

GOVERNANCE AND AUDIT SCRUTINY COMMITTEE AGENDA

Thursday, 12th January 2023 at 7:15pm

Council Chamber, Braintree District Council, Causeway House,
Bocking End, Braintree, CM7 9HB

THIS MEETING IS OPEN TO THE PUBLIC

Members of the public will be able to view and listen to this meeting via YouTube.

To access the meeting please use the link below:

<http://www.braintree.gov.uk/youtube>

Members of the Governance and Audit Scrutiny Committee are requested to attend this meeting to transact the business set out in the Agenda.

Membership:-

Councillor Mrs M Cunningham	Councillor T Walsh
Councillor P Euesden (Vice Chairman)	Councillor Mrs L Walters
Councillor D Hume	Councillor D White
Councillor D Mann	Councillor J Wrench (Chairman)
Councillor S Rehman	

Members unable to attend the meeting are requested to forward their apologies for absence to the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by 3pm on the day of the meeting.

D GASCOYNE
Chief Executive

INFORMATION FOR MEMBERS – DECLARATIONS OF MEMBERS’ INTERESTS

Declaration of Disclosable Pecuniary Interests (DPI), Other Pecuniary Interests (OPI) or Non-Pecuniary Interests (NPI).

Any Member with a DPI, OPI or NPI must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a DPI or OPI or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the Chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

Public Question Time – Registration and Speaking:

The Agenda allows for a period of up to 30 minutes for Public Question Time. Members of the public may ask questions or make statement to the Committee on any matter in relation to which the Council has powers or duties or which affect the district and matters listed on the agenda.

All questions or statements should be concise and should be able to be heard within the 3 minutes allotted to each speaker.

Anyone wishing to ask a question or make a statement are requested to register their interest by completing the Public Question Time registration [online form](#) by **midday on the second working day** before the day of the Committee meeting.

For example, if the Committee Meeting is on a Tuesday, the registration deadline is midday on Friday, (where there is a Bank Holiday Monday you will need to register by midday on the previous Thursday). The Council reserves the right to decline any requests to register to speak if they are received after this time.

When registering for Public Question Time please indicate whether you wish to attend the Committee meeting ‘in person’ or to participate remotely. People who choose to join the meeting remotely will be provided with the relevant link and joining instructions for the meeting.

Please note that completion of the on-line form does not guarantee you a place to speak during Public Question Time. You will receive email notification from the Governance Service confirming whether your request is successful.

The Chairman of the Committee has discretion to extend the time allocated to registered speakers and the order in which they may speak.

In the event that a registered speaker is unable to connect to the meeting, or if there are any technical issues, their question/statement may be read by a Council Officer.

Further information on public question time is available on the [Council’s website](#).

Health and Safety:

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Documents:

Agendas, Reports and Minutes can be accessed via www.braintree.gov.uk

Data Processing:

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https://www.braintree.gov.uk/info/200136/access_to_information/376/privacy_policy

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The meeting will also be broadcast via the Council's YouTube Channel.

Comments and Suggestions:

We welcome comments to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended, you can send these to governance@braintree.gov.uk

PUBLIC SESSION

Page

1 Apologies for Absence

2 Declaration of Interests - Scrutiny Committee

1. To declare the existence and nature of any interests relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice (where necessary) before the meeting.

2. To declare the existence and nature of any instruction given by or on behalf of a political group to any Councillor who is a member of that group as to how that Councillor shall speak or vote on any matter before the Committee or the application or threat to apply any sanction by the group in respect of that Councillor should he/she speak or vote on any particular matter.

3 Minutes of the Previous Meeting

To approve as a correct record the minutes of the meeting of the Governance and Audit Scrutiny Committee held on 3rd November 2022 (copy previously circulated).

4 Public Question Time

(See paragraph above)

5 To approve the Statement of Accounts for the Financial Year 2020-21 **6 - 53**

6 To receive a suite of the Council's Key Financial Indicators as at 30th November 2022 **54 - 59**

7 Draft Treasury Management Strategy for 2023-24 **60 - 77**

8 Fraud Update **78 - 88**

9 Internal Audit Update, Including Progress Against Internal Audit Plan 2022-23 **89 - 99**

10 Urgent Business - Public Session

To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

PRIVATE SESSION

There is no business for private session.

Report Title: To approve the Statement of Accounts for the Financial Year 2020/21.	
Report to: Governance and Audit Scrutiny Committee	
Date: 12th January 2023	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Mark Jarvis, Financial Services Manager and Aphrodite Lefevre, Director, BDO LLP	
Enquiries to: Mark Jarvis, Financial Services Manager - mark.jarvis@braintree.gov.uk	

1. Purpose of the Report

- 1.1 To approve the Statement of Accounts for the financial year 2020/21, having due regard to the External Auditor's Audit Completion Report.

2. Recommendations

- 2.1 To receive and note the current External Auditor's Audit Completion Report on the 2020/21 Accounts.
- 2.2 To approve certification of the Letter of Representation by the Chair of the Governance and Audit Scrutiny Committee in consultation with the Section 151 Officer.
- 2.3 To approve the Council's Statement of Accounts for the financial year 2020/21, subject to any changes that may be necessary once the audit has been completed and a final Audit Completion Report has been issued.
- 2.4 To delegate to the Chair of the Governance and Audit Scrutiny Committee in consultation with the Section 151 Officer, to approve the final Statement of Accounts for 2020/21 prior to their publication.
- 2.5 To delegate to the Chair of the Governance and Audit Scrutiny Committee in consultation with the Section 151 Officer, to receive and note the final Audit Completion Report and to distribute for information to the members of the Committee.

3. Summary of Issues

- 3.1 A draft set of Statement of Accounts were originally signed on 27th July 2021, by Chris Fleetham, Corporate Director as representing a "true and fair view" of the Council's financial position at the reporting date, and of its income and expenditure for the year ended 31 March 2021.

- 3.2 The accounts were made available for public inspection between 2nd August and 13th September 2021. There were no requests received to inspect the accounts.
- 3.3 The Council is required to prepare financial accounts covering the period from 1st April to 31st March, each year. These statements must be presented in the required statutory format, following the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code), which means that the financial information contained in the Statement of Accounts will be presented in a different way to how it is normally reported in financial monitoring reports
- 3.4 The CIPFA Code is based on International Financial Reporting Standards (IFRS), with adjustments allowed where the impact of applying IFRS is inconsistent with the statutory requirements for credits and debits that must be taken into account when calculating the movement on the General Fund balance.
- 3.5 There were no significant changes to the accounting requirements under the CIPFA Code for 2020/21.
- 3.6 The Council's External Auditor, BDO LLP (BDO), commenced their final audit of the accounts in November 2021.
- 3.7 The current Audit Completion Report is attached as an **Appendix** to this report.
- 3.8 The Report highlights three unadjusted errors as explained in pages 23 to 25 of that report. It is not the intention to adjust for these errors in the final published accounts as the amounts concerned are considered immaterial to the accounts.
- 3.9 As the audit is still subject to completion, there are still number of areas identified on page 39 of the report which are still being reviewed. A verbal update will be given by BDO at committee.
- 3.10 In their report, BDO state that to date, nothing has come to their attention from the work completed that would result in modification of the audit opinion on the financial statements.
- 3.11 Prior to issuing their final opinion BDO will request a Letter of Representation from the Council in the form set out on pages 40 to 42 of the Audit Completion Report.
- 3.12 A fee summary is provided on page 32 of the Audit Completion Report. This shows a proposed increase in audit fees of £23,500 from the £46,012 scale fees. The proposed fee increase will be discussed further with management before a formal request is made by BDO to the Public Sector Audit Appointments Limited (PSAA). In making a determination, the PSAA will consider the views of the Council.

4. Options

- 4.1 To receive and ask questions of BDO on their audit of the accounts and Audit Completion Report.
- 4.2 To ask any questions on the published Statement of Accounts 2020/21.
- 4.3 To approve the Statement of Accounts for 2020/21 after receiving the report of the auditor, subject to any changes been agreed between the Chair of the Governance and Audit Scrutiny Committee, after consultation with the Section 151 Officer and the External Auditor.
- 4.4 To consider and approve the delegations as set out in the Recommendations. If these are not approved, matters relating to the finalisation of the Statement of Accounts for 2020/21 will only be able to proceed through the Committee.

5. Financial Implications

- 5.1 There are no new financial implications. The financial outturn for 2020/21, including the movement on General Fund balances, was included in the Fourth Quarter and Annual Performance Management Report for 2020/21, which was reported to Cabinet on 12th July 2021. The position reported at that time has not changed because of the audit of the accounts.
- 5.2 There is a proposed increase in audit fees charged for the year of £23,500 however costs associated with work in relation to the Housing Benefit subsidy claim is still to be confirmed. The proposed fees are still subject to the outcome of a review by both management and the Public Sector Audit Appointments Limited (PSAA).

6. Legal Implications

- 6.1 The CIPFA Code constitutes 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.
- 6.2 The requirement for formal approval of the Statement of Accounts is contained in the Accounts and Audit Regulations 2015 (as amended). The Regulations were amended for 2020/21 in the wake of the Covid pandemic and the impact that this would have on local authorities' resources and priorities. The changes meant that the latest date of the publication of the audited financial statements changed to 30th September 2021.
- 6.3 In the event that audited Statement of Accounts could not be published by the prescribed date, councils were required to wait for the auditors to finish their work and as soon as reasonably practicable after they make their final report, formally approve, and publish the Statement of Accounts.

7. Other Implications

- 7.1 The delay in completing the 2019/20 audit has contributed towards the delay in the start and sign-off of the audit of the 2020/21 and 2021/22 Statement of Accounts.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 8.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

- 9.1 BDO Audit Completion Report

10. Background Papers

- 10.1 Braintree District Council Statement of Accounts 2020/21 which can be found on the Council's website [[Here](#)]



Report to the Governance and Audit Scrutiny Committee

BRAINTREE DISTRICT COUNCIL

Audit Completion Report: year ended 31 March 2021

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We have pleasure in presenting our Audit Completion Report to the Governance and Audit Scrutiny Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two-way communication throughout the audit process with those charged with governance.

It summarises the results of our work completed on the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Governance and Audit Scrutiny Committee.

At the completion stage of the audit it is essential that we engage with the Governance and Audit Scrutiny Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Governance and Audit Scrutiny Committee meeting on 12 January 2023, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Aphrodite Lefevre, Director
For and on behalf of **BDO LLP**, Appointed Auditor

16 December 2022



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Governance and Audit Scrutiny Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Governance and Audit Scrutiny Committee in reviewing the results of the audit of the financial statements of Braintree District Council for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

This report includes only those matters arising from the audit work completed at the date of its issue. As the audit is still subject to completion, other matters may arise between this date and the date of the Governance and Audit Scrutiny Committee and the date of us issuing our audit opinion. We will provide a verbal update to Committee members on any changes, before issuing a final Audit Completion Report prior to the issue of our independent auditor's report.



Overview

Our audit field work on the financial statements is substantially complete. Outstanding matters are listed on page 39 of our report.

We presented our Audit Planning Report to the Audit and Risk Committee in October 2021. No additional significant audit risks have been identified.

The opinion on the previous years' audit (2019/20) is still outstanding pending the resolution of the national consultation on infrastructure assets. This matter has previously been communicated to the Committee, but a pathway for completion has now been identified.

Our work on the Council's value for money arrangements is in progress. We will report the results of our work to those charged with governance in our Auditor's Annual Report. We expect to publish our report no later than three months following the date of our audit opinion.

No restrictions were placed on our work.

Audit report

To date, nothing has come to our attention from work completed to date that would result in modification of the audit opinion on the financial statements.

We have no exceptions to report at this stage in respect of the value for money arrangements.

Our audit certificate will be issued when we have completed our work on value for money arrangements.

THE NUMBERS

Executive summary

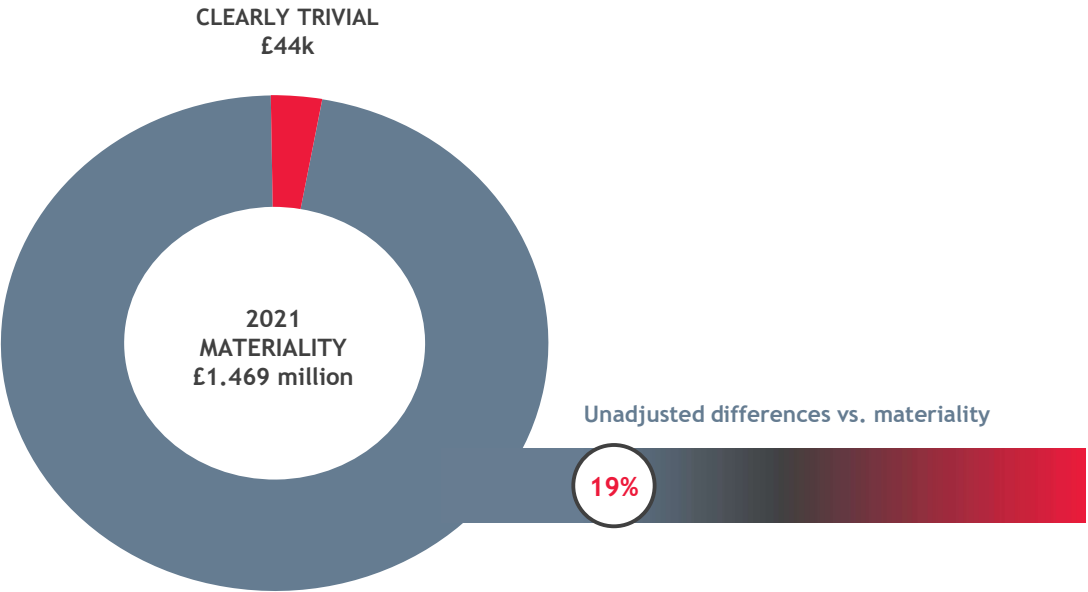
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Final materiality

Materiality for Council was determined based on 2% of expenditure) of average gross expenditure for the last three years. Based on the draft financial statements for 2020/21 this has been calculated as £1.469 million. We have set our clearly trivial threshold at £0.044 million.

