

BABERGH DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: R4
To: Babergh District Council	Date of meeting: 19 May 2015

ANNUAL REPORT OF THE JOINT AUDIT AND STANDARDS COMMITTEE AND THE BABERGH AUDIT COMMITTEE 2014/15

1. Purpose of Report

- 1.1 To report to Council on the work of the Committee during the last year, make recommendations for future work programmes and if appropriate, amended working methods.

2. Recommendation

- 2.1 That the Annual Report for the Joint Audit and Standards Committee and the Babergh Audit Committee for 2014/15 be noted.

3. Financial Implications

- 3.1 There have been no financial implications to date other than the costs of officer time and normal allowances for Members that are included in the budget.

4. Risk Management

- 4.1 This report is an update on work completed during 2014/15. Risk management considerations for individual topics will be included in reports to the Committee as the year progresses.

5. Consultations

- 5.1 Members have been invited to identify any topics for consideration during 2014/15.

6. Equality Analysis

- 6.1 There are no equality implications with this report. Equality analysis considerations for individual topics will be included in reports to the Committee as the year progresses.

7. Shared Service / Partnership Implications

- 7.1 Shared Service/Partnership implications for individual topics will be included in reports to the Committee as the year progresses.

8. Key Information

The following is a summary of the Committee's main achievements during the 2014/15 year:

8.1 Treasury Management Strategy 2014/15

Treasury Management is an important part of the overall financial management of the Councils' affairs. It links to the Councils' Medium Term Financial Strategy (MTFS), the Joint Strategic Plan and our investment strategy e.g. prudential borrowing, 'Invest to Save' and 'Profit for Purpose'.

The proposed Treasury Management Strategy Statement (including the Annual Investment Strategy for managing surplus funds and borrowing) in accordance with the CIPFA Treasury Management Code. The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report presented to Executive/Strategy Committee and Council meetings in February 2015.

The Code of Practice recommends that the strategy is subject to scrutiny before it is presented to Council, which falls within the remit of the Joint Audit & Standards Committee.

At the November 2015 meeting, in considering whether the respective Councils should be asked to amend the Strategy as proposed in 2.2 and 2.3 of the report, Members took into account the potential for added risk to be introduced if BBB+ were to be adopted as the minimum credit rating criteria at this time, and it was agreed that this proposal, as set out in recommendation 2.2 of Paper JAC 38, should not be supported.

Recommended to Council

(1) That it be noted that treasury management activity for the first six months of 2014/15 was in accordance with the Councils' approved Treasury Management Strategy and that both Councils have complied with all Prudential Indicators for this period.

(2) That the Treasury Management Strategy be amended to lower the maximum investment in banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is A- or higher from £2m to £1m.

At the January 2015 meeting, in response to Members' questions, the Head of Corporate Resources advised that:

- If the credit rating of the Councils' bank dropped below an A rating, steps would be taken on a daily basis to minimise the cash left with the bank overnight.
- Investigations were ongoing into the possibility of Babergh District Council lending funds to Mid Suffolk District Council on a short term basis.
- Officers would look at the level of funds left with the Councils' previous banks to cover cheques not yet presented and whether some of these funds could be transferred into the current income stream.

Members expressed concern regarding the proposal to include a provisional sum of £25m for each council in the draft capital programme for 2015/16 for potential prudential borrowing relating to delivery plan projects, and the controls in place to monitor use of the monies.

A motion to amend the recommendations to include the following was discussed and unanimously agreed:

That use of the £25m, referred to in paragraph 8.11, to be subject to business cases that will be presented to Executive and Strategy Committees for onward recommendation to Full Council.

It was also felt that paragraph 8.11 in the report required clarification and an explanation of the tables was necessary. Officers were requested to make these amendments to the report for presentation to the Executive and Strategy Committees in February.

Recommended to Executive and Strategy Committees and both Councils

1. That the key factors and information relating to and affecting treasury management activities set out in Appendices A and B be noted.

2. That the following be approved:

- a) **The Treasury Management Policy Statement.**
- b) **The Draft Treasury Management Strategy for 2015/16, incorporating the proposed changes referred to in paragraphs 8.17 and 8.18 of the report and including the Annual Investment Strategy.**
- c) **The Prudential Indicators and MRP Statement.**
- d) **That use of the £25m to be subject to business cases that will be presented to Executive and Strategy Committees for onward recommendation to Full Council.**

8.2 Complaints Monitoring

Complaints received by the Councils are reported quarterly to Members of the Committee showing how the complaints are being dealt with and what actions to resolve are being taken. An independent person is appointed under the Localism Act 2011 to consult on each complaint.

Members raised queries about the time required to deal with complaints and an indication of whether they are new / on-going. Members discussed the increase in complaints received and whether the limited sanctions now available if a complaint was found answerable was a reason for this. Members also questioned the rules governing confidentiality in regard to complaints and whether, where a councillor was found guilty of breaching the Code of Conduct, if this was made public it would be a deterrent to others

Members also discussed whether the procedure for determining a complaint was too long and if when finally decided, no information was given other than the decision, an explanation should be given to the complainants for the decision, particularly if it was decided no action should be taken.

