these is: <http://www.castlepoint.gov.uk/main.cfm?menuId=12081>

The Council works closely with partners in the LSP to ensure a focus on joint objectives. A governance framework is in place and accountabilities are set out on a governance handbook. This will need to be reviewed as part of the review of partnership arrangements.

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The Council is also a key partner in the Castle Point Regeneration Partnership, a partnership formed of all key public and non-government agencies, whose ambitions are to further the regeneration of Castle Point with appropriate projects.

As stated earlier, strategic partnership arrangements are subject to development and review and the Council has accepted recommendations from the Peer Challenge that includes conducting a review of strategic and operational partnerships and the outcomes they deliver considering the future capacity constraints.

Significant governance issues

The following are the key governance issues that have been identified:

Number	Challenge	Action 2012/13	Date of implementation	Responsible officer
1.	Financial Challenge for the future.	Investigate the strategic options and demand management. Continue to progress the Efficiency work programme.	March 2015	Chief Executive
2.	Need to set out Clear Medium Term Ambitions and Priorities which consider local issues and needs as well as the challenging financial circumstances.	Develop a Corporate Plan with clear Ambitions and Priorities	December 2013	Head of Performance & Service Support
3.	Need to manage the potential proliferation of partnership working which risks possible confusion and lack of focus.	Undertake a review of Partnership Working	March 2014	Head of Regeneration & Neighbourhoods
4.	Possible insufficient corporate resources to implement change.	Further develop organisational and succession planning and ensure sufficient corporate resources in place to manage and deliver change.	December 2014	Chief Executive
5.	Ensure revised governance processes such as performance management, service planning, risk management and data quality re operating effectively at an operational level.	Governance Group to be fully operational and undertake a programme of actions to embed processes.	March 2014	Head of Performance & Service Support

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We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

David Marchant
Chief Executive
30 June 2013

Councillor Pam Challis
Leader of the Council
30 June 2013