CORPORATE GOVERNANCE GROUP
AGENDA

Thursday, 25th July 2019 at 7:15pm

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

THIS MEETING IS OPEN TO THE PUBLIC
(Please note this meeting will be audio recorded)
www.braintree.gov.uk

Members of the Corporate Governance Group are requested to attend this meeting to transact the business set out in the Agenda.

Membership:-

Councillor P Euesden
Councillor D Hume
Councillor H Johnson (Vice Chairman)
Councillor D Mann
Councillor Miss V Santomauro
Councillor R van Dulken (Chairman)
Councillor D Wallace
Councillor T Walsh
Councillor Mrs L Walters

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.

A WRIGHT
Chief Executive

INFORMATION FOR MEMBERS - DECLARATIONS OF INTERESTS

Declarations of Disclosable Pecuniary Interest, Other Pecuniary Interest or Non-Pecuniary Interest

Any member with a Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest 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 Disclosable Pecuniary Interest or other Pecuniary Interest 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.

Question Time
The Agenda allows for a period of up to 30 minutes when members of the public can speak. Members of the public wishing to speak are requested to register by contacting the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by midday on the working day before the day of the Committee meeting. For example, if the Committee Meeting is due to be held on a Tuesday, the registration deadline is midday on Monday, (where there is a bank holiday Monday you will need to register by midday on the previous Friday).

The Council reserves the right to decline any requests to register to speak if they are received after this time. Members of the public can remain to observe the public session of the meeting.

Please note that there is public Wi-Fi in the Council Chamber, users are required to register in order to access this. There is limited availability of printed agendas.

Health and Safety
Any persons attending meetings in the Council offices are requested to take a few moments to familiarise themselves with the nearest available fire exit, indicated by the fire evacuation signs. In the event of an alarm you must evacuate the building immediately and follow all instructions provided by officers. You will be assisted to the nearest designated assembly point until it is safe to return to the building.

Mobile Phones
Please ensure that your mobile phone is switched to silent during the meeting in order to prevent disturbances.

Webcast and Audio Recording
Please note that this meeting will be audio recorded only.

Documents
Agendas, reports and minutes for all the Council's public meetings can be accessed via www.braintree.gov.uk

We welcome comments from members of the public 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 via governance@braintree.gov.uk

PUBLIC SESSION **Page**

1 Apologies for Absence

2 Minutes of the Previous Meeting
To approve as a correct record the minutes of the meeting of the Governance Committee held on 24th April 2019 (copy previously circulated).

3 Public Question Time
(See paragraph above)

4 Declarations of Interest
To declare the existence and nature of any Disclosable Pecuniary Interest, other Pecuniary Interest or Non-Pecuniary Interest 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.

Monitoring and Finance

5 Key Financial Indicators 30th June 2019 **5 - 11**

Audit and Governance

6 Internal Audit Charter - updated **12 - 24**

7 Internal Audit Update, Including Progress Against Audit Plan 2019-2020 **25 - 35**

8 Statement of Accounts 2018-19 and the External Auditor's Audit Completion Report **36 - 75**

9 Operational Risk Management **76 - 87**

10 Treasury Management Annual Report 2018-19 **88 - 106**

11 Corporate Governance Group Programme of Work **107 - 112**

12 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 **Page**

There were no Items for Private Session at the time that this Agenda was published.

CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Key Financial Indicators – 30th June 2019	Agenda No: 5

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services** **Delivering better outcomes for residents and businesses and reducing costs to taxpayers**
Report presented by:	**Trevor Wilson, Head of Finance**
Report prepared by:	**Trevor Wilson, Head of Finance**

Background Papers:	**Public Report**
None.	**Key Decision: No**

Executive Summary:

The attached schedule (Appendix A) of key financial indicators provides details of performance recorded for the financial year to 30th June 2019.

Commentary:

a) The net General Fund revenue budget for the year is £14.539million. The net expenditure incurred in the year to 30th June was £0.958million. This represents a positive variance of £209,000 compared to the profiled budget of £1.167million. This variance results primarily from additional income of £0.154million; with the main source being planning fees, and an underspend on salaries, see b) below.

b) The total budget for Salaries for the year is £17.871million. Expenditure on salaries for the year to the end of June was £4.186million. This compares to a profiled budget of £4.245million. The positive variance of £59,000 is after allowing for £50,000 of the Efficiency Factor (£200,000 for the year).

c) The budget for the year for rental income received from commercial and industrial properties is £2.867million, which consists of 218 leases. The actual income received to the end of June is £1.332million against a profiled budget of £1.320million. The Council currently has three unoccupied properties: 3/4 Century Drive (ground floor) – expect to be re-let by October 2019; 16 Perry Road – expect to be re-let September 2019; and office 3, Braintree Enterprise Centre – lease agreed to start August 2019.

d) Expenditure on capital projects, to the end of June, was £1.503million against the Capital Programme of £26.758million, which includes estimated expenditure on Manor Street Development of £12.8million and Horizon 120 of £7.25million. The main schemes on which expenditure has been incurred are: Purchase of land at

Chapel Hill to provide access to development site (£778k), Horizon 120 (£206k), Disabled Facility Grants (£128k) and I-Construct project (£93k).

e) The total Council Tax collectable debit for the year is £93.559million. The collection rate as at the end of June is 30.46% (£28.498million collected), which compares to a rate of 31.06% for the same period last year.