The minutes for the March 2015 meeting are yet to be transcribed, but there is not expected to be any further change to this section.

8.3 Compliance with Localism Act 2011

The Committee review the actions outstanding to secure full compliance with Chapter 7 of the Localism Act 2011 by (i) the Councils, (ii) Parish/Town Councils and (iii) Councillors. Members have discussed the data capture returns from Councils and continue to monitor the completion of outstanding Aldham Parish Council forms.

The measures taken to comply with the requirements within Chapter 7 of the Localism Act 2011 were noted.

Whilst additional officer time has been allocated to assist with the on-going maintenance of these records a variety of initiatives are currently underway to manage recording and data capture.

The minutes for the March 2015 meeting are yet to be transcribed, but there is not expected to be any further change to this section.

8.4 Interim Internal Audit Report 2014/15

The Audit Plan 2014/15 was approved by the Joint Audit and Standards Committee on 3 March 2014, having previously been endorsed by both S151 Officers and Management Team. In addition it was **resolved that the Councils' internal audit arrangements are effective and the opinion of the Corporate Manager – Internal Audit in the report can be relied upon as a key source of evidence in the Annual Governance Statement.**

The Committee were informed that the first six months of the year had shown an increased demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities. The Corporate Manager – Internal Audit continues to monitor these requests to ensure that these demands do not have an adverse impact on the delivery of the Audit Plan. As the Council's Delivery and Enabling Programmes develop it is anticipated that these types of requests will increase requiring a refresh of how the Audit Plan is to be develop next year to meet demands on a risk based approach.

The Corporate Manager – Internal Audit was confident that the Audit Plan will be completed on time, and that he will be able to deliver a robust annual audit opinion in the Annual Internal Audit Report.

That the contents of the plan, together with the Overview of Internal Audit Work, and Summary of Internal Audit Reports issued to September 2014 were noted.

8.5 Declaration of Interests, Gifts and Hospitality

The Declaration of Interests reports provide the Committee with the information for its monitoring of interests/gifts and hospitality. In June 2014 the Committee received data for the period from 29 January 2014 to 18 June 2014 for Babergh District Council and for the period from 19 December 2013 to 21 May 2014 for Mid Suffolk District Council.

The information relating to Members' interests declared at meetings and the nil returns for Gifts and Hospitality were noted.

8.6 Joint Annual Governance Statement 2013/14

This report enabled the Committee to be satisfied that the Joint Annual Governance Statement (AGS), to accompany each Council's financial accounts 2013/14, properly reflected the risk environment and any actions required to improve it. The finalised AGS was signed by the Leader of each Council on behalf of the respective Council together with the Chief Executive on behalf of both Councils.

Members requested: minor amendments, the inclusion of a glossary of abbreviations and a Management Structure Chart.

Members emphasised the importance of ensuring that the Councils performed to the standards set in the AGS over the coming year.

It was resolved that:

1. Members were satisfied the Joint Annual Governance Statement (AGS) 2013/14 properly reflects the risk environment and any actions taken to improve it.

2. That the AGS be endorsed subject to the Head of Corporate Organisation being authorised to make any minor amendments and corrections prior to the Statement being finalised for publication.

Further that approval of any significant amendments identified by the Head of Corporate Organisation be delegated to him in consultation with the Chairs of the Committee.

3. It was noted that the finalised AGS will be signed by the Chief Executive on behalf of both Councils in consultation with the Leader of each Council on behalf of the respective Council.

8.7 Prevention of Financial Crime policy

As part of the Committee's role in Council Governance the policy was reviewed to bring together our existing anti-fraud and corruption documents in to one for the purpose of producing a more succinct, easier to reference policy which better imparts the messages of financial prudence and probity than previously.

Members discussed the tone, content and key points of the policy, giving consideration to greater ease of reference.

8.8 Significant Business Risks

The Significant Business Risk Register is the tool used to identify, assess, manage and review all pertinent risks to the Councils. Members review the contents of the Integrated Significant Business Risk Register and actions being taken.

Particular queries were raised regarding: the process for moving all users to a single IT platform; the changing focus from the integration phase to delivery of the Councils' Strategic Plan where economic growth is key; and the Accommodation Review underway which will address the specific risks of any options put forward for the Councils' consideration.

Members were advised in November 2014 of a half day refresh risk workshop to review the current Significant Business Risk Register. The workshop was facilitated by Zurich and attended by Heads of Service or their representatives.

The purpose of the workshop was to refresh the register that exists in order to create a more aligned version which promoted and supported each Council's strategic priorities. A draft register has subsequently been created which links closely with the Strategic Priorities and Delivery Programme.