Unadjusted audit differences

We identified audit adjustments that, if posted, would increase the deficit on the provision of services for the year by £0.284m.



OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of Representation

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 14 October 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

No additional significant audit risks have been identified.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management Override of Controls	Significant	Yes	No	No	No	Yes
Valuation of Non Current Assets	Significant	Yes	Yes	Yes	Yes	Yes
Valuation of Pension Liability	Significant	Yes	Yes	No	No	Yes
Revenue (and expenditure) recognition	Significant	No	No	Yes	No	No

Note, our work remains subject to internal quality review which could impact the above results presented.

Areas requiring your attention



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MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we are required to consider this as a significant risk of material misstatement due to fraud.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, by agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Assessed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We used our data analytics tool, BDO Advantage, to analyse journals processed throughout the year and as part of the financial reporting.

We identified several journal entries that we considered to be high risk.

Our review noted that all journals were adequately supported and related to transactions in the normal course of business. No evidence of management override has been identified.

Our work on the review of management estimates has not identified the existence of any systemic bias.

There were no unadjusted audit differences which could indicate bias or deliberate misstatement.

Conclusion

Our work remains subject to internal quality review however based on the work we have completed, we have no matters to bring to your attention.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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VALUATION OF NON-CURRENT ASSETS

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The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. PPE and Investment Property values are subject to valuation changes and material judgemental inputs and estimation techniques.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we could rely on the management expert;
- Verified that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Critically assessed valuation movements that appeared unusual;

- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

Results

Instructions provided to professional valuers were in line with expectation, taking into account the nature of the valuations to be undertaken, the year’s capital programme and the valuers’ experience with the Council. The valuers are sufficiently qualified to provide the valuations.

Our audit procedures relating to assumptions and valuation inputs used by the valuer were deemed to be appropriate. We have further discussed our work on the non-current asset value estimates on the subsequent slides.

Professional valuations were dated as at 31 March 2021. We have assessed, with reference to relevant market indices, the expected change in valuation from the prior year. There were material movements in the valuation of non-current assets under each valuation methodology, however we were satisfied that the assumptions used by the valuer were reasonable in line with market conditions at the balance sheet date.

On our testing of valuations completed using a Fair Value methodology, we identified a net overstatement of £151k, extrapolating across the balance to £219k - our conclusion is that this overstatement is immaterial.

Conclusion

Our work remains subject to internal quality review however based on the work we have completed, we have no matters to bring to your attention.

VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Overview

The Council's valuation process in 2020/21 comprised the following:

- Land and buildings are valued cyclically, with revaluations occurring annually on a desktop basis, with physical inspections every five years;
- Revaluations are completed on types of assets thought to have moved significantly due to market factors or indications of impairment;
- Revaluations are completed on assets subject to significant capital works or alterations in the year;
- All assets held at fair value (investment properties and surplus assets) are revalued annually on a desktop basis, with physical inspections every five years.

Valuations are completed by external professional valuers. This breaks down as follows:

- Property, plant and equipment (PPE) - Land and buildings - are valued by NPS at current value in existing use. This amounts to existing use value (EUV) valuations, or when there is no market for assets due to their specialist nature those assets are valued at depreciated replacement cost (DRC). A small volume of PPE assets have been measured at market value (FV) where these relate to surplus land;
- The Council's investment properties are valued by NPS at FV.

We have analysed the valuation approach, audit work done and any findings for each of these categories in the subsequent slides.

VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Property, Plant and Equipment valued at Existing Use Value - (EUV) - £23m

Assets valued at Existing Use Value using current and future income streams capitalised at an appropriate yield based on comparable market transactions. There were no additions to the PPE valued at EUV during the year. We noted a valuation increase of £2,480k. We undertook the following work in relation to this class of asset:

- We developed expectations for yield movements using third party reports and investigated any deviations from our expectations with the valuer;
- Rent passing is also a key input for the valuations which we have verified to lease agreement and rent review memos.

Based on the work we have completed, we have no matters to bring to your attention.

Investment Properties measured at Fair Value - (FV) - £43m

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. There were no additions to investment property during the year. We noted a valuation increase of £6,001k. The valuer has adopted an investment approach and the audit work performed was as follows:

- We identified assets that moved in value outside of the expectation ranges we set in consultation with BDO valuations specialists and external indices.
- For assets out of expectations, we have substantively tested the valuer's calculations and explanations, including corroboration of inputs used such as rent passing and Gross Internal Areas and a reasonableness check of assumptions such as yield.

As part of our testing we noted an overstatement on one asset due to omission of deduction of a management fee. The overstatement value was £690.14, and as the whole population was tested, no extrapolation was required. The error was concluded to be trivial.

Based on the work we have completed, we have no matters to bring to your attention.

Impact of assumptions on the estimate/judgement

< lower

higher >



VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Other Land and Buildings valued at Depreciated Replacement Cost (DRC) - £35m

Specialised assets with no active market are valued at depreciated replacement cost using the existing gross internal area, estimated rebuild costs and the land value. This valuation is then reduced to reflect the age and remaining useful economic life of the building and accounts for professional fees. We noted a fall in valuation of PPE measured using DR of £1,240k. We undertook the following work in relation to this class of asset:

- We have verified build costs to source BCIS data;
- Land values used have been based on recent sales on comparable properties. The land rates from comparable sales have been adapted to suit the specificities of the council's assets being valued. We have verified the comparable sales data;
- Professional fees assumed for the cost of building replacement assets, relating to services such as architects, planning, inspectors and solicitors, have been developed by NPS through experience and ongoing property expertise. The fee rates assumed to apply to the Council's valuations are not materially different to rates assumed by other valuers in the sector.

Based on the work we have completed, we have no matters to bring to your attention.

Other Land and Buildings valued at Fair Value (FV) - £6m

There are a small number of surplus land assets which are measured at fair value usually based on the current and future potential rent yields. We noted a fall in the valuation of PPE measured using FV of £1,738k. We undertook the following work in relation to this class of asset:

- We developed expectations for yield movements using third party reports and investigated any deviations from our expectations with the valuer;
- For assets out of expectations, we have substantively tested the valuer's calculations and explanations, including corroboration of inputs used such as rent passing and Gross Internal Areas and a reasonableness check of assumptions such as yield.

As part of our testing we noted an overstatement of £159k on one asset as a result of the use of an incorrect area. On another asset we noted an understatement of £8k as a result of incorrect income assumptions applied by the valuer. This resulted in net overstatement of £151k. This was extrapolated over the PPE-FV balance to a projected overstatement of £219k. This is immaterial, and we are content for this to remain as an unadjusted error. We have no other matters to bring to your attention at this stage.

Impact of assumptions on the estimate/judgement

< lower

higher >

VALUATION OF PENSION LIABILITY

The valuation of the pension assets and liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The Council's pension fund deficit at 31 March 2021 was £ 54 million (£52 million at 31 March 2020).

The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise, updated at 31 March 2021 for factors such as mortality rates and expected pay rises.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Due to significance of these valuations, a small change in assumptions and estimates could have a material impact on the council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Assessed the competence of management's expert (the actuary)

- Checked the reasonableness of the assumptions used in the calculation of the pension fund liability against other local government actuaries and other observable data
- Assessed the controls in place for providing accurate membership data to the actuary
- Checked that any significant changes in membership data have been communicated to the actuary
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data.

Results

No issues were found in assessing the competency of managements experts, or in the agreement of disclosures to information provided by the actuary.

The assumptions on which the Council has based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report.

Our consideration of the assumptions used in the valuation are detailed on the following pages.

Note that the net pension liability was subsequently reduced by £977k on receipt of a revised actuarial report, with a corresponding increase in unusable reserves. The accounts have been adjusted for this. The change was brought about by the use of more up-to-date information around the allocation of fund assets, as communicated to the Council - no changes to the assumptions used were made.

Conclusion

Although subject to internal quality review, based on the work we have completed, we have no matters to bring to your attention.

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VALUATION OF PENSION LIABILITY

Significant accounting estimates: Pension Liability

The Council's gross pension liability has increased from £203 million to £248 million and its share of the scheme assets increased from £151 million to £194 million. The increase in the liability has been mainly driven by the decrease of the discount rate used to 2% (2.35% in prior year) and 0.9% increases in both the pension and salary rate.

The key estimates are the following financial and mortality assumptions. We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.25%	3.15% - 3.35%	Reasonable
- CPI increase	2.85%	2.8% - 2.85%	Reasonable
- Pension increase	2.85%	2.8% - 2.85%	Reasonable
- Salary increase	3.85%	3.8% - 3.85%	Reasonable
- Discount rate	2.00%	1.95% - 2.05%	Reasonable

Mortality:

Assumed longevity retiring at current dates

- Male	21.6 years	20.5 - 22.2	Reasonable
- Female	23.6 years	22.9 - 24.3	Reasonable

Assumed longevity retiring in 20 years

- Male	22.9 years	21.6 - 23.3	Reasonable
- Female	25.1 years	24.6 - 26.3	Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and result in an estimate of the pension liability which falls within a reasonable range.

Impact of assumptions on the estimate/judgement

< lower

higher >

REVENUE (AND EXPENDITURE) RECOGNITION

There is a risk that related party disclosures are not complete and accurate.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of investment property income and non ringfenced grant income.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Test an increased sample of grants included in income to documentation from grant paying bodies and assess whether recognition criteria have been met;
- Test an increased sample of investment property income to documentation including lease agreements, contracts and rent reviews; and
- Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

Results

Our testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

Our testing identified the following exceptions:

The authority has classified a grant relating to test and trace payments to Taxation and Non-Specific Grant Income. However, the underlying nature of the grant suggests that the grant is specific, and should therefore be included in cost of services. The value of this grant is £46k. If extrapolated over the remaining untested balance of non-specific grant income, a further £8k would need to be adjusted.

As part of our testing over expenditure cut-off, we sample tested bank payments made in March 2021. Of these, we noted that in three instances there were invoices which spanned both the 2020/21 and the 2021/22 years, but the entire expense had been recognised in 2020/21.

While the total value of these payments was £2k and therefore trivial, we are required to extrapolate the error over a comparable population. We project this value to be £282k.

Management have noted that all three transactions are recurrent in nature (relating to monthly or annual bills and subscriptions) and that the year-on-year impact is therefore likely to be limited.

Further detail is included on pages 22 and 24 respectively.

Conclusion

Our work remains subject to internal quality review however based on the work we have completed, we have identified two misstatements. Neither of these is material.

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GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

The financial statements have been prepared using the going concern basis.

The medium-term financial strategy (MTFS) is used as the basis for the going concern assessment.

Review of the February 2022 MTFS forecast, confirms that that Council was forecast to break even at the end of 2021/22, and that the budget gap across the extended period of the MTFS (to 2025/26) is £1.2m, an improvement over the equivalent gap in the previous year's MTFS cycle (£1.6m).

The forecast budget gap does not present a going concern risk. The Council has healthy general reserves as at 31 March 2021 which would enable it to cover forecast deficits in the medium term. The Council also has a record of underspends against budget.

Material uncertainty

No material uncertainty with respect to going concern has been noted. We have considered management's assessment and consider the conclusion reached by management appropriate.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

While officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures to date did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report.

Laws and regulations

The most significant considerations for your organisation are the:

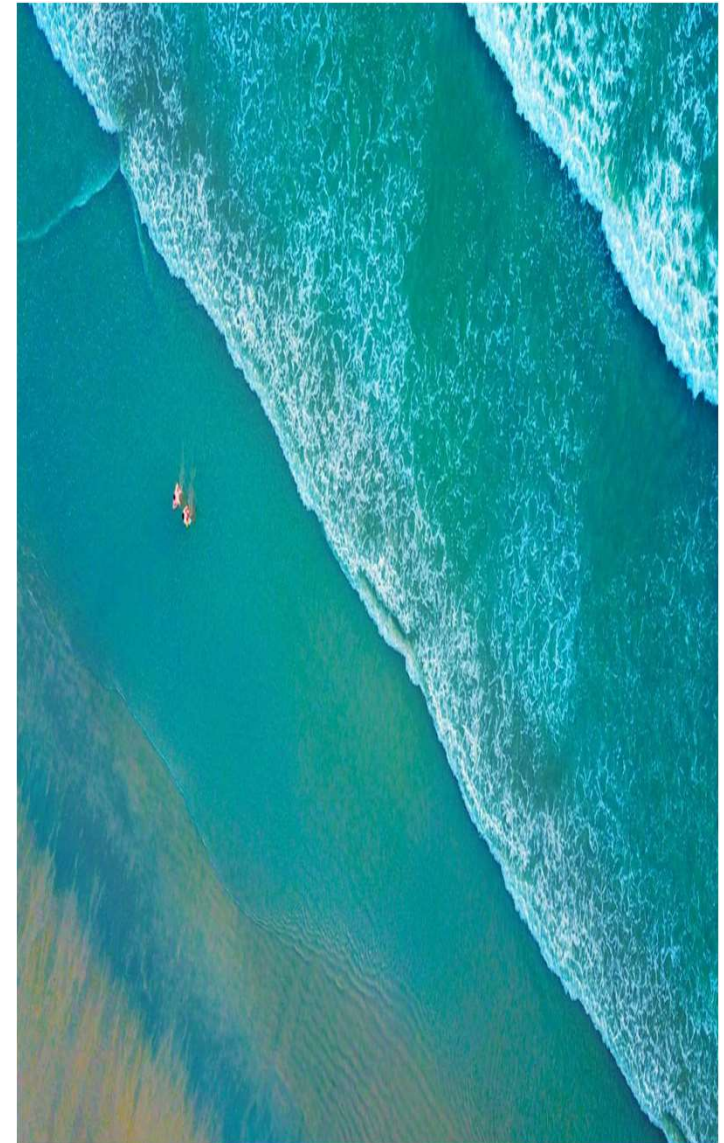
- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify, any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

While you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

From the work undertaken to date, we did not identify any significant matters in connection with related parties.