f) The total Business Rates (National Non-Domestic Rates) collectable debit for the year is £43.565million. The collection rate as at the end of June is 31.13% (£13.562million collected), which compares to a rate of 31.46% for the same period last year.

g) A total of 122 write-offs of Council Tax, with a value of £35,668 have been authorised in the year to 30th June: 7 in respect of the current year and 115 in respect of previous financial years.

h) A total of 25 write-offs of Business Rates, with a net value of £60,540, have been authorised in the year to 30th June: 7 in respect of the current year and 18 in respect of previous financial years.

i) The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and NNDR, was £3.739million, of which £1.73million was in respect of Housing Benefit overpayments. The target for 2019/20 is to reduce the debt outstanding, excluding Housing Benefit overpayments and invoices raised in March in respect of 2020/21, to £600,000 or less as at 31st March 2020. The total, excluding housing benefit overpayments of £2.01million.

j) The rate of return achieved on investment of the Council's balances and funds in the year to-date is 0.85%. This return was achieved on an average amount invested of £43.08million and relates solely to monies placed with banks, building societies, other local authorities, the Debt Management Office and in Money Market Funds.

k) Dividend received/declared in the year to 30th June is £193,719. The market values of these pooled funds show an unrealised net increase in the principal sum of £1.408million as at 30th June 2019. The total invested in pooled funds; equity, property and multi-asset funds, is £18million. These investments have been placed in the knowledge that their capital values will be subject to volatility but overall their trend has been positive over the medium term (i.e. over a minimum of 3 years).

l) Detail of the Council's investments of surplus monies, totalling £44.84million and in pooled funds, totalling £18million, as at 30th June 2019, is provided at Appendix B.

Recommended Decision: Members are asked to accept the report of the Key Financial Indicators as at 30th June 2019.
Purpose of Decision: To provide evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues that may arise.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	The net General Fund revenue budget for the year is £14.539million. The net expenditure incurred in the year to 30th June was £958,000. This represents a positive variance of £209,000 against the profiled budget for the period. Capital expenditure was £1.503million at the end of June. Collection rates for both business rates and council tax are expected to be on course to achieve the targets by the year-end.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	Regular consideration of a suite of Financial Health Indicators is recommended good practice.
Officer Contact:	Trevor Wilson
Designation:	Head of Finance
Ext. No:	2801
E-mail:	Trevor.wilson@braintree.gov.uk

Key Financial Indicators at 30th June 2019

APPENDIX A

	Full Year Budget 2019/20	Actual 30 June 2019	Profile to 30 June 2019	Variance from Profile	
	£'000	£'000	£'000	£'000	%
General Fund - Expenditure					
Salaries	17,871	4,186	4,245	-59	-1.4%
Other Controllable Expenditure	42,742	9,281	9,265	16	0.2%
General Fund - Income					
Commercial & Industrial Property - Rental Income	-2,867	-1,332	-1,320	-12	0.9%
Other Controllable Income	-43,207	-11,177	-11,023	-154	1.4%
General Fund - Net Revenue (Controllable)	**14,539**	**958**	**1,167**	**-209**	**-17.9%**
Capital Programme (Excl. capital salaries incl. below)	26,758	1,503			

	Full Year Target	Actual 30 June 2019	Actual 30 June 2018	Variance
Council Tax collection in year - %	98.30%	30.46%	31.06%	-0.60%
Council Tax collection - income collected for year - £m	£93.56	£28.50	£27.37	£1.13
Write-offs in year - £'000		£0	£0	-£0
Write-offs in year - number		7	6	1
Write-offs all years £'000		£36	£13	£23
Write-offs all years - number		122	116	6
Business Rates collection in year - %	98.60%	31.13%	31.46%	-0.33%
Business Rates collected for year - £m	£43.56	£13.56	£13.80	-£0.24
Write-offs in year - £'000		£6	£20	-£14
Write-offs in year - number		7	5	2
Write-offs all years - £'000		£61	£47	£14
Write-offs all years - number		25	14	11
Creditors - payment of invoices within 30 days of receipt	99.25%	98.82%	99.19%	-0.37%

Debtors - Balance Outstanding	31-Mar-17	31-Mar-18	31-Mar-19	30-Jun-19
	£'000	£'000	£'000	£'000
Service Level Agreement charges - principally Tabor Academy and residents of Twin Oaks, Stisted	303	197	190	181
Capital Projects	3	0	0	0
Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc.	8	7	12	17
Charges for services provided by: ICT, Marketing, Offices, Elections, etc	103	80	43	143
Development & Environment	619	538	485	506
Finance	108	111	91	81
Leisure	208	65	189	268
Operations	936	1219	953	749
Housing	83	47	51	61
Sub-Total - excluding Hsg. Benefits	2,371	2,264	2,014	2,006
Housing Benefits	1,436	1,745	1,719	1,733
Total	**3,807**	**4,009**	**3,733**	**3,739**
Target is for Debt Outstanding (excluding Housing Benefits, charging orders and large value invoices raised in final days of the month-end) to be £0.6million by 31 March 2019.			521	1,975