A follow up workshop is to be held early in the New Year to confirm risk owners and determine the future reporting arrangements. Once the follow up workshop has been held Internal Audit will be in a position to upgrade the Joint Risk Management Strategy and present it to the Committee for approval. The Strategy will help support and embed risk management across both Councils.

8.9 Manage the Risk of Fraud and Corruption

The Committee receives an annual report explaining the current arrangements in place across both Councils to ensure there is a proactive corporate approach to preventing Fraud and Corruption and creating a culture where Fraud and Corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect Fraud and Corruption.

Although both Councils have traditionally encountered low levels of Fraud and Corruption, the risk of such losses internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.

Prior to review if the full year's performance figures for 2013/14 across both Councils, members took the opportunity to question the following aspects of the report:

- The steps being taken to pro-actively prevent fraud in the first place? *Publicising successful prosecutions; whistle-blowing telephone lines; matrix approach to target repeat offenders; effective cross-agency working with DWP / Police / HMRC etc.*
- The types of fraud relevant to Right to Buy applications *these include e.g. money laundering*
- The costs of this work and value for money – *reference made to variations in figures for benefit overpayments (para 2.2.8) – no underlying cause identified. Variation in costs (para 2.2.9) reflects resources that the three partners put into the Shared Revenues Partnership (SRP) when it was established in April 2011*
- Identifying better recruitment security through appropriate personal checks – *the Head of Corporate Organisation will ensure that robust checks continue to be in place during the interim period before a permanent appointment is made to the post of Corporate Manager – Organisational Development*
- Reporting benefit fraud and whistleblowing effectiveness – *how can Members help to deter and detect fraud?*
- Prosecutions – *Councils have power to prosecute for benefit fraud (and corporate fraud) but the Police would prosecute where there is a link to other crimes, with appropriate Council support*
- Single Fraud Investigation Service – *a report will be made to the March meeting on the setting up of the service, its funding and staffing*

- Housing Tenancy fraud – *other than Right to Buy, this is the responsibility of the Housing Team*

The 2014/15 Risk of fraud and corruption report was presented to the Committee at the March 2015 meeting.

Members discussed the changes in the benefit fraud investigation process and the associated DWP funding changes from 1 May 2015. The outcome of the NFI return and the fraud cases investigated this year.

Members also considered the forthcoming focus for 2015/16 where, as we face reduced funding and new national counter-fraud arrangements, both Councils need to assess fraud risks effectively to target resources where they will produce most benefit.

8.10 Audit Plan 2015/16

The plan has been constructed to ensure that it delivers against the Public Sector Internal Audit Standards (PSIAS) and the requirement to produce an annual Head of Internal Audit opinion.

Members discussed, and confirmed, that it was appropriate that Internal Audit resources, in addition to the regular activities, (such as Managing Finance, Governance, Risk Management and Fraud) be targeted across the Councils' services using a risk based approach to support project teams through change to help maximise the effectiveness of internal control. It was recognised that a key aspect was the Councils' Delivery Programme, and that audit resources have been allocated to support a number of high priority projects to provide the necessary assurances around governance, risk profile and internal control arrangements.

It was resolved that the Councils' internal audit planning arrangements remain effective in supporting the Corporate Manager – Internal Audit, as a key source of evidence for the Annual Governance Statement opinion.

9. Babergh Audit Committee

9.1 Protecting the Public Purse

The Committee considered and noted key matters arising from the Audit Commission report 'Protecting the Public Purse'.

The following were among the topics discussed:-

- The varying levels of risk which apply to different areas
- Adequacy of resources
- Procurement processes including a possible successor to the former Procurement Task Group
- Value for money / sustainability
- Feedback from tenants on works to properties – Corporate Manager to confirm current arrangements

9.2 Statement of Accounts 2013/14 and Auditor's Report

The Committee considered and approved the Statement of Accounts and the External Auditor's report for 2013/14.

9.3 Joint Annual Treasury Management Report – 2013/14

The report provided Members with a comprehensive assessment of Treasury Management activity for 2013/14 as required by the CIPFA Code of Practice on Treasury Management.

Members noted that the performance was in line with the Prudential Indicators set for 2013/14.

The Committee recommended to Council that the Treasury Management activity for the year 2013/14 be noted, subject to the incorporation of any minor amendments required.

9.4 Grant Claims and Returns Certification for the year ended March 2014, Audit Plan for 2014/15 and Audit Fee Letter for 2015/16

Members noted that this is the final year that BDO will be carrying out external audit work for Babergh and that from 2015/16 this work will be carried out by Ernst and Young LLP.

Members requested that an item be added to the work plan for the Joint Audit and Standards Committee providing an analysis of expenditure at main subjective level i.e. staffing, transport, supplies and services for each Council, to enable the Committee to compare and contrast the differences between the two Councils, to seek assurance that costs are being correctly allocated between them.

The Committee considered and noted the External Auditor's reports.

10. Appendices

None.

11. Background Documents

None.

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