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UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Committee is required to consider.

Based on the work we have completed to date, we have no matters to bring to your attention.



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ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



On the following page we have highlighted one adjustments to the draft financial statements.

The net pension liability was reduced by £977k on receipt of a revised actuarial report, with a corresponding increase in unusable reserves. The accounts have been adjusted for this.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Adjustment 1: IAS 19 report					
The original pension disclosures were based on the report that was available at the time that the draft accounts were published. A revised report was subsequently received by the Council in September 2022. This had the effect of decreasing the net pension fund liability by £977k, with a corresponding increase in unusable reserves. This has the knock-on impact of changing the re-measurement of the Pension Scheme, Net Defined benefit liability movement from a debit of £527k to a credit of £450k, with a corresponding increase to total comprehensive income.					
This adjustment was identified by management and is based on more up-to-date information received from the scheme actuary in respect of the share of assets held by the Council. The underlying actuarial assumptions have not changed.					
DR Net Defined Pension Liability				977	
CR Unusable Reserves					(977)

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

There are three unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services for the year of £8.938m by £0.284m and would increase net assets of £119.715m by £0.284m.

There were no brought forward unadjusted errors that would have an impact on 2020/21 positions.

The general fund balance would increase by £0.284m if these audit differences were adjusted.

You consider the remaining differences to be immaterial in the context of the financial statements as a whole.

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Adjustment 1: Non-specific grant income	0				
<p>The authority has classified a grant relating to test and trace payments to Taxation and Non-Specific Grant Income. However, the underlying nature of the grant suggests that the grant is specific, and should therefore be included in cost of services. The value of this grant is £46k. If extrapolated over the remaining untested balance of non-specific grant income, a further £8k would need to be adjusted.</p>					
DR Non-specific grant income					
- Factual		46			
- Projected		8			
CR Cost of services			(46)		
- Factual			(8)		
- Projected					

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Adjustment 2: Property, Plant and Equipment. Asset held under fair value.	0				
For two of our sample items, due to the incorrect application of inputs and assumptions, Property, Plant and Equipment held under fair value were misstated by a net value of £151k, which extrapolates to £219k in total when extrapolated across the remainder of the population.					
This has the effect of overstating Property, Plant and Equipment and overstating the revaluation reserve by the same amount.					
DR Revaluation Reserve					
- Factual				151	
- Projected				68	
CR Property, Plant and Equipment					(151)
- Factual					(68)
- Projected					

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Adjustment 3: Expenditure cut-off testing	(284)				
As part of our testing over expenditure cut-off, we sample tested bank payments made in March 2021. Of these, we noted that in three instances there were invoices which spanned both the 2020/21 and the 2021/22 years, but the entire expense had been recognised in 2020/21.					
While the total value of these payments was £2k and therefore trivial, we are required to extrapolate the error over a comparable population. We project this value to be £282k.					
Management have noted that all three transactions are recurrent in nature (relating to monthly or annual bills and subscriptions) and that the year-on-year impact is therefore likely to be limited.					
DR Short Term Debtors (Payments In Advance)					
- Factual				2	
- Projected				282	
CR Expenditure			(2)		
- Factual			(282)		
- Projected					

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following are the most significant adjusted disclosure matters that were noted:

Note 10. Officers' Remuneration & Exit Packages

The following corrections were made:

In the Officers remunerated over £50k table, the £50,000 to £54,999 band should read 11 and the £55,000 to £59,999 should read 4. Previously the figures stated were 12 and 3 respectively. This change was as a result of a benefit that had been excluded from the initial table.

A similar error was noted in the 'Senior Officers 2020/21' disclosure for the Head of Operations. This resulted in a change in Benefits in kind from £5,654 to £6,167, and a corresponding change in the total remuneration and the total column.

In the section titled "Interim Staff occupying Senior Officer Roles in 2020/21" has been corrected to £188,542 (previously £170,717)

A number of presentational or typographical changes were identified by the auditor and agreed with management, which are not material for separate itemisation within this report.

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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Based on the work we have completed, we have no matters to bring to your attention.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements, and our knowledge of the Council.

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WHOLE OF GOVERNMENT ACCOUNTS

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The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The NAO issued Group Audit Instructions (GAI) and the Assurance Statement in respect of the 2020-21 WGA process in July 2022.

In a change to the process for 2020-21, HM Treasury have elected to raise the threshold for local government to £2bn, aligning it with the central government threshold. As such, the Council falls below the threshold for review.

While all entities above the minor bodies threshold will continue to have to complete and submit a WGA return, only those above the threshold as set by HM Treasury will be required to have their return subject to audit.



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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Risk of Significant Weakness

We have not identified any risks of significant weakness.

We have not yet completed our work on the Council’s value for money arrangements. The results of this work will be reported in our Auditor’s Annual Report. We expect to publish our report no later than three months following the date of our audit opinion. To comply with requirements of the Code of Audit Practice 2020/21 we have reported to you that this work has not been completed.

OTHER DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. We have not identified any significant deficiencies, but include other observations below. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Lease Agreement	As part of our testing of Operating Leases - Council as Lessor (future payments), one sample was found to be lacking a formal lease agreement. While the Council were able to provide evidence demonstrating that a lease existed <i>de facto</i> , there is a risk that where lease agreements are not signed that the Council is potentially exposed to disputes over the value and duration of the lease.	Ensure all leases have appropriate lease agreements in place.	
Greenfields Asset	As part of our testing of the completeness of Property, Plant and Equipment, we noted one sampled item that was not on the Fixed Asset Register. It is a piece of land registered to the council however was utilised by Greenfields as the site should have been transferred in 2007, Greenfields who have ownership rights by default for maintaining the land and occupying the land. Therefore this is considered reasonable for the asset not be under council ownership.	It is recommended the council transact the change in ownership.	

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Opinion on financial statements

Nothing has come to our attention from work completed to date that would result in modification of the audit opinion however our work does remain subject to internal control review.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion on use of resources

We have no significant weaknesses to report at this stage.

We have no matters to report at this stage in relation to the Council's value for money arrangements.

We have not yet completed our work on value for money arrangements. We will report a commentary on value for money arrangements in our Auditor's Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will contain an explanation as to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Other information

We have not identified any material inconsistencies that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information, we are aware of.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report, although note that since then the manager (Shahbaz Khan) has changed to Sebastian Evans. Sebastian's has been involved in the audit for 1 year.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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FEES

Fees summary

	2020/21	2019/20
Core audit fee ¹	£46,012	£46,012
Additional Audit fee: Other matters ²	£14,500	£29,000
Additional audit fee: new use of resources ⁴ approach ³	£9,000	-
Total audit fees	£69,512	£75,012
Certification of housing benefits subsidy claim	£TBC	£13,600
Total non-audit services fees	£TBC	£13,600
Total fees	£TBC	£88,612

¹ The planned Code fee is the PSAA-published scale fee.

² This represents an estimate of the additional resource time and costs required to test the changes in audit scope linked to current audit requirements for property assets and pensions liabilities. We will discuss these costs with management, before submitting a proposal to increase the fee to PSAA Limited. The 2019/20 additional audit fee includes legal advice in connection with our value for money enquiries that year; this did not recur in 2020/21.

³ The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped. PSAA is implementing changes to fee variation arrangements from 2020/21, including the introduction of national variations where changes to audit requirements apply to most audited bodies. This is expected to be between 10 - 20% of the scale fee. The proposed variations will be subject to PSAA's approval.



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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

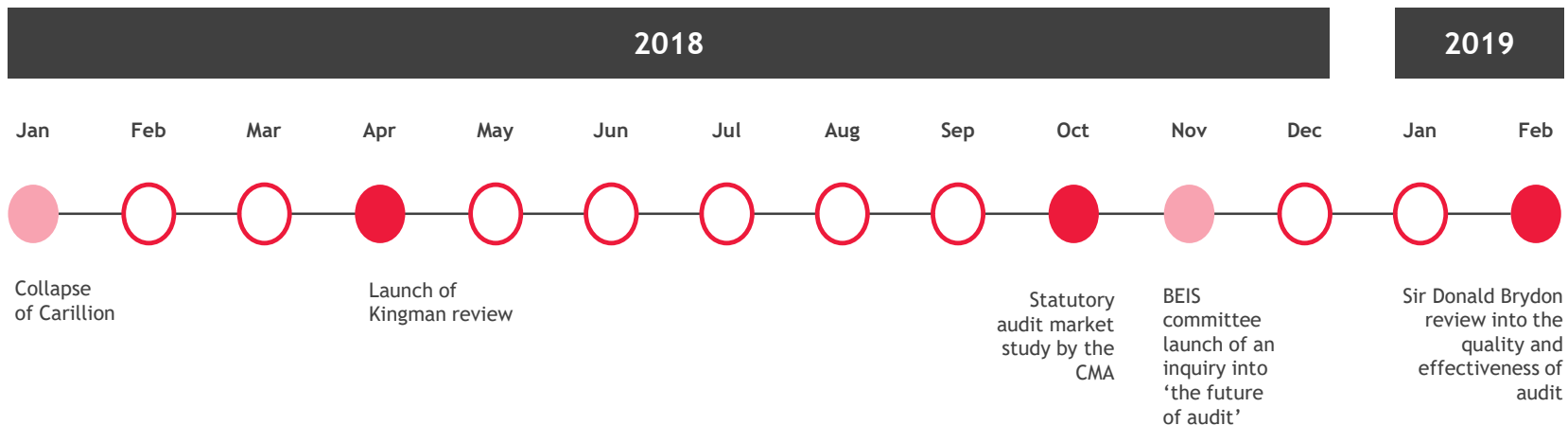
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the [consultation](#) directly.

Although the consultation only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and single-entity financial statements. We report our opinion on the financial statements to those charged with governance for the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report by exception any significant weaknesses identified by our work on the Council’s value for money arrangements and a summary of associated recommendations made.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	Ongoing issues within the audit sector has meant the audit has been challenging to deliver. We have provided further details on page 38.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	Based on the work we have completed to date, we have no matters to bring to your attention.
4	Any suspected non-compliance with laws or regulations.	Based on the work we have completed to date, we have no matters to bring to your attention.
5	Significant matters in connection with related parties.	Based on the work we have completed to date, we have no matters to bring to your attention.



COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Governance and Audit Scrutiny Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have liaised with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	October 2021	Governance and Audit Scrutiny Committee
Audit Progress Report	November 2022	Governance and Audit Scrutiny Committee
Audit Completion Report	January 2023 (this report)	Governance and Audit Scrutiny Committee
Auditor's Annual Report	We expect to publish our report no later than three months following the date of our audit opinion.	Governance and Audit Scrutiny Committee

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Audit Sector developments

The sector has seen a number of pressures arising since the faster close agenda brought the reporting deadline forward for the 31 March 2019 period to 31 July 2019. Only 60% of local government bodies were able to publish audited accounts by this deadline. By exception, there remain a number of 2018/19 audits outstanding to date.

The 31 March 2020 publication deadline, initially pushed back to end September 2020 from July 2020, was then further extended to 30 November 2020. However, only 45% of local government bodies were able to publish audited accounts by this extended deadline, with even traditionally better performing authorities close to or at the deadline date.

Recruitment and retention of staff with suitable public sector experience has become increasingly challenging on a national level. Added to this the increased scope of audit work, increased complexity in public sector accounts and extensive regulatory requirements have continued to add to this pressure sector wide. It has been widely recognised that the audit sector, and public sector audit specifically, requires reform to enable it to remain sustainable. The Redmond review specifically focuses on recommendations to help achieve this in the longer term.

Alongside these already present pressures, a global pandemic manifested additional impacts and pressure. New challenges of remote working, onboarding and training new staff remotely, communication, IT support and illness within the team directly impacting efficiency and delivery.

The 31 March 2021 publication deadline was set at end September 2021. Audit firms and audit regulation bodies did feedback that this was not realistically achievable. Only 9% of 2021 audits were completed by 30 September 2021, with 20% by 30 November 2021 and 40% by 31 December 2021.

OUTSTANDING MATTERS

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We are in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2021.

As noted on the pages 8 - 15 our work against the significant risks we identified at the planning stage of our audit is substantially complete. However, the following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Committee at which this report is considered:

- Completion of whole of governments accounts review
- Finalisation of the following areas of testing
 - NNDR appeals provision
 - Allocation of expenditure recharges and overheads
 - Income completeness and cut-off testing
 - Receipt of Council's updated IFRS15 assessment
 - Bad debt provision
- Finalisation of the following areas of sample testing
 - Expenditure not tested elsewhere
 - PPE and investment properties inputs testing
- Completion and extension of subsequent events testing
- Completion of internal quality control reviews
- Completion of Value for Money work
- Addressing the impact of the Infrastructure Assets matter for 2020/21
- Final review of accounts

Following the conclusion of our work we will update this report, highlighting any further matters arising from the completion of that work.