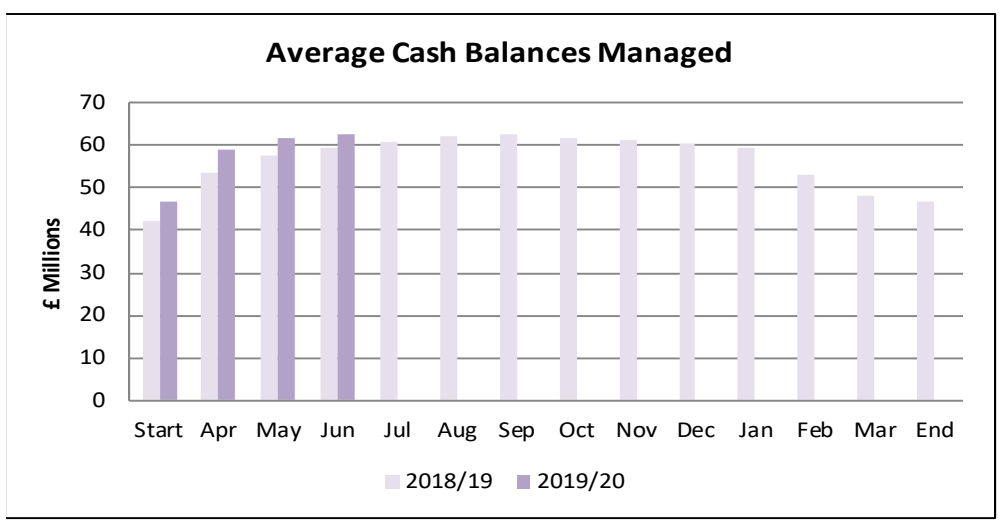
Profile by Recovery Stage:				
Invoice	2,561	2,542	2,109	1,704
Reminder	281	329	421	481
Final Notice	-	-	-	-
Pre-legal	212	567	366	655
Enforcement Agent	387	310	354	348
Tracing Agent	11	2	-	1
Charging Order	32	31	31	31
Attachment to Benefits/Earnings	322	228	452	519
Summons	1	-		
Total	**3,807**	**4,009**	**3,733**	**3,739**
Write offs in year - value - £000	£25.5	£161.4	£5.1	£1.3
Write-offs in year - number	371	392	140	20

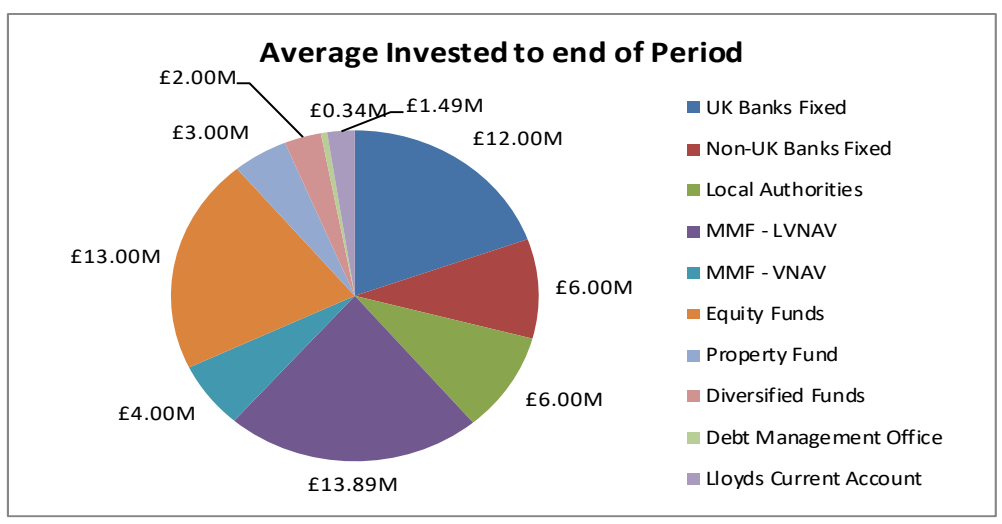
Progress on achieving Efficiency Savings Targets

The amount of the Efficiency Savings target included in the budget for 2019/20 is a net amount of £200,000. The underspend on salaries of £59,000, recorded above, is after offsetting £50,000 of the target.