LETTER OF REPRESENTATION

[BDC Letter headed paper]

BDO LLP
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

Dear Sirs

Financial statements of Braintree District Council for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Head of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in the Accounting Principles and Policies to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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LETTER OF REPRESENTATION 2

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 31 to the financial statements, there were no loans, transactions or arrangements between the Council's senior management or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the Council's financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

We confirm that the actuarial assumptions underlying the valuation of the Pension Fund liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of Land and Buildings

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

LETTER OF REPRESENTATION 3

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Justin Wrench
Chair of Governance and Audit Scrutiny Committee

[date]

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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e : aphrodite.lefevre@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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Report Title: To receive a suite of the Council's Key Financial Indicators as at 30 th November 2022	
Report to: Governance and Audit Scrutiny Committee	
Date: 12 th January 2023	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Phil Myers, Head of Finance	
Enquiries to: Phil Myers, Head of Finance (phil.myers@braintree.gov.uk)	

1. Purpose of the Report

- 1.1 To receive a suite of the key financial indicators of the Council on performance in the current financial year up to 30th November 2022. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

2. Recommendations

- 2.1 Members are asked to note the report of the Key Financial Indicators as at 30th November 2022.

3. Summary of Issues

- 3.1 The attached schedule (Appendix A) provides details of performance recorded for the financial year to 30th November 2022.

3.2 Commentary:

- 3.2.1 The General Fund revenue budget for the year is £16.2m. Net expenditure was £10.0m at the end of November which is £196k above profile.

- 3.2.2 The total budget for Salaries for the whole year is £20.8m. Expenditure on salaries to the end of November was £13.9m, which is over profile by £129k. The budget for the year includes an Efficiency Factor of £300k to be achieved for the year of which £200k has been reflected in the profiled budget. This position includes the recently agreed staff pay award of £1,925 flat rate payment on all scale points backdated to April 2022.

- 3.2.3 The budget for commercial rents for the year is £3.0m, and the amount invoiced to the end of November was £2.3m, which represented a shortfall against profiled budget of £91k. The number of units available for let (excluding Victoria Square and the Plaza developments) was 221, with occupation falling slightly to 199 or 90%. One vacant unit has been granted planning permission for its demolition and repurposing of the site in the new financial year. Asset Management and appointed agents continue to actively

market the remaining vacant units and, where, appropriate, Heads of Terms have been issued. There has been some movement across lettable units with existing tenants relocating to the Plaza and vice versa. For the lettable space in Causeway House, action is being taken to help mitigate a reduction in service charge income now the area is vacant, and plans have been agreed to relocate staff from Unit 4 to Causeway House saving on the rent and service charges payable by the Council.

- 3.2.4 Other Controllable Income budgets for the year total £42.8m, with £26.6m profiled to be achieved at the end of November. Actual income was £27.2m, with an overachievement against profile of £586k. The main service areas contributing to this position were waste management (recycling material), building control, licensing, and treasury management, partially offset by less income from car parking and planning applications. Controllable Expenditure budgets total £41.3m for the year, with a profiled budget at the end of November of £25.0m. At the end of November there was a reported variance of £562k. Spending has been higher than profiled budget particularly across operational service areas that have been impacted by higher fuel and other inflationary costs. Additional costs have also been incurred at the Horizon 120 business park and I-Construct Innovation Centre.
- 3.2.5 The second quarter's review of the financial position and projected outturn for the year was reported to Cabinet at its meeting held on 6th December 2022. This showed an overall projected positive variance of £126k after allowing for the pay award implemented from April 2022 and taking account of the recovery plans that were developed by senior managers following the first quarter review of the budgetary position. The projected improvement in the budgetary position is mainly due to additional income expected to be received over the second half of the year.
- 3.2.6 The expected level of spend on the capital programme for the year has been updated since the last report, with expenditure reprofiled into next year. The revised profiled spend for the current year is £11.1m, which includes estimated expenditure on: The Plaza Enterprise Centre at Horizon 120 of £4.0m; Manor Street development of £0.7m; town centre improvements of £0.4m; planned maintenance programme of £0.5m; ICT investment of £0.4m; play area refurbishments of £0.3m; and £0.3m for resurfacing of the artificial grass pitch at Braintree Sports & Health Club. Actual expenditure incurred to the end of November is £6.0m.
- 3.2.7 Capital receipts totalling £5.7m is anticipated for the year, which include: right-to-buy sales and VAT shelter savings from agreements with Eastlight Community Housing; the sale of serviced land plots at Horizon 120; and the sale of land assets which had been identified for potential residential development. The actual value and timing of receipts can vary as they are subject to interest from prospective buyers; commercial arrangements; and, in some cases, contracts are exchanged subject to receipt of satisfactory planning consents. The amount of capital receipts achieved to the end of November is £5.9m.

- 3.2.8 The total Council Tax collectable debit for the year is £109m. The collection rate as at the end of November was 75.4% (£82.3m collected), which compares to a rate of 75.7% for the same period last year. Whilst collection is down against last year, performance continues to benchmark favourably with that achieved by other Essex authorities.
- 3.2.9 The total Business Rates collectable debit for the year is £43.2m. The collection rate as at the end of November was 74.8% (£32.3m collected), which compares to a rate of 71.8% for the same period last year.
- 3.2.10 A total of 650 write-offs of Council Tax, with a value of £247k have been authorised in the year to date: 126 in respect of the current year and 524 in respect of previous financial years. A contributory factor in the increase in write-offs is the application of Individual Voluntary Arrangements (IVAs), the use of which has grown over the last few years and where initially the debt is written off and then collected via pre-agreed payment arrangements. Whilst an IVA is in place the Council is prevented from taking any further recovery action. If the debtor later defaults on an IVA, the outstanding debt is restated, and appropriate recovery action instigated by the Council.
- 3.2.11 A total of 33 write-offs of Business Rates, with a net value of £59k, have been authorised in the year to date: 12 in respect of the current year and 21 in respect of previous financial years.
- 3.2.12 The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and Business Rates, is £2.8m, of which £1.5m is in respect of Housing Benefit overpayments. Payment plans are agreed and range from payment within 14 days, payments by instalments throughout the year, and plans determined under Regulations (prescribed maximum amount that can be received from a debtor's benefit award).
- 3.2.13 The proportion of supplier payments made within 30 days is 97.8% The target is 97%.
- 3.2.14 Up to the end of November, the average amount held as short-term investments was £47.5m on which £458k of interest has been secured, equivalent to an annualised return of 1.4%.
- 3.2.15 The amount invested in pooled funds comprising equity, property, and multi-assets, has been held at £19m. Dividend income is paid quarterly, and the amount received up to the end of November was £520k, equivalent to an annualised return of 4%. The total value of the Council's fund holdings at the end of November was £20.9m, which represented an unrealised gain of £1.9m.
- 3.2.16 Detail of the Council's investments of surplus monies, totalling £61.9m, as at 30th November, is provided at Appendix B.

4. Options

- 4.1 To receive and ask questions as appropriate on the Key Financial Indicators contained in this report.

5. Financial Implications

5.1 There are no new financial implications arising from the recommendations set out in this report.

6. Legal Implications

6.1 There are no specific legal implications arising out of this report.

7. Other Implications

7.1 There are no other implications arising out of this report.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The content of this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix A – Key Financial Indicators (including Revenue, Capital, and Taxation collection) for the period 1st April 2022 to 30th November 2022.

Appendix B – Treasury Management – Details of the Council's investments for the period 1st April 2022 to 30th November 2022.

10. Background Papers

None.

Key Financial Indicators at 30th November 2022
APPENDIX A

	Full Year Budget 2022/23	Actual 30 Nov 2022	Profile to 30 Nov 2022	Variance from Profile	
	£'000	£'000	£'000	£'000	%
General Fund - Expenditure					
Salaries	20,800	13,944	13,815	129	0.9%
Other Controllable Expenditure	41,302	25,578	25,016	562	2.2%
General Fund - Income					
Commercial & Industrial Property - Rental Income	-3,010	-2,333	-2,424	91	-3.8%
Other Controllable Income	-42,851	-27,157	-26,571	-586	2.2%
General Fund - Net Revenue (Controllable)	16,241	10,032	9,836	196	2.0%
Capital Programme					
Capital Expenditure	11,133	6,021			
Capital Receipts	-5,730	-5,860			

	Full Year Target	Actual 30 Nov 2022	Actual 30 Nov 2021	Variance
Council Tax collection in year - %	97.4%	75.4%	75.7%	-0.3%
Council Tax collection - income collected for year - £m	£109.1	£82.3	£77.5	£4.8
Write-offs in year - £'000		£30	£18	£12
Write-offs in year - number		126	142	-16
Write-offs all years £'000		£247	£88	£159
Write-offs all years - number		650	584	66
Business Rates collection in year - %	98.7%	74.8%	71.8%	3.0%
Business Rates collected for year - £m	£43.2	£32.3	£27.3	£5.0
Write-offs in year - £'000		£12	£1	£11
Write-offs in year - number		12	6	6
Write-offs all years - £'000		£59	£17	£42
Write-offs all years - number		33	26	7
Creditors - payment of invoices within 30 days of receipt	97.0%	97.8%	96.3%	1.4%

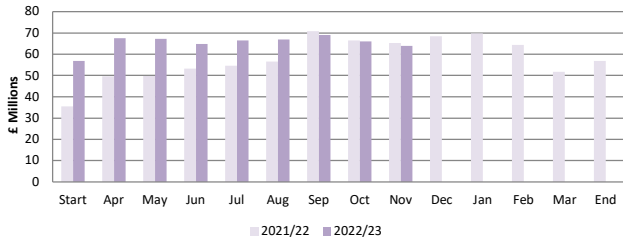
Debtors - Balance Outstanding	31-Mar-20	31-Mar-21	31-Mar-22	30-Nov-22
	£'000	£'000	£'000	£'000
Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc.	12	109	3	30
Charges for services provided by: ICT, Marketing, Offices, Elections, etc	60	71	80	36
Development & Environment	375	512	570	343
Finance	92	102	82	106
Community & Leisure (incl. joint-use recharges)	212	92	103	502
Operations	1,076	1,312	1,155	214
Housing	65	43	73	77
Sub-Total - excluding Hsg. Benefits	1,892	2,241	2,066	1,308
Housing Benefits	1,673	1,613	1,541	1,502
Total	3,565	3,854	3,607	2,810
Profile by Recovery Stage:				
Invoice	1,914	2,088	2,016	1,097
Reminder	648	791	674	716
Pre-legal	104	145	86	174
Enforcement Agent	328	184	202	239
Tracing Agent	3	2	-	24
Charging Order	30	22	22	20
Attachment to Benefits/Earnings	538	622	607	540
Total	3,565	3,854	3,607	2,810
Write offs (debits and credits) in year - value - £000	£7.7	£0.6	£90.3	£7.4
Write-offs in year - number	114	141	226	123

Progress on achieving Efficiency Savings Targets

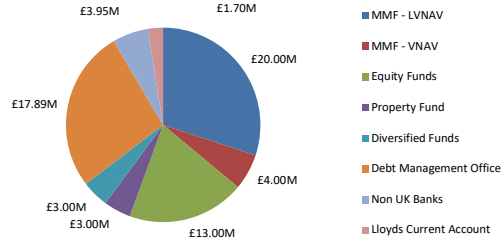
The amount of the Efficiency Savings target included in the budget for 2022/23 is a net amount of £300,000. The overspend on salaries of £129,000, recorded above, is after offsetting £200,000 of the target.

APPENDIX B - Treasury Management Monitor - 30 November 2022

Average Cash Balances Managed



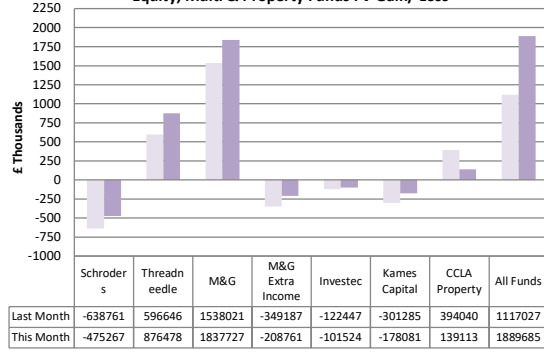
Average Invested to end of Period



Investment Activity

	This Month		Cumulative	
	Made (£m)	Sold (£m)	Made (£m)	Sold (£m)
External Investments				
Property Fund	0.0	0.0	0.0	0.0
Equity Funds	0.0	0.0	0.0	0.0
Multi Funds	0.0	0.0	0.0	0.0
MMF - LVNAV	0.0	0.0	0.0	0.0
MMF - VNAV	0.0	0.0	0.0	0.0
Sub-Total	0.0	0.0	0.0	0.0
Deposits - Fixed				
UK Bank & Building Soc.	0.0	0.0	0.0	0.0
Non-UK Banks	0.0	0.0	6.0	0.0
Debt Mgt Office	11.0	-10.0	119.5	-121.5
Local Authorities	0.0	0.0	0.0	0.0
Sub-Total	11.0	-10.0	125.5	-121.5
Lloyds Bank PLC	0.9	0.0	1.2	0.0
Sub-Total	0.9	0.0	1.2	0.0
Total	11.9	-10.0	126.7	-121.5

Equity, Multi & Property Funds FV Gain/ Loss



Commentary

Average sum invested in the month £63.96m (Last year £65.3m)
 Average sum invested for the year to date £66.54m (Last year £58.31m)
 Actual sum invested at the end of the period £61.94m (Last year £63.94m)
 Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £457572 a return of 1.44% [Annual Updated Budget £23k]
 Note: 3mth Libid 2.23% 6mth LIBID 2.68%
 Dividends earned (declared) on equity, property and diversified funds to the end of the period £520k [Annual Budget £786k]
 Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £1890k a change of £773k from last month

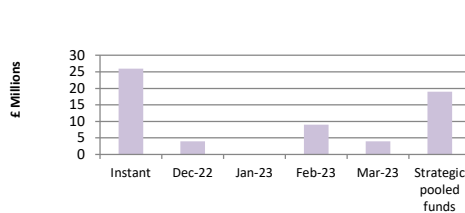
INVESTMENT HOLDINGS AT END OF PERIOD

COUNTERPARTY	Type	Principal	Start	Maturity	Yield
LANDESBANK HESSEN-THURINGEN (HELABA)	FIXED	3000000	15/09/2022	01/03/2023	3.30%
AUSTRALIA & NZ BANKING GROUP	FIXED	3000000	08/11/2022	15/02/2023	3.50%
DEBT MANAGEMENT OFFICE	FIXED	1000000	01/11/2022	19/12/2022	2.58%
DEBT MANAGEMENT OFFICE	FIXED	1000000	01/11/2022	20/12/2022	2.59%
DEBT MANAGEMENT OFFICE	FIXED	2000000	01/11/2022	21/12/2022	2.60%
DEBT MANAGEMENT OFFICE	FIXED	6000000	03/11/2022	01/02/2023	2.82%
DEBT MANAGEMENT OFFICE	FIXED	1000000	16/11/2022	01/03/2023	3.06%
LLOYDS BANK	CALL A/C	1935000	30/11/2022	01/12/2022	2.90%
DEUTSCHE	MMF	0			2.91%
GOLDMAN SACHS	MMF	5000000	30/11/2022	01/12/2022	2.91%
CCLA PUBLIC DEPOSIT	MMF	5000000	30/11/2022	01/12/2022	2.89%
FEDERATED PRIME	MMF	5000000	30/11/2022	01/12/2022	2.91%
ABERDEEN STANDARD	MMF	5000000	30/11/2022	01/12/2022	3.03%

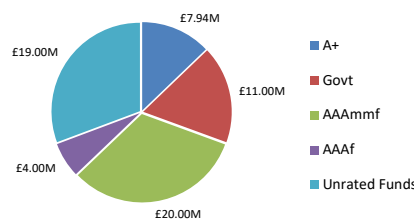
EXTERNAL FUND INVESTMENTS

Investment	Type	Principal	Yield
SHRODERS INCOME MAX.	EQUITY	2500000	Variable
THREADNEEDLE UK EQUITY	EQUITY	5000000	Variable
M&G GLOBAL DIVIDEND	EQUITY	2500000	Variable
M&G EXTRA INCOME	EQUITY	3000000	Variable
AEGON	MULTI	2000000	Variable
NINETY ONE	MULTI	1000000	Variable
CCLA - LAMIT PROPERTY	PROPERTY	3000000	Variable
ROYAL LONDON CASH PLUS	MMF-VNAV	4000000	Variable

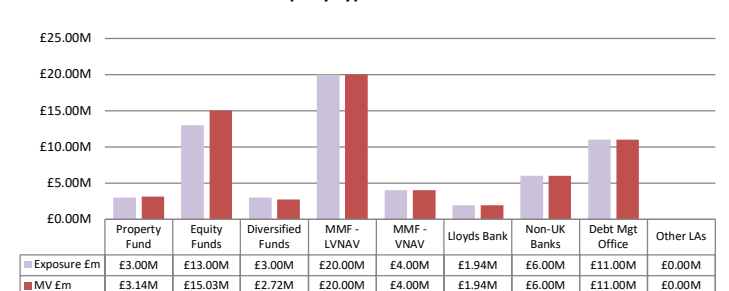
Maturity Profile at end of Period



Credit Rating of Investment Holdings



Counterparty Type at end of Period



Report Title: Draft Treasury Management Strategy for 2023/24	
Report to: Governance and Audit Scrutiny Committee	
Date: 12 th January 2023	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Mark Jarvis, Financial Services Manager	
Enquiries to: Mark Jarvis, Financial Services Manager - Mark.jarvis@braintree.gov.uk	

1. Purpose of the Report

- 1.1 The Council has adopted the Code of Practice for Treasury Management in Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the Council to approve a Treasury Management Strategy before the start of each financial year. A draft strategy is attached to this report for the 2023/24 financial year. The Strategy will be included as part of the Budget report to be considered by Full Council on 21st February 2023.
- 1.2 The Council's Constitution requires that prior to consideration by Full Council, the draft Treasury Management Strategy is reviewed and scrutinised by the Governance and Audit Scrutiny Committee.

2. Recommendations

- 2.1 To consider the draft Treasury Management Strategy for 2023/24 and recommend its submission to Full Council.
- 2.2 To consider if the Committee wishes to propose any amendments to the strategy or provide any comments or observations which the Cabinet Member for Finance and Corporate Transformation can take into account when presenting the final Treasury Management Strategy to Full Council.

3. Summary of Issues

- 3.1 The draft Treasury Management Strategy for 2023/24 is attached to this report as an **Appendix**.
- 3.2 Figures provided in the Strategy at this stage are provisional and will be updated to reflect the Cabinet's final budget recommendations to Full Council. It not expected that any changes will significantly alter the Strategy as currently drafted.

4. Options

- 4.1 To consider the draft Treasury Management Strategy for 2023/24, and if considered appropriate, suggest any changes; or provide comments and observations for the Cabinet Member for Finance and Corporate Transformation to consider when presenting the report to Full Council.

5. Financial Implications

- 5.1 The estimated financial implications of the treasury management activities are set out in the tables and indicators contained in the draft Strategy. These show an anticipated increase in prudential borrowing based on the Council's current capital investment plans.
- 5.2 The Council's proposed budget for investment income in 2023/24 is £1.3m.
- 5.3 Interest payable on current borrowing is £143k per annum and £70k in relation to the premium repayment in respect of the refinanced debt. With an increase in prudential borrowing anticipated in 2023/24, interest costs are forecast to rise by up to a further £405k on a full-year basis; however, the actual increase in cost in 2023/24 will be subject to the timing of any new borrowing and the actual rate of interest incurred at the time. The business cases for the projects for which the additional borrowing is expected, include anticipated income through lease arrangements and other income generating activities to meet these additional financing costs.

6. Legal Implications

- 6.1 The Treasury Management Strategy fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the guidance issued by CIPFA and any other statutory guidance issued by government.

7. Other Implications

- 7.1 There are no other implications arising from this report.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual

orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 This report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Draft Treasury Management Strategy 2023/24

10. Background Papers

None

1. INTRODUCTION

- 1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has substantial investments and legacy borrowing, with plans to increase the latter in future, meaning it is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code).

2. TREASURY MANAGEMENT POLICY & PRACTICES

- 2.1 The following treasury management policy is adopted by the Council:
- 2.2 Treasury management activities are defined as the management of investments and cash flows, banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 2.3 The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
- 2.4 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 2.5 The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules – see **Appendix A** for a list of TMPs that are currently maintained.

3. EXTERNAL CONTEXT

- 3.1 Treasury management activities take place within an economic and market backdrop, including changes in credit outlook. **Appendix B** provides an Economic and Interest Rate Forecast by Arlingclose as at 5th December 2022, which has been used for the purposes of formulating this strategy. Inevitably, events and circumstances will change and as such the Council's treasury management activities will respond accordingly.

4. LOCAL CONTEXT

- 4.1 The following table shows the actual and forecast amounts of borrowing and investments for the Council over the medium-term.

Table 1 Balance Sheet Analysis

	31.3.22 Actual £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital Financing Requirement (CFR)	25.94	28.66	27.86	27.22	26.63	26.04
Less: Leasing liabilities	-3.14	-3.14	-3.14	-3.14	-3.14	-3.14
Loan CFR	22.80	25.52	24.72	24.08	23.49	22.90
Less: External borrowing	-6.00	-5.80	-7.90	-10.00	-12.10	-14.20
Internal Borrowing	16.80	19.72	16.82	14.08	11.39	8.70
Less: Usable reserves	-36.39	-33.30	-22.44	-20.29	-20.17	-18.51
Less: Working capital	-36.37	-21.41	-15.78	-13.80	-12.64	-11.38
Investments	55.96	35.00	21.39	20.01	21.41	21.19

- 4.2 The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes – actual borrowing may differ. Usable reserves (capital and revenue) and working capital represent underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 4.3 In recent years the CFR has increased due to an anticipated increase in borrowing as part of the agreed financing for several strategic capital projects. This increased borrowing requirement is currently being met through internal borrowing, which has the effect of reducing investment balances. During 2023/24, external borrowing starts to increase as part of the long-term financing proposals for the Manor Street regeneration and The Plaza. The decision as to whether to commit to this additional borrowing will be kept under review

considering prevailing forecasts of cash balances and interest rates. The CFR reduces in later years reflecting the financing of the Horizon 120 Business Park expenditure which is primarily being achieved through sale of serviced land plots. The table above demonstrates that total debt is expected to be lower than the highest forecast CFR, a key requirement of the CIPFA Prudential Code.

- 4.4 **The Liability Benchmark** is a measure of borrowing need based on an alternative strategy which aims to show the lowest risk level of borrowing. This assumes the same forecasts as in Table 1 above, but that all cash and investment balances are kept to a minimum level of £10m, at each year-end to maintain sufficient liquidity and minimise credit risk. This would also maintain investments at a level that ensures the Council retains its 'professional status' for investment activities.

Table 2 Liability Benchmark

	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loan CFR	25.52	24.72	24.08	23.49
Less: Usable reserves	-33.30	-22.44	-20.29	-20.17
Less: Working capital	-21.41	-15.78	-13.80	-12.64
Plus: minimum investments	10.00	10.00	10.00	10.00
Liability Benchmark	-19.20	-3.49	-0.01	0.69

- 4.5 Under this alternative strategy the borrowing requirement is minimised such that no new external borrowing would be required over the medium-term. However, this strategy would have an overall negative impact on the General Fund revenue account as it would require the Council to divest from its holdings in long-term pooled funds. However, such considerations would be in line with the recently revised CIPFA Prudential Code, which advises authorities to consider the position on any long-term investments prior to undertaking new borrowing.

5. BORROWING STRATEGY

- 5.1 The Council currently holds £5.8m of loans, which were refinanced in 2022. The balance sheet forecast in Table 1 shows that borrowing is expected to increase from 2023/24. Additional borrowing may be incurred to pre-fund future years' requirements, providing this does not exceed the Council's own authorised limit for borrowing.
- 5.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

- 5.3 **Strategy:** The borrowing strategy is to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, net borrowing costs (after allowing for foregone investment income) can be reduced alongside a reduction in overall treasury risk. The benefits of this approach will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist in calculating the 'cost of carry' and breakeven analysis.
- 5.4 The Council will consider long-term loans from a variety of potential sources, including Public Works Loan Board (PWLB), the capital markets, and local authorities. The Council acknowledges that PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, which will be a key consideration on future capital investment projects.
- 5.5 As part of any borrowing activity, forward starting loans might be used, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 5.6 In addition, short-term loans may be used to cover unplanned cash flow shortages.
- 5.7 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
- 5.8 Other specialist lenders of finance may be considered, e.g. the Municipal Bonds Agency Plc; however, in these circumstances any proposal would be included within the business case that would require separate Council approval.
- 5.9 As a condition of accessing the PWLB, the Council will be required to confirm there is no intention to buy investment assets primarily for yield in its medium-term capital plans.
- 5.10 **Other sources of debt finance:** In addition, capital finance may be raised by leasing or other similar arrangements that are not borrowing but may be classed as other debt liabilities.
- 5.11 **Short-term and variable rate loans:** These loans result in exposure to the risk of short-term interest rate rises and are therefore subject to an appropriate level

of interest rate exposure in any future portfolio determination. Financial derivatives may be used to manage this interest rate risk (see section below).

6. TREASURY INVESTMENT STRATEGY

- 6.1 Significant investments are maintained representing income received in advance of expenditure plus balances and reserves held. Table 3 shows the average investment balances projected over the medium-term:

Table 3 Average Investment Balances

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Pooled Funds (long-term)	19.00	19.00	19.00	19.00	19.00	19.00
Short-term investments	41.07	37.02	16.70	9.20	6.71	7.30
Total Average Investment balance	60.07	56.02	35.70	28.20	25.71	26.30

- 6.2 Cash balances since 2020 have been affected by the passporting of significant funds through local authorities by government to support businesses and individuals. Average cash balances are higher than the underlying amounts expected at year-end from holding balances and reserves due to normal in-year cashflow benefits.
- 6.3 **Objectives:** The CIPFA Code requires treasury funds to be invested prudently, having regard to security and liquidity before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim will be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing
- 6.4 **Strategy:** Given the increasing risk in the economic outlook, the Council will continue to diversify into more secure asset classes. This scope for increasing this diversification will be kept under review.
- 6.5 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

- 6.6 **Approved counterparties:** Surplus funds may be invested with any of the counterparty types in Table 4 below, subject to the limits shown.