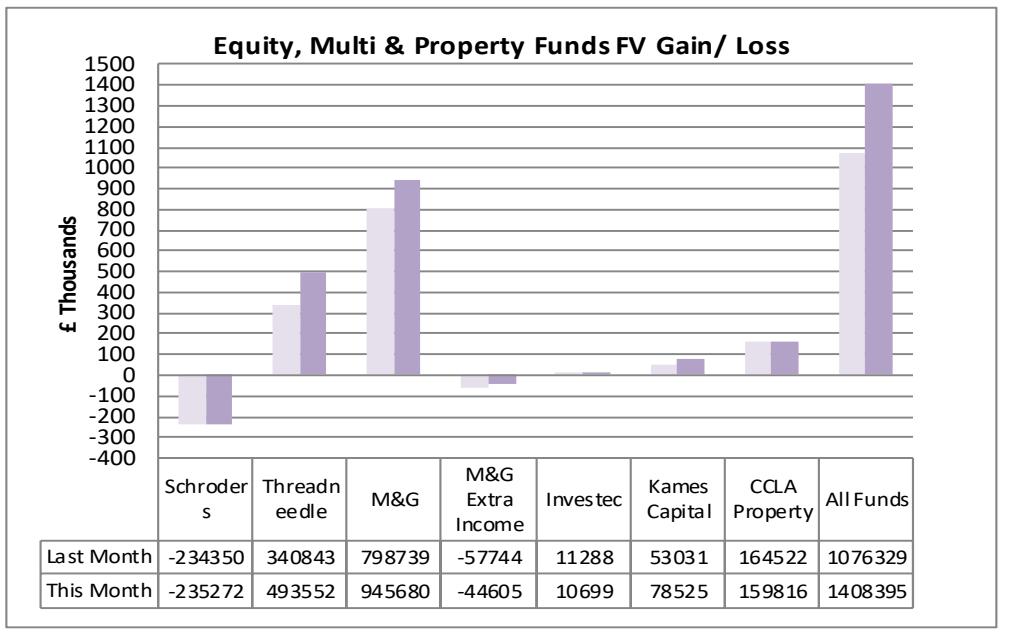
Appendix B

Treasury Management Monitor - June 2019





	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	2.5	-1.0	17.0	-10.0
MMF - VNAV	0.0	0.0	0.0	0.0
Sub-Total	**2.5**	**-1.0**	**17.0**	**-10.0**
Deposits - Fixed				
UK Bank & Building Soc.	0.0	0.0	6.0	0.0
Non-UK Banks	0.0	0.0	3.0	0.0
Debt Mgt Office	2.0	-2.0	3.5	-3.5
Local Authorities	0.0	0.0	3.0	-3.0
Sub-Total	**2.0**	**-2.0**	**15.5**	**-6.5**
Lloyds Bank PLC	1.2	0.0	0.0	-0.1
Sub-Total	**1.2**	**0.0**	**0.0**	**-0.1**
Total	**5.7**	**-3.0**	**32.5**	**-16.6**



	Schroders	Threadneedle	M&G	M&G Extra Income	Investec	Kames Capital	CCLA Property	All Funds
Last Month	-234350	340843	798739	-57744	11288	53031	164522	1076329
This Month	-235272	493552	945680	-44605	10699	78525	159816	1408395

Commentary

Average sum invested in the month £62.75m (Last year £59.64m)

Average sum invested for the year to date £61.08m (Last year £56.81m)

Actual sum invested at the end of the period £62.84m (Last year £58.53m)

Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £91547 a return of 0.85% [Annual Budget £171k]

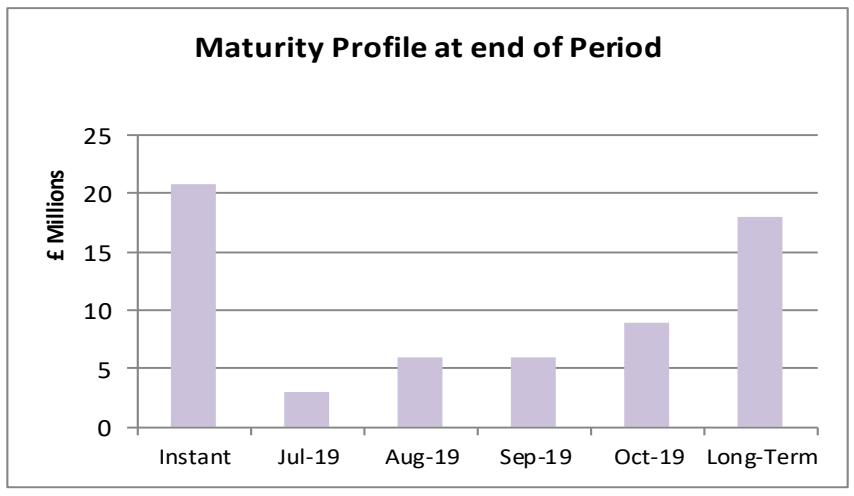
Note: 3mth Libid 0.77% 6mth LIBID 0.88%

Dividends earned (declared) on equity, property and diversified funds to the end of the period £193719 [Annual Budget £825k]

Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £1408395 a change of £332066 from last month