Table 4 Approved Investment Counterparties

Sector	Time limit	Counterparty limit	Sector limit
UK Government	50 years	Unlimited	n/a
Local authorities (UK)	5 years	£5m	Unlimited
Secured investments*	5 years	£5m	(a) Unlimited (UK) (b) Foreign £5m per country – max all £10m
Banks (unsecured)*	13 months	£3m	(a) Unlimited (UK) (b) Foreign £3m per country – max all £6m
Building societies (unsecured)	13 months	£3m	£5m
Registered providers (unsecured)*	5 years	£3m	£5m
Money market funds*	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£3m	£6m

- 6.7 **Minimum credit rating*:** Treasury investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.
- 6.8 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.
- 6.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- 6.10 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 6.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated and as providers of public services, they retain the likelihood of receiving government support if needed.
- 6.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, care is taken to diversify investments over a variety of providers to ensure access always to cash.
- 6.13 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the investment objectives will be monitored regularly.
- 6.14 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 6.15 **Operational bank accounts:** The Council has financial exposure, for example through current accounts, collection accounts and merchant acquiring services. These are not classed as investments but are still subject to the risk of a bank bail-in, and therefore balances are maintained at a minimum level commensurate with operational requirements.
- 6.16 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 6.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn at short notice will be made with that organisation until the outcome of the review is announced.
- 6.18 **Other information on the security of investments:** Full regard is given to other available information on the credit quality of organisations, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 6.19 When deteriorating financial market conditions affect the creditworthiness of all organisations, investments will be restricted to those of higher credit quality along with reductions in the maximum duration. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest in, then increased amounts will be held with UK Government or other local authorities. This will likely cause investment returns to fall but will protect the principal sum invested.
- 6.20 **Investment limits:** It is revenue reserves that would be required to cover investment losses. In order that reserves are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m.
- 6.21 **Liquidity management:** A medium-term cash flow forecast is maintained to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to a medium-term financial plan and cash flow forecast. A daily cash flow for the financial year is maintained to manage short-term liquidity requirements.
- 6.22 Liquid cash is spread over several accounts and funds to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. **TREASURY MANAGEMENT INDICATORS**

- 7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 7.2 **Security:** A voluntary measure of exposure to credit risk has been adopted by monitoring the value-weighted average credit rating of the investment portfolio. The target is to maintain the portfolio at an overall equivalent credit rating of at least A.
- 7.3 **Refinancing risk:** Any new borrowing undertaken in line with this strategy will be arranged to control future refinancing risk by ensuring a spread of maturities.
- 7.4 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 5 Investment beyond One Year Limit

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end.	£15m	£10m	£10m

8. **OTHER RELATED MATTERS**

- 8.1 **Financial derivatives:** Standalone financial derivatives (such as swaps, forwards, futures, and options) will only be used where they can be clearly demonstrated to reduce the overall level of financial risk exposure and having taken appropriate advice. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 8.2 **Markets in Financial Instruments Directive (MiFID):** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

9. **FINANCIAL IMPLICATIONS**

- 9.1 The budget for investment income in 2023/24 is £1.3m, based on an average investment portfolio of £36m. This represents an overall estimated return of 3%.
- 9.2 Interest payable on current borrowing is £143k per annum and £70k in relation to the premium repayment in respect of refinanced LOBOs. With an increase in

prudential borrowing anticipated in 2023/24, interest costs are forecast to rise by up to a further £405k on a full-year basis; however, the actual increase in cost in 2023/24 will be subject to the timing of any new borrowing and the actual rate of interest incurred at the time. The business cases for the projects for which the additional borrowing is expected, include anticipated income through lease arrangements and other income generating activities to meet these additional financing costs.

- 9.3 If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.
- 9.4 A treasury management reserve is maintained to cover future financial risks associated with varying investment returns or borrowing costs; and potential reductions in the fair value of investments where these might be realised. Outperformance on treasury management activities that generate increased revenue income (or reduced costs) against the budget will normally be added to the reserve.
- 9.5 Interest charges arising from lease arrangements are covered by the relevant service revenue budgets.

10. Other Options Considered

- 10.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Treasury Management Practices (TMPs)

- TMP1 Risk management
- TMP2 Performance measurement
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods and techniques
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualifications
- TMP11 Use of external service providers
- TMP12 Corporate governance

Appendix B - Arlingclose Economic & Interest Rate Forecast – December 2022

1. Economic Background

- 1.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.
- 1.2 The Bank of England (BoE) increased Bank Rate by 0.50% to 3.5% in December 2022, the ninth successive rise since December 2021. The decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two of the three voting to maintain the 3% base rate and one voting for a 0.75% rise.
- 1.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.
- 1.4 The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.
- 1.5 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to zero percent in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.
- 1.6 The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.
- 1.7 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.50% in December 2022 to 4.25%-4.5%. The rate of increase has declined compared to previous months from the previous four successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with

official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

- 1.8 Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10% in November 2022 down from 10.6% in October. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October and a further 0.50% in November. This took the deposit rate to 2%.

2. Credit Outlook

- 2.1 Since the start of 2021, Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.
- 2.2 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.
- 2.3 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

3. Interest Rate Forecast

- 3.1 Arlingclose is forecasting multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher
- 3.2 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium, and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

4. Detailed Interest Rate Forecast

- 4.1 **Underlying assumptions:**

- UK interest rate expectations have eased with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor reversed many aspects of the September 2021 Growth Plan calming bond markets and broadly removing the premium evident since the first Conservative Party leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

4.2 Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the 50bp rise in December, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with further 25bp increases in early 2023.
- The UK economy likely entered recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Report Title: Fraud Update	
Report to: Governance and Audit Scrutiny Committee	
Date: 12 th January 2023	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Angela Mitchell, Audit Insurance & Fraud Manager	
Enquiries to: Angela Mitchell, Audit Insurance & Fraud Manager, (angmi@braintree.gov.uk)	

1. Purpose of the Report

- 1.1. The Governance and Audit Scrutiny Committee functions include monitoring the Council's counter fraud and corruption arrangements.
- 1.2. The Public Sector Internal Audit Standards (PSIAS) require the '*Chief Audit Executive*' (the Audit Insurance & Fraud Manager) to periodically report significant risks and controls, including fraud risks. The report provides Members with an overview of Fraud affecting Local Authorities, and the work undertaken by staff including the Audit Insurance and Fraud, and Revenues and Benefits teams, in this respect.

2. Recommendations

- 2.1 Members are asked to note the report.

3. Summary of Issues

3.1 Introduction

- 3.1.1 'The Financial Cost of Fraud 2021' (Crowe / University of Portsmouth) reports global fraud data, and on the basis of Fraud Loss Measurement exercises estimated that '*fraud and error losses in any organisation should be expected to be at least 3%, probably almost 6.5% and possibly more than 10%*'. It further comments on the increase in fraud since the advent of the Covid-19 pandemic, in both Covid-19 specific frauds and scams, and in fraud driven by the economic situation, with risks being both internal and external to organisations. A report to the Government's Committee of Public Accounts (June 2021) notes that the Cabinet Office reported that fraud accounts for 40% of all crime committed across the UK.
- 3.1.2 The National Fraud Initiative (NFI) report (December 2022) noted a total of £416.8m fraud, overpayments and error had been identified and prevented by NFI participants in the period 5th April 2020 to 31st March 2022. This includes:

- Council tax £44.7m
- Council Tax Reduction Scheme £5.2m
- Trade Creditors £6.1m
- Pilots and Grants tools £39.7m
- Procurement £0.8m
- Payroll £0.3m

3.1.3. The Office for National Statistics ‘Nature of Fraud and Computer Misuse in England and Wales: year ending March 2022’ reported:

- Fraud and computer misuse offences have increased substantially over the last two years; while many other types of crime have decreased, affected by periods of national lockdown during the pandemic
- Fraud offences increased by 25% (to 4.5 million offences), driven by large increases in ‘advance fee fraud’ and ‘consumer and retail fraud’
- The proportion of fraud incidents that were cyber related increased to 61% (from 53% in the year ending March 2020), suggesting a rise in cyber related fraud activity may be related to behavioural changes during the pandemic and increased online activity
- Computer misuse increased by 89% (to 1.6 million offences) compared with the year ending March 2020, driven by a large increase in unauthorised access to personal information (hacking) offences
- There was a 17% increase in fraud reported to the police (to 936,276 offences) compared with the year ending March 2021

3.1.4 Cifas is an independent, not for profit organisation working to reduce fraud and related financial crime in the UK. Cifas was formerly the Credit Industry Fraud Avoidance System, but no longer operates under this acronym as the services have broadened). The Cifas Fraudscape 2022 notes that identity fraud remains a key threat with the number of cases recorded increasing by 22% (226,001) in 2021, most of which occurred via an online channel.

3.1.5 Fraudsters are constantly evolving their techniques, and further challenges arise from changes in the public sector landscape, including budget reductions, service remodelling and integration, and Government policy changes. The Government Counter Fraud Function has produced a functional standard (GovS 013: Counter Fraud (August 2021)) setting expectations for the management of counter fraud, bribery and corruption activity in government departments and their arm’s-length bodies (but considers ‘*other public sector organisations, devolved or local, might find this standard useful*’. The standard includes a **Counter Fraud Organisational Basics Checklist** summarised as:

- Have an **accountable individual** at board level who is responsible for counter fraud, bribery and corruption
- Have a **counter fraud, bribery and corruption strategy**
- Have a **fraud, bribery and corruption risk assessment**
- Have a **policy and response plan** for dealing with potential instances of fraud bribery and corruption

- Have an action plan summarising **key actions to improve capability, activity and resilience**
- Have outcome-based **metrics**
- Have established **reporting routes** for staff, contractors and members of the public to report suspicions of fraud bribery and corruption, and a mechanism for recording referrals and allegations
- **Report identified loss** from fraud, bribery, corruption and error
- Have access to **trained investigators**
- Undertake activity to **detect fraud in high risk areas**
- Ensure staff have access to and **undertake fraud awareness, bribery and corruption training** as appropriate
- Have **policies and registers for gifts, hospitality and conflicts of interest**

3.2 National Developments

3.2.1. Economic Crime and Corporate Transparency Bill

The Bill is currently progressing through Parliament and is aimed at reforms to tackle economic crime and improve transparency over corporate entities, including through:

- reforms to Companies House (to include identity verification, steps to improve reliability of data, and improved investigation and enforcement powers)
- reforms to tackle misuse of Limited Partnerships (to include tightening registration requirements, increasing transparency, and enabling the registrar to de-register partnerships where appropriate)
- Additional powers to seize and recover Cryptoassets which are the proceeds of crime or associated with illicit activity
- Strengthened anti-money laundering powers to enable better information sharing

3.2.2. Public Sector Fraud Risks

In August 2022 the Government established the Public Sector Fraud Authority as a Centre of Enterprise for the management of fraud against the public sector. The PSFA purpose is to work with departments and public bodies to understand and reduce the impact of fraud against the public sector, including through focussing on counter fraud performance and outcomes, provide support to the public sector and sharing best practice. The PSFA will focus on data analytics, including through the National Fraud Initiative.

3.2.3 The following identifies some fraud risks affecting the public sector. This list is not exhaustive:

- **Internal and recruitment** – abuse of position, conflict of interest, failure to declare convictions, false declarations, failure to follow process, undeclared working, false timesheets and expense claims, abuse of flexitime or annual leave, working elsewhere whilst sick or on Council time, misuse of equipment, bribery and corruption

- **Social care fraud (personal budgets and direct payments)** – overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, and posthumous continuation of claims
- **Benefits / Council Tax Support** – false applications, documents or ID, failure to notify changes
- **Right to Buy** – fraudulent applications under the right to buy / acquire
- **Money Laundering** – exposure to suspect transactions
- **Commissioning of services** – (including joint commissioning, joint ventures, commercial services, third sector partnerships) – conflicts of interest, collusion
- **Tenancy** – fraudulent applications for housing or successions of tenancy, and sub-letting of the property
- **Procurement** – tendering issues, split contracts, ghost contractors, double invoicing, bid rigging and cartels, bribery, collusion between officers and contractors, violation of procedures, failure to supply, inflation of performance information
- **Payments / creditors** – misuse of credit/procurement cards, false invoices and claims, duplicate payments, mandate fraud (attempts to divert payments by impersonating suppliers) and whaling (impersonating senior Council staff)
- **Payroll** – false (ghost) employees, overtime claims, expenses
- **Identity Fraud** – false identity / fictitious persons applying for services / payments
- **Council Tax** – fraudulent applications for Council Tax Support, discounts & exemptions, new properties not on list (e.g. built without planning permission)
- **Business Rates** – fraudulent applications for exemptions, reliefs and grants, failure to declare occupation or register business where rates are applicable, payment using false bank details
- **Credit income and refunds** – (Council Tax / NDR/Rents) suppression of notification of debt, improper write off, failure to instigate recovery protocols, transferring arrears, manipulating credit balances, payment using false instrument then claiming refund
- **Blue Badge** – use of counterfeit / altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees
- **Grants** – fake application, collusion, misuse of funds, work not carried out, funds diverted, ineligibility not declared
- **Insurance fraud** – false claims including slips and trips
- **Disabled Facilities Grants** – fraudulent applications for adaptations to homes aimed at the disabled
- **Concessionary Travel schemes** – use of concession by ineligible person, including freedom passes
- **No recourse to public funds** – (S115 of the Immigration & Asylum Act 1999 states a person has no recourse to public funds if they are subject to immigration control) - fraudulent claims of eligibility
- **Local Enterprise Partnerships (LEP)** – (partnerships between Local Authorities and businesses – all LEP's should now be incorporated with a Local Authority as an accountable body) – Procurement fraud, grant fraud.

Consider LEP governance and procedures for allocating / prioritising grants

- **Immigration** – sham marriages, false entitlement to services and payments
- **Cyber dependent crime and cyber enabled fraud** – range of fraud such as ransomware, phishing, whaling, hacking, and denial of service attacks, diversion of funds, or creation of false applications for services and payments
- **Assets** – land and property (sell for less than market value, collusion e.g. planning, leases and covenants), theft such as IT equipment, vehicles and tools, disposal of assets no longer required
- **Investment** – misappropriation, loss through procedure breach, false instruments
- **Money Laundering** – using the Council to hide improper transactions, link to organised crime
- **Electoral fraud** – fraudulent voting, acts by presiding officers / clerks / postal vote staff / verification and count staff. Fraudulent application for individual registration, absent voter, and staff employed as canvassers
- **Development management** – inducements, conflict of interest, areas where checking compliance, planning process to increase land value
- **Housing** – fraudulent or false application, fraudulent succession or assignment, unlawful sub-letting, not using property as main home, Right to Buy (fraudulent application, valuation etc.)

3.3 Corporate Counter Fraud Arrangements

3.3.1 The Council has a Counter Fraud Strategy which states the Council is determined that the culture and tone of the organisation is one of openness, honesty and opposition for theft, fraud, corruption and bribery, and that there is an expectation and requirement that Council Members, Chief Officers and staff at all levels will lead by example in these matters and that all individuals and organisations associated with the Council will recognise this strategy and associated policies.

3.3.2 The Council has adopted a corporate anti-fraud framework including Codes and Policies which underpin this strategy and exist to protect the Council against loss and reputational damage arising from theft, fraud, corruption or bribery. The approach includes:

- An established Governance and Audit Scrutiny Committee whose remit includes monitoring the effectiveness of counter fraud and corruption arrangements
- Adopted Codes of Conduct for Members and Officers
- The Constitution, including Financial Procedure Rules and procedures relating to Contracts and Procurement
- Dedicated and qualified Audit and Fraud staff whose roles include detection, prevention and sanctioning of fraud
- Participation in data matching exercises to increase opportunity for detection of fraud. These include the National Fraud Initiative (NFI), the Pan Essex Compliance and Counter Fraud Scheme, and LoCTA (Locating

Council Tax Absconders), all of which provide access to data and matches across a range of data sets

- Reviews of fraud risks and approaches

3.4 Council Fraud Investigation

3.4.1 The Council's Fraud Investigator, employed within the Audit Insurance and Fraud Team, conducts investigations into alleged or suspected fraud, liaising with other services or organisations as appropriate. He is experienced and professionally qualified to conduct investigations, and ensures appropriate cases are sanctioned in accordance with the Council's Prosecution Policy. In addition to the investigation activity, he has developed Fraud related policies, and arranged training for relevant staff within the organisation.

3.4.2 The main emphasis of Fraud work has been on Council Tax Support and Single Person Discount.

3.4.3 Housing Benefit fraud is the responsibility of the Department for Work and Pensions (DWP) Single Fraud Investigation Service. The Council has a formal protocol with the DWP for the exchange of information relating to Benefit Fraud investigations and will conduct joint working on relevant investigations where the opportunity arises. The DWP temporarily suspended joint working in March 2020 but is now engaging with the Council to progress significant cases. The Fraud Investigator continues to work with other Council Services and external organisations as required to address other fraud risk areas.

3.4.4 The Council's Fraud Investigator identified the following in 2021/22, and 2022/23 to date:

	Cases closed in 2021/22	Cases closed in 2022/23 (to 31 December 2022)
Housing Benefit Overpayments	£84,382.44	£169,004.29
Council tax Support Overpayments	£27,050.19	£30,559.72
Single Person Discount Overpayments	£10,568.77	£6,504.17
Single Person Discount Overpayments identified through NFI* Data Matching	£10,398.28	£22,124.08

**National Fraud Initiative*

3.5 Data Matching

3.5.1 The National Fraud Initiative (NFI) is a data matching exercise conducted by the Cabinet Office under Data Matching Powers set out in the Local Accountability and Audit Act 2014. Certain bodies, including Local Authorities, are required to participate through the provision of data for matching purposes, an initiative that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council participates in all mandatory elements of the NFI data matching and results of the latest data

matching exercise have been released and are currently being reviewed by Audit and Fraud staff. The Cabinet Office extended the scope of NFI data matching to include post-payment assurance matching for Covid-19 Business Grants.

3.5.2. The Pan Essex Compliance and Counter Fraud Scheme performs monthly data matching of a number of data sets from Local Authorities across Essex; Braintree DC is one of 14 Councils who participate in this matching exercise. The Council has employed a Data Matching Officer since March 2018 (within the Revenues and Benefits Team) to upload data and review the results.

3.5.3. The Council also subscribes to LoCTA, a Local Authority based data sharing system for tracing debtors and minimising fraud with integrated access to other data sets (such as Companies House and Land Registry).

3.6 Business Grant Fraud

3.6.1 The Council's Revenues and Recovery Team worked with Economic Development staff to administer a range of Business Grants in connection with the Coronavirus pandemic. For 2022/23 (to 30 November 2022), the Council has paid out a total of £1,260,505.71 in respect of Covid-19 Additional Relief Funds (CARF) to businesses in the District.

3.6.2 The following actions were taken to mitigate the risk of undetected fraud in CARF applications:

- An application form was required to be completed for each grant by the business rate account holder, and in respect of Discretionary Grants, additional supporting information was also required. All information was evaluated before any grant was approved for payment.
- For each application the applicant confirmed by signing the form that if they falsify their records to gain additional grant money they would face prosecution and any grant paid would be recoverable.
- For each application the applicant confirmed by signing the form that the payment of the grant would not contravene State Aid rules.
- For each grant to be processed, the details on the grant application form, company number, bank account and sort code details were checked to the details held on the council's records, and if the details did not match, the application was not processed.
- Application forms were checked to business rate accounts to ensure business names and bank details matched those on the application form, and where an application warranted further investigation this was completed by a member of the Revenues team and reviewed by the Recovery and Revenues Manager

3.6.3 The Council's Revenues and Recovery Team has also administered the Government's support for energy bills (the Council Tax rebate 2022/23), and as at 30th November 2022 has paid a total of £7,672,950 to eligible households. The following checks were conducted to ensure eligibility:

- Checks to ensure the recipient's property was in band A to D (or Band E with disabled band reduction), was a sole or main residence, was a

chargeable dwelling (or in a Government specified exemption class), and that eligibility criteria was applicable as at 1st April 2022

- BACS payments were checked to the direct debit payee on the Council Tax account, further checks were conducted if it did not match
- Bank details were verified through the Government's Spotlight system, bank statements were reviewed where this was not possible

3.6.4 As noted above (para 3.5.1) the scope of the National Fraud Initiative Data Matching is being extended to include Business Grants

3.7 Corporate Policies and Procedures

3.7.1 The Council currently has the following Fraud related strategies, policies and procedures. Some of these require updating, the Audit Insurance & Fraud Manager will coordinate the review of these documents:

- Counter Fraud Strategy (March 2013) – summarises the Council's approach to delivering counter fraud measures throughout the Council
- Fraud, Corruption and Dishonesty Policy (November 2015) – defines fraud, corruption and dishonesty, and includes the Code of Conduct for Employees, the Code of Practice for Councillors and Officers Engaged in the Determination of Planning Applications, and summarises expectations
- Anti-Money Laundering Policy & Guidance (updated April 2022) – identifies Council and staff responsibilities under Money Laundering Regulations, and protocols for record keeping and reporting
- Prosecution Policy (November 2015) – defines considerations for the prosecution of Local Council Tax Support and other fraud
- The Regulation of Investigatory Powers Act 2000 (RIPA) & the Investigatory Powers Act 2016 (IPA) Policy (updated November 2022) – defines key staff contacts and outlines requirements for compliance with RIPA and IPA
- Use of Social Networking Sites for Investigations (approved by the Corporate Governance Group in January 2021) – clarifies the legitimate uses of social media to prevent misuse and the circumstances in which such activity becomes targeted or covert surveillance

3.7.2 In addition, the Council has a range of Policies and Procedures which support development of controls and approaches contributing to the prevention and detection of fraud, including the following:

- Whistleblowing Policy (November 2015) – defines whistleblowing, encourages reporting of wrongdoing, defines protocols for reporting and lists key officer contacts
- Risk Management Policy, Strategy and Implementation Plan (this policy is currently being reviewed) – defines responsibility and protocols for corporate risk management
- The Constitution (updated in 2021 and reviewed in April 2022) – defines how the Council operates, how decisions are made and the procedures

followed to ensure these are efficient, transparent and accountable to local people

- Local Code of Corporate Governance (updated bi-annually as part of the Annual Governance Statement) – defines the systems and processes, culture and values by which the Council is controlled
- Code of Conduct for Members, including Gifts and Hospitality (within the Constitution) – defines obligations and protocols which if followed ensure that Member actions are consistent with the “Nolan Principles” and interests are disclosed
- Standards of Conduct for Staff, including Gifts and Hospitality (within the Fraud Corruption & Dishonesty Policy) – promotes high standards of behaviour and conduct including avoidance of conflicts of interest and separation of roles during tendering
- Disciplinary Procedures (January 2022) – provides guidance on how managers will treat cases of unsatisfactory conduct
- Staff Declarations of Conflicts of Interest – form for enabling staff to report conflicts
- IT Security Policy and ICT Codes of Practice – specify how the Council will apply information security
- Recruitment Policies – includes requirements for ensuring a fair recruitment and selection process, and the pre-employment checks conducted by HR and recruiting managers

3.8 Corporate Fraud Training

3.8.1 The Council provided the following training for staff to support them to prevent and detect fraud

- **Regulation of Investigatory Powers Act (RIPA) Applications and Authorisation** – March 2022. 11 staff attended training which included legislative requirements for surveillance, including tests for necessity and proportionality, and the application process
- **Document Awareness** – October 2019. The training covered the features to examine to verify the legitimacy of identity documents (such as driving licences and passports. Two sessions were arranged by HR to extend this training to a wide selection of staff. In addition, Housing staff are engaging with other Local Authorities and Housing Associations in respect of Digital verification of ID.
- **Authorised Officer** – Under Regulation 3 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement (England) Regulations (S1 501) 2013, the Secretary of State may authorise an officer of a Local Authority to exercise powers obtain information from certain people. The Fraud Officer is an Authorised Officer and attended a training session in November 2022 to receive an update on the scope and application of Authorised Officer powers, ensuring actions in investigations are justified and the Council continues to act lawfully

- **General – Fraud Alerts** – Audit staff receive and distribute as appropriate, fraud alerts from organisations such as the National Anti-Fraud Network (NAFN), which share relevant information on fraud experienced by member organisations, and identify key factors to look out for, for example relating to payment or salary mandate fraud, and grants fraud. These alerts are shared with relevant colleagues and services.
- **General – Audit and Fraud staff** – the service receives updates on fraud related matters through membership of professional groups and publications
- **General - Learning Hive** – The Council's new E-Learning system includes a range of modules including fraud related modules (such as Information Security). Further modules are in the process of being rolled out.

3.9 Corporate Objectives

3.9.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The approach to preventing, detecting and dealing with fraud directly supports the following Corporate Objectives, but also indirectly supports the Council's ability to deliver all Corporate Objectives:
 -
 - A high performing organisation that delivers excellent and value for money services;
 - Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

4. Options

4.1 To receive and ask questions as appropriate on the Council's arrangements for dealing with fraud risks.

5. Financial Implications

There are no financial implications arising from the recommendations set out in this report

6. Legal Implications

There are no additional legal implications arising from this report.

7. Other Implications

There are no other implications arising from this report.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act

(b) Advance equality of opportunity between people who share a protected characteristic and those who do not

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The Equality Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

None

10. Background Papers

None.

Report Title: Internal Audit Update, Including Progress Against Internal Audit Plan 2022/23	
Report to: Governance and Audit Scrutiny Committee	
Date: 12 th January 2023	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Angela Mitchell, Audit Insurance & Fraud Manager	
Enquiries to: Angela Mitchell, Audit Insurance & Fraud Manager, (angmi@braintree.gov.uk)	

1. Purpose of the Report

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Governance and Audit Scrutiny Committee, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.
- 1.2 The 2022/23 Internal Audit Plan was approved by the Governance and Audit Scrutiny Committee on 21st July 2022. This report provides Members with an update on the Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This is in accordance with the Governance and Audit Scrutiny Committee role and the requirements of the PSIAS.
- 1.3 The report also provides an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority

2. Recommendations

- 2.1 Members note the progress and performance against the 2022/23 Internal Audit Plan.

3. Summary of Issues

3.1 Progress against the 2022/23 Internal Audit Plans

- 3.1.1 Progress against the 2022/23 Internal Audit Plan is detailed in **Appendix 1**.
- 3.1.2. The following audits have been completed since the last progress report to the Committee (3rd November 2022). **Appendix 2** provides a summary of the outcomes of these audits:
 - Planning – **Significant Assurance**
 - Community Safety and Safeguarding Partnerships – **Full Assurance**

- Constitution – **Full Assurance**
- CCTV GDPR Compliance – **Limited Assurance**

3.1.3 The proportion of planned work completed was affected by the following factors:

- A significant proportion of the Audit Manager's time is spent on Insurance work, and some time also spent on Fraud work. The insurance service completed work for the 2022 Insurance Renewal, has dealt with additions to cover requirements and responded to insurance and risk related enquiries, and is also managing a high claim caseload.
- The Auditor (Career Grade) left the Council in November 2022, an update on recruitment of his replacement will be provided verbally to the Committee.
- The Audit Manager is working with the Head of Finance on a revised Risk Management Policy & Strategy - the April 2022 report noted that a revised policy & strategy had been drafted for consideration by Corporate Management during 2023/24 and will be reported to a future meeting of this Committee.
- The Audit Manager has been sourcing a provider for the External Quality Assessment of the Council's Internal Audit function and is preparing for the assessment.
- The Audit Manager is reviewing Fraud related policies.
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

3.1.4 The Internal Audit Plan is prioritised, and Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales but is also flexible to respond to changing corporate needs. Progress of and any changes to planned work is reported to the Committee.