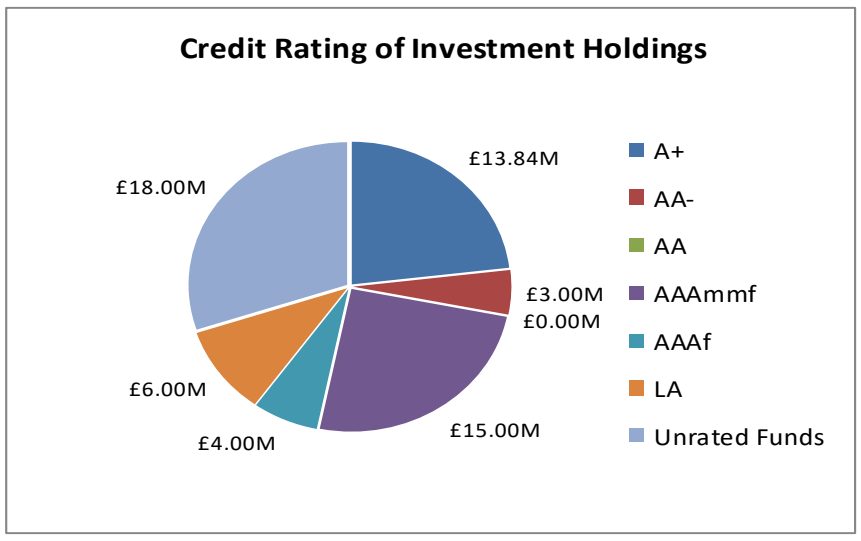
INVESTMENT HOLDINGS AT END OF PERIOD

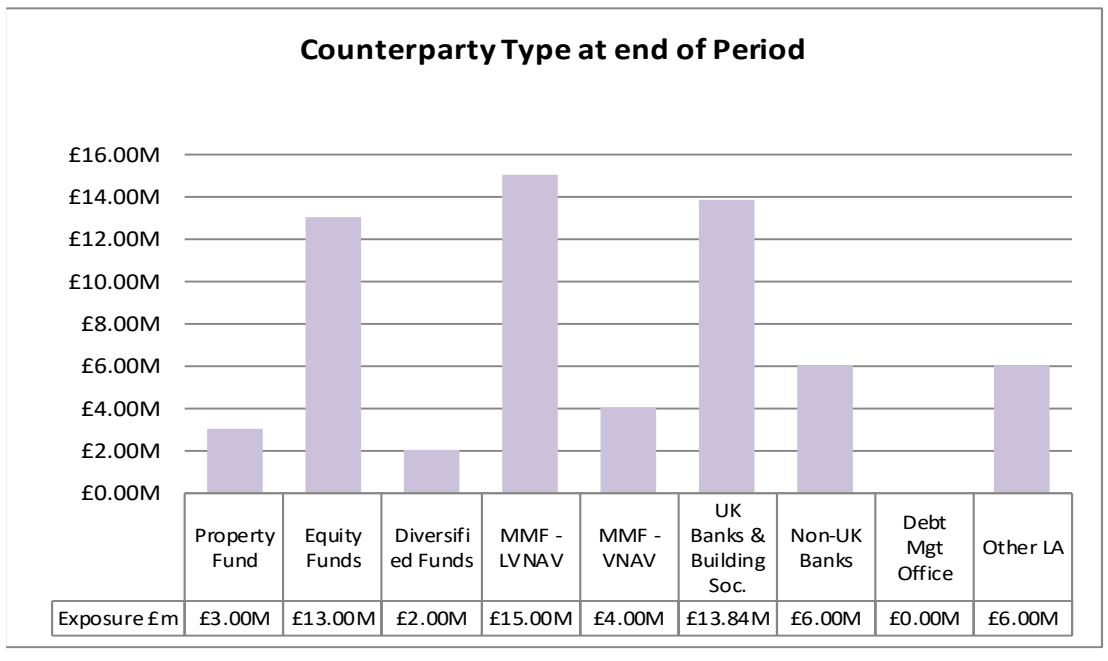
COUNTERPARTY	Type	Principal	Start	Maturity	Yield
SANTANDER	FIXED	3000000	01/02/2019	01/08/2019	1.00%
NATIONWIDE BS	FIXED	3000000	01/04/2019	01/07/2019	0.75%
COVENTRY BS	FIXED	3000000	01/04/2019	01/10/2019	0.94%
WEST DUNBARTONSHIRE COUNCIL	DEPOSIT - LA	3000000	08/02/2019	08/08/2019	0.98%
THURROCK COUNCIL	DEPOSIT - LA	3000000	18/04/2019	18/10/2019	0.90%
AUST AND NZ BANKING	FIXED	3000000	20/03/2019	20/09/2019	1.00%
LANDESBANK HESSEN-THURINGEN	FIXED	3000000	01/04/2019	01/10/2019	0.91%
BANK OF SCOTLAND	FIXED	3000000	01/03/2019	02/09/2019	1.00%
LLOYDS BANK	CALL A/C	1839000	30/06/2019	01/07/2019	0.65%
DEUTSCHE	MMF	5000000	30/06/2019	01/07/2019	Variable
GOLDMAN SACHS	MMF	5000000	30/06/2019	01/07/2019	Variable
ABERDEEN STANDARD	MMF	5000000	30/06/2019	01/07/2019	Variable



EXTERNAL FUND INVESTMENTS

SHRODERS INCOME MAX.	EQUITY	2500000	[redacted]	Variable
THREADNEEDLE UK EQUITY	EQUITY	5000000	[redacted]	Variable
M&G GLOBAL DIVIDEND	EQUITY	2500000	[redacted]	Variable
M&G EXTRA INCOME	EQUITY	3000000	[redacted]	Variable
KAMES CAPITAL	MULTI	1000000	[redacted]	Variable
INVESTEC	MULTI	1000000	[redacted]	Variable
CCLA – LAMIT PROPERTY	PROPERTY	3000000	[redacted]	Variable
ROYAL LONDON CASH PLUS	MMF-VNAV	4000000	[redacted]	Variable





CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Internal Audit Charter - updated	**Agenda No: 6**

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Trevor Wilson, Head of Finance**
Report prepared by:	**Angela Mitchell, Audit, Insurance & Fraud Manager**

Background Papers: Public Sector Internal Audit Standards (PSIAS)	**Public Report** **Key Decision: No**

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) came into effect on 1st April 2013 (and were revised March 2017). These standards form the proper practices for Internal Audit required by the Accounts and Audit Regulations 2015.

The PSIAS require an Audit Charter to be in place which will be reviewed periodically and presented to the Corporate Governance Group for approval.

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function.

The Internal Audit Charter has been updated, including to reflect the revised Committee structure, and reflects requirements of the PSIAS.

Recommended Decision:

To approve the updated Internal Audit Charter.

Purpose of Decision:

To ensure that there is an Internal Audit Charter which complies with the Public Service Internal Audit Standards (PSIAS).

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
Officer Contact:	Angela Mitchell
Designation:	Audit, Insurance & Fraud Manager
Ext. No:	2821
E-mail:	Angie.mitchell@braintree.gov.uk

INTERNAL AUDIT CHARTER

2019/20

Braintree District Council Internal Audit Charter

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INTERNAL AUDIT CHARTER

1. Introduction

The purpose, authority, and responsibility of the Internal Audit activity must be formally defined in an Internal Audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

The Internal Audit Charter establishes Internal Audit's position within Braintree District Council, including the Chief Audit Executive's reporting lines, authorisation to access to records, staff and physical properties relevant to the performance of engagements, and also defines the scope of Internal Audit activities. It is also a reference point for measuring the effectiveness of Internal Audit.

The Charter will be reviewed annually and presented to the Corporate Governance Group for approval

2. Purpose and Mission

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of the Internal Audit function is to provide independent, objective assurance and consulting services to the Council to add value and improve the Council's operations.

The Internal Audit mission is to *Enhance and protect organisational value by providing risk based and objective assurance, advice and insight.*

Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. The Council's response to Internal Audit activity should also lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

3. Standards and Statutory Requirements

The Accounts and Audit (England) Regulations 2015 require the Council to ensure it has a sound system of internal control which:

- Facilitates effective exercise of its functions and achievement of its aims and objectives.
- Ensures effective financial and operational management.
- Includes effective arrangements for risk management.
- Requires review of effectiveness of Controls, AGS, and Statement of Accounts, by a Committee or Full Council.

Section 5 of the Accounts & Audit Regulations refers specifically to Internal Audit:

- A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account *Public Sector Internal Auditing Standards or guidance.*

Section 151 of the Local Government Act 1972 also states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". The Corporate Director is the Council's S151 Officer.

The CIPFA Statement of the Role of Chief Financial Officer in Local Government also states that the Chief Financial Officer must:

- Ensure an effective Internal Audit function is resourced and maintained.
- Ensure that the authority has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

The Public Sector Internal Audit Standards (PSIAS) defines core principles, adoption of which enables the Audit function to be effective, and also provides additional Practice Advisories, Practice Guides and Position Papers to support Auditors in their role.

In addition to the PSIAS, the Internal Audit section will operate in accordance with mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the:

- Core Principles for the Professional Practice of Internal Auditing.
- Code of Ethics.
- International Standards for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.

The Audit Manager will report periodically regarding conformance to standards and requirements. (See also *13. Quality Assurance and Improvement Programme* below)

4. Definitions

For the purposes of this charter, the following definitions apply:

Board	The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At Braintree District Council this shall mean the Corporate Governance Group
Senior Management	Those responsible for the leadership and direction of the Council. At Braintree District Council this shall mean the Chief Executive, and the Management Team including Corporate Directors and Heads of Service. The Corporate Director (Finance) is also the S151 Officer.
Chief Audit Executive	The Chief Audit Executive (CAE) is the person tasked with directly managing the Internal Audit function. At

	Braintree District Council this role is performed by the Audit Insurance & Fraud Manager.
Consulting Activities	Internal Audit advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary
Standards	Public Sector Internal Audit Standards (PSIAS), and the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing

5. Professionalism & Ethics

Compliance with the Code of Ethics is mandatory, this code includes the following Principles relevant to the profession and practice of Internal Auditing:

Integrity:

- The integrity of auditors establishes trust and thus provides the basis for reliance on their judgement

Objectivity:

- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined
- Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements

Confidentiality:

- Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so

Competency:

- Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services

All records, documentation and information accessed in the course of undertaking internal audit duties shall be used solely for the conduct of internal audit activities. The Internal Audit Manager and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during their audit work.

6. Authority

The Audit Manager reports functionally to the Corporate Governance Group, and organisationally to the Head of Finance, and also has access to Corporate Directors and the Chief Executive who carry the responsibility for the proper

management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where considered necessary to the proper discharge of Internal Audit function, the Audit Manager has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Corporate Governance Group). The Audit Manager will communicate and interact directly with the Corporate Governance Group as appropriate.

To establish, maintain and assure that Braintree District Council's Internal Audit section has sufficient authority to fulfil its duties, the Corporate Governance Group will:

- Approve Internal Audit's charter.
- Approve the risk-based audit plan.
- Approve Internal Audit's strategy and resource plan.
- Receive communications from the Audit Manager on Internal Audit's performance relative to its plan and the results of the quality assurance programme, and other matters, such as significant findings and/or emerging risks.
- Make appropriate enquiries of management and the Audit Manager to determine whether there is inappropriate scope or resource limitations.

The authority of internal audit is set out in the Council's Financial Procedure Rules. There are no limits to Internal Audit's right of access to Braintree DC premises, property, documents and assets, and auditors may receive from any Council officer, agent or contractor appointed by the Council such information and explanations which it considers necessary for the purpose of the audit and to fulfil its responsibilities. In addition the Corporate Governance Group authorises internal audit to:

- Allocate resources, set frequencies, select subjects, determine scope of work and apply techniques required to accomplish audit objectives and issue reports.
- Obtain assistance from the appropriate personnel within the District Council and other specialised services in order to complete engagements.

7. Scope of Internal Audit Activity

The scope of internal audit encompasses, but is not limited to, the objective examination of evidence for the purpose of providing independent assessment to the Corporate Governance Group, management and other parties such as External Audit on the adequacy and effectiveness of governance, risk management and control processes for Braintree District Council. This extends to any services provided through partnership arrangements or external providers.

A range of internal audit services are provided to form the annual opinion. The approach is determined by the Audit Manager giving consideration to the assurance required, the significance of the objectives under review, inherent risks, and the level of confidence that controls are operating as intended. Internal audit assessments include evaluation of whether:

- Risks relating to the achievement of Braintree District Council's strategic objectives are appropriately identified and managed.
- Actions of Officers, Directors, employees and contractors are in compliance with Council policies, procedures, applicable laws, regulations and governance standards.
- Results of operations or programmes are consistent with established goals and objectives.
- Business systems and process are carried out effectively and efficiently, and whether there is opportunity for performance improvement.
- Established processed and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

Internal Audit may also perform consulting activities (providing independent advice and guidance on governance, risk management and control issues) as appropriate for the organisation, and may evaluate specific operations at the request of the Corporate Governance Group or management, for example in respect of major projects and in the development of new systems and processes.

8. Independence & Objectivity

Internal Audit must be free from interference in determining the scope of activity, performing work and communicating results, and shall be free to review any aspect of service delivery, finance or governance, irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contracts or any other business arrangement).

The Internal Audit function is located within the Financial Services department. The Audit Manager reports to the Head of Finance who in turn reports to the Corporate Director (S151 Officer). The Audit Manager has a right of access to the Management Board, Chief Executive and Members.

The Audit Manager is responsible for ensuring Internal Audit remains free from conditions that threaten the ability of Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Where Audit staff have roles and/or responsibilities that fall outside the scope of Internal Audit, safeguards will be established to limit impairments to independence or objectivity. Internal Auditors, including the Audit Manager will:

- Disclose any impairment of independence or objectivity in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

Internal Auditor staff do perform some non-audit operational functions:

- The Audit Manager is also operationally responsible for the Insurance and Fraud functions. Responsibility for these operational areas is recognised by senior management and the Corporate Governance Group. The Audit Manager is not involved in audit reviews of these areas and to maintain independence will accept any recommendations arising from independent reviews. In 2019/20 the Insurance function was subject to an independent review by a Productivity Expert, the outcome of which was reported directly to senior management.
- The Senior Auditor performs the following non-audit operational activities, and will therefore not perform any audit in these areas:
    - Maintains, issues and records door access cards for the Council building (on receipt of instruction from line managers);
    - Provides ad hoc support for Barclaycard administration (the Corporate Director / S151 Officer and Head of Finance are the primary administrators);
    - EPay BACS user administration (this is expected to transfer to Finance staff when the system reverts to a cloud based system later in 2019);
    - Equifax passwords user admin (this system is used by both Fraud and Benefits staff).

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors will have no direct operational responsibility or authority over any of the activities they audit and therefore will not:

- Implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.
- Assess operations for which they had responsibility within the previous year (with the exception of follow ups).

The Audit Manager will confirm to the Corporate Governance Group, at least annually:

- The organisational independence of Internal Audit
- Any interference and related implications in determining the scope of Internal Auditing, performing work and/or communicating result

9. Reporting

<u>Assignment Reporting:</u>
Terms of Reference are agreed for each assignment, and a report is produced on completion of the assignment, including management responses to specific findings and recommendations. Heads of Service / Managers are responsible for providing prompt response to recommendations and for ensuring agreed recommendations are implemented in the timescales agreed with the auditor.

Internal Audit will follow up implementation of high and medium priority recommendations.

Senior Management / Corporate Governance Group Reporting:
The Audit Manager reports periodically on:

- Internal Audit's purpose, authority and responsibility.
- Internal Audit's plan and performance relative to the plan.
- Internal Audit's conformance with the IIA Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposure and control issues including fraud risks, governance issues and other matters requiring the attention of the Corporate Governance Group.
- Results of audit engagements or other activities, including opportunities for improving governance, risk management and control processes.
- Any response to risk by management that may be unacceptable to the Council.

The Audit Insurance & Fraud Manager is also responsible for delivery of an annual audit opinion and report that can be used to inform the Council's Governance Statement, the annual opinion will conclude on this overall adequacy and effectiveness of the Council's framework of governance, risk management and control, based on

- The internal audit work carried out.
- Follow up on the implementation of high and medium priority recommendations.
- Any significant governance issues (as reported within the Council's Annual Governance Statement).
- The annual review of effectiveness of Internal audit (see QAIP).

Annual Governance Statement:
The Audit Manager's annual overall opinion on the Council's internal; control environment, risk management arrangements and governance framework supports the Council's Annual Governance Statement

10. Resources

The Corporate Director (S151 Officer) and Head of Finance will provide the Audit Manager with the resource necessary to fulfil the Council's requirements and expectations for a robust and adequately scoped Internal Audit opinion. The Audit Manager will, at least annually, submit to Senior Management and the Corporate Governance Group an Internal Audit Plan for review and approval. The plan will take into account the requirement to produce an annual Internal Audit Opinion and the assurance framework, and will be developed based on a prioritisation of potential audit activities. Significant matters affecting delivery of the plan will be discussed with senior management and the Corporate Governance Group. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

The Audit Manager is responsible for delivery of the plan and will ensure the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience. The level and nature of resources required to deliver an adequate level of coverage of the Internal Audit Plan will be determined with due

consideration to the content and complexity of audits and auditor experience. Any significant imbalance and proposed solutions will be reported to senior management and the Corporate Governance Group.

Internal audit services are provided by staff employed directly by the Council, additional resources would be achievable by working with a partner or external contractor.

11. Fraud and Corruption

Internal auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

The Council's Constitution requires Heads of Service and Corporate Directors to immediately notify the Corporate Director (Finance) of any circumstances which may suggest the possibility of financial irregularity. The Audit Manager will determine the audit response to allegations on the basis of risk, and the Council's Disciplinary Rules and Procedure will be applied as appropriate.

The Council's Counter Fraud Strategy and the Fraud Corruption and Dishonesty Policy confirm these arrangements.

12. Relationship with External Audit and Other Assurance Activities

Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance provider, and will plan work to ensure adequate coverage and to minimise duplication of the assurance effort. External Audit will have unrestricted access to all Internal Audit strategies, plans, working papers and reports.

13. Quality Assurance & Improvement Programme (QAIP)

The Chartered Institute of Internal Auditors has defined mandatory Core Principles which, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective and achieve it mission, all Principles must be present and operating effectively. The Core Principles are:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;

- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive and future-focussed;
- Promotes organisational improvement.

Internal Audit will maintain a QAIP which covers all aspects of the Internal Audit activity. The programme will include an evaluation of Internal Audit's conformance with the Principles, the Standards, and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics (see *5. Professionalism and Ethics* above). The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The programme includes:

- An annual internal self-assessment of conformance with the Public Sector Internal Audit Standards (including the Principles, Standards and Code of Ethics). The results of this assessment will be communicated to senior management and the Corporate Governance Group;
- An external quality assessment will be conducted at least once in every 5 years and may be a full external assessment or a self-assessment with validation by a qualified independent assessor. The results of this assessment will also be communicated to senior management and the Corporate Governance Group;
- The Audit Manager defines the Internal Audit approach and conducts assignment reviews to ensure consistent application of the standards.

Instances of non-conformance with the Standards will be included in the annual Internal Audit report. If there is significant con-conformance this will be included in the Council's Annual Governance Statement.

Angela Mitchell
Audit, Insurance & Fraud Manager
July 2019

CORPORATE GOVERNANCE GROUP
25th July 2019

Internal Audit Update, Including Progress Against Audit Plan 2019/2020	**Agenda No: 7**

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**
Report prepared by:	**Angela Mitchell, Audit, Insurance and Fraud Manager**

Background Papers: None.	**Public Report** **Key Decision: No**

Executive Summary:

The Internal Audit Plan for 2019/2020 was approved by the Governance Committee on 24th April 2019. This report provides Members with an update on progress against planned work and any other matters affecting the provision of the Internal Audit Service.

Recommended Decision:

That Members note the progress against the Revised Internal Audit Plan 2019/20.

Purpose of Decision:

The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Corporate Governance Group, being the Committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

This report provides an update on Internal Audit activity, and progress and performance against the approved Internal Audit Plan in accordance with the Corporate Governance Group role and the requirements of the PSIAS.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
Officer Contact:	Angela Mitchell
Designation:	Audit, Insurance and Fraud Manager
Ext. No:	2821
E-mail:	Angie.mitchell@braintree.gov.uk

1. INTRODUCTION

The revised Internal Audit Plan was approved by the Governance Committee on 24th April 2019. This report identifies progress against the plan, the outcome of audits completed since the last report to the Governance Committee, and other work completed.

2. PROGRESS AGAINST THE INTERNAL AUDIT PLAN 2019/20

The progress against the Internal Audit Plan for 2019/20 is detailed in Appendix 1 to this report.

The following audits have been completed since the last report to the Governance Committee (24th April 2019). Appendix 2 provides a summary of the outcomes of these audits:

- Projects (Other) – **Significant Assurance**
- Asset Acquisitions – **Significant Assurance**
- Business Continuity **– Limited Assurance**
- Risk Management – **Significant Assurance**
- Overtime (Operations) – **Full Assurance**
- Agency Staffing (Operations) – **Full Assurance**
- Taxi Licensing **– Full Assurance**

The proportion of planned work completed has been/will be affected by the following factors:

- Significant resources were spent conducting formal investigations on three matters brought to the attention of the Audit Team; the outcome of these investigations is summarised in Appendix 2.
- The Trainee Auditor left the Council at the end of June 2019; recruitment is currently in progress to source her replacement.
- The Audit Manager's time is also spent on Insurance matters (including the renewal process, review of the scope of cover and claims management), and Fraud (including the application of sanctions, development of fraud related policies and strategies, and review of the scope of anti-fraud activity).
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

The Internal Audit Plan is prioritised