3.2 **Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) Applications**

3.2.1 There were no RIPA / IPA applications in 2022/23 or to the date of producing this report.

3.3 **Corporate Objectives**

3.3.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The 2022/23 Internal Audit Plan includes work across all Corporate Objectives:
 - A sustainable environment and a great place to live, work and play;
 - A well connected and growing district with high quality homes and infrastructure;
 - A prosperous district that attracts business growth and provides high quality employment opportunities;
 - Residents live well in healthy and resilient communities where residents feel supported;

- A high performing organisation that delivers excellent and value for money services;
- Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

4. Options

This report invites Members of the Governance and Audit Scrutiny Committee to receive and note the progress against the 2022/23 Internal Audit Plan, additional work performed, and any other matters affecting the Internal Audit service.

5. Financial Implications

There are no financial implications arising from the recommendations set out in this report.

6. Legal Implications

There are no specific legal implications arising from this report.

7. Other Implications

There are no other implications arising from this report.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix 1 – Progress Against the 2022/23 Internal Audit Plan

Appendix 2 - Outcome Of Audits Completed Since The Previous Report To Governance Committee (3rd November 2022)

10. Background Papers

None.

APPENDIX 1 - PROGRESS AGAINST 2022/23 INTERNAL AUDIT PLAN – as of 23rd December 2022

This Appendix summarises the work completed in respect of the 2022/23 Internal Audit Plan (approved by the Governance and Audit Scrutiny Committee on 21st July 2022).

	Audit	Priority	Current Status	Date Report to Governance & Audit Scrutiny
2022/23 Internal Audit Plan – All Audits				
1	Core Financial Systems – Back to Basic Reviews <ul style="list-style-type: none"> • Council Tax • Local Council Tax Support • Investments 	1	<ul style="list-style-type: none"> • Completed • • 	3 rd November 2022
2	Payroll Shared Service	1	In progress	
3	Budget Monitoring	1		
4	Fraud Risks (NDR/Council Tax/Payments)	1	NDR/CT - Completed	3 rd November 2022
5	North Essex Parking Partnership	2		
6	Energy Rebate	2		
7	Town Hall income	2	Completed	21 st July 2022
8	Money Laundering	2		
9	Business Support Grants / External Funding Assurance	1	Ongoing as need arises. Internal Audit Annual Report 2021/22 (to GASC July 2022) identified grants reviewed.	
10	Shared Prosperity Funding	1		
11	Leisure Provision Contract	1	Completed	3 rd November 2022
12	Planning, including Time Extensions, Pre-Application & Notices	2	Completed	12th January 2023
13	Section 106 agreements	2	Completed	21 st July 2022
14	Community Safety and Safeguarding Partnerships	1	Completed	12th January 2023
15	Cost of Living Crisis	1		
16	Constitution (Financial Procedure Rules, Contract Procedure Rules, Procurement Rules)	1	Completed	12th January 2023
17	Authorised Signatories	1	Completed	3 rd November 2022
18	Business Planning	2		
19	Plant & Vehicle Workshop	2	Completed	3 rd November 2022
20	Agency Supply Contract	2		
21	Facilities Contracts	2	In progress	
22	Employee Engagement	2	In progress	
23	Policy Management	3		
24	Accuracy of Housing Application Processing	2		
25	Asset Management and Service Charges	1	(Terms of Reference issued)	
26	The Plaza (Horizon 120)	1	In progress	
27	Land and Property Inspections	2		
28	Risk Management	1		
29	Suppliers / Contractor Resilience	1		
30	Mobile Device Management	1	Completed	3 rd November 2022
31	CCTV GDPR Compliance	1	Completed	12th January 2023

32	Cyber Security	1		
33	Culture & Ethics	2	In progress (Terms of reference agreed)	
34	Performance Management	3		
35	Major Projects – general, including PPAT	1	In progress (nearing completion)	
36	Major Project – in depth review	1	Commencing Jan 2023	
37	Strategic Investment	2		
38	Climate Change	1	Completed	3 rd November 2022
39	Energy Performance	2		
40	Office for Local Government	1		
41	Health and Safety	1	Ongoing attendance at corporate meetings as source of assurance	
42	Cyber Security	1	Ongoing attendance at corporate meetings as source of assurance	
43	Annual Governance Statement	1		
44	Follow Up Reviews <ul style="list-style-type: none"> • Contract Management (2019/20) • Manor Street (2019/20) • Housing Application Document Verification (2019/20) • Contract Management – Major Contracts (2020/21) • Managers Self Service (2021/22) • Project Realisation of Benefits (2021/22) 	2	<ul style="list-style-type: none"> • Completed • In progress • In progress • In progress • In progress • Management response received, actions due April 2023 	3 rd November 2022

APPENDIX 2 – OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO GOVERNANCE COMMITTEE (3rd November 2022)

Recommendations reflect only High and Medium priority matters raised:

Audit	Overview of Scope	Summary of Findings	High / Medium Priority Recommendation(s)	Priority	Agreed / Responsible Officer / Action Date
<p>Planning</p> <p>Significant Assurance</p>	<ul style="list-style-type: none"> Recording of information on the Uniform system, including accuracy of data entered Review of data entered Reporting and challenge of performance information 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Planning applications received are recorded on the Uniform system, and associated documentation received and processed is saved Data including relevant dates is generally recoded on the Uniform system Performance data is monitored and entered on to the Council’s Performance Management system, relevant information is included the in the Council’s quarterly performance indicator reporting 	<p>Ensure dates of decision notices are recorded on the Uniform system to ensure correct performance is recorded</p>	<p>Medium</p>	<p>Agreed: Development Manager</p> <p>Action date: February 2023</p>
<p>Community Safety and Safeguarding Partnerships</p> <p>Full Assurance</p>	<ul style="list-style-type: none"> Compliance of partnership arrangements with the Council’s statutory duties Ensure partnership policies and objectives are consistent with Council requirements Review effectiveness of communication and decision making framework Review performance monitoring and reporting of outputs 	<p>Areas of good practice – For the partnerships reviewed in this audit:</p> <ul style="list-style-type: none"> The partnerships complied with the Council’s statutory duties and supported the Council’s priorities The decision-making frameworks included committees and sub-committees which meet regularly and include relevant partners Performance monitoring is in place including reporting outcomes There is evidence of risk management activity, and the Community Safety Partnership is identified in the Council’s Strategic Risk Register as a control for Community Resilience 	<p>There were no recommendations arising from this review</p>	<p>N/A</p>	<p>N/A</p>

	<ul style="list-style-type: none"> Review arrangements for managing partnership risks 				
Constitution Full Assurance	<p>For the contract procedure rules and financial regulations, ensure:</p> <ul style="list-style-type: none"> They are current and subject to regular review Officers are aware of them Payments made accord with them They are consistent with other Local Authority rules and regulations 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Council Officers and consultants are aware of the Council's constitution and the relevant procedural and procurement rules to be followed Where approval requires delegated authority or Head of Service sign off, officers are aware of the protocols and ensure decisions and approvals follow protocols Official orders via the E-Proc system require approval by an authorised officer Procurement staff monitor quotations register entries to ensure compliance with procurement rules and Financial Regulations Exemptions forms completed require sign off by Procurement staff, sign off by Legal Services staff, and approval by the S151 officer The Council's Constitution was consistent with those from other Council's reviewed 	<p>There were no recommendations arising from this review</p>	N/A	N/A
CCTV GDPR Compliance Limited Assurance	<ul style="list-style-type: none"> To identify whether services are using IT equipment / CCTV cameras without IT Team knowledge and/or without appropriate licensing or support To ensure CCTV cameras are managed in line with legislation and guidance (including GDPR, RIPA and 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Each deployment of mobile cameras included consideration for data protection and is approved by Legal services staff All Council operated cameras have the ability to retain footage where required None of the systems reviewed cover private areas where additional privacy would be expected (eg. changing rooms) None of the cameras reviewed had obstructed views 	<p>Update the acceptable use Code of Practice to clarify requirement for authorisation from IT Services (treating CCTV cameras the same as for all IT equipment)</p> <p>IT Services to have central oversight of CCTV to ensure cyber risks are managed</p>	<p>Medium</p> <p>Medium</p>	<p>Agreed: ICT & Facilities Manager (Action date to be confirmed)</p> <p>Agreed: ICT & Facilities Manager (Action date to be confirmed)</p>

	Surveillance Camera Code of Practice)		The Body Worn Video (BWV) Policy states people may withdraw their consent to their data being collected, this is against national guidance and should be removed from the privacy policy (enabling staff to make decision on whether or not to turn off the footage if requested)	Medium	} Agreed: Asst } Manager } (Street Scene) } Action date – } process } update Jan } 2023 (then } policy to } follow later) } }
			Introduce written policy to clarify to staff when to use BWV devices	High	Agreed: ICT & Facilities Manager (Action date to be confirmed)
			Improve CCTV signage in identified locations	High	Agreed: ICT & Facilities Manager (Action date to be confirmed)
			Review retention policies to ensure CCTV is not retained for longer than required	Medium	Agreed: ICT & Facilities Manager (Action date to be confirmed)
			Communicate process for releasing CCTV to all CCTV operators	Medium	

Follow Up Reviews - Update:

2019/20 – Contract Management (Significant Assurance)

- There was 1 high priority and 3 medium priority recommendations, **all now completed** (reported to Governance and Audit Scrutiny Committee in November 2022)

2019/20 – Manor Street (Limited Assurance)

There were 11 high priority, 2 medium priority and 1 low priority recommendations - *Governance and Audit Scrutiny Members were provided with an update from the Corporate Director in July 2021. Update December 2022: formal audit follow up review commenced in December 2022*

2019/20 – Housing Application Document Verification (Limited Assurance)

There were 3 high priority recommendations relating to the checking of original documents, certifying copies, and procedures to clarify mechanism for reporting false documents - *Update November 2022: The service is actively working with other Local Authorities and Gateway to Homechoice to implement an additional solution in 2023, to supplement existing verification processes.*

2020/21 - Contract Management – Major Contracts (Limited Assurance)

Actions to improve completion of appropriate documentation, and completeness of records, were agreed, and processes including the introduction of a Programme and Project Assurance Team (PPAT) were put in place. *Update December 2022 – an audit of Major Projects (general, including the PPAT team) is currently in progress, nearing completion*

2021/22 - Managers Self Service (Limited Assurance)

We previously advised that management responses to the recommendations in this report were pending, these have now been received as follows, and a review on implementation will be conducted:

The report contained 2 high priority recommendations relating to:

- Approval processes for ensuring checks are conducted on overtime and expenses claimed and associated additional training for managers (Agreed, HR Manager and Payroll Manager, Action date September 2022)
- Payroll checks to ensure manual payments are reversed the following month to ensure no overpayment is made (Implemented by Payroll Manager July 2022)

And 3 medium priority recommendations relating to:

- agreement of a repayment plan (Agreed, Payroll Manager, Action date September 2022)

- to limit mileage claims to no more than 2 months (Agreed, Payroll Manager, Action date September 2022)
- to seek enhancement to the system to show claim approval history (Agreed, HR Manager, Action date September 2022)

2021/22 - Project Realisation of Benefits - *(Limited Assurance)*

The findings of this review were reported to the Governance and Audit Scrutiny Committee on 21st April 2022, at which point we advised management responses to the recommendations in the report were pending, these have now been received as follows and a further review on implementation will be conducted:

The report contained 2 medium priority recommendations relating to:

- Review with the Pentana software provider whether project closure can be set to require completion of the project closure tab information, or if not the service should create a system of review to confirm the project closure documentation has been completed. Also communicate importance of closure and require project managers to complete training on the Council’s Learning system. (Business Solutions Manager agreed to discuss options, including consideration of a Project Management Office, with Management Board, Action date April 2023)
- Update guidance on the intranet to reflect current arrangements and review who is able to conduct Post Implementation Reviews across the Council (or consider a peer review between departments, or internal review within departments). Provide staff training as appropriate and collate findings centrally to enable corporate communication. (Business Solutions Manager agreed to discuss options, including consideration of a Project Management Office, with Management Board, Action date April 2023)

Key:

For the scope of objectives subject to review during the audit:

<i>Full Assurance</i>	<i>Internal controls meet acceptable standards and are consistently applied.</i>
	<i>Reasonable, but not absolute, assurance that adequate risk management and controls are in place.</i>
<i>Significant Assurance</i>	<i>Significant assurance that the internal control framework meets minimum acceptable standards.</i>
	<i>Some weaknesses or inconsistent application in control means some risks are not adequately mitigated.</i>
<i>Limited Assurance</i>	<i>Internal control framework does not meet minimum acceptable standard.</i>
	<i>Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement</i>
<i>No Assurance</i>	<i>The internal control framework does not meet the minimum acceptable standards and no assurance can be given</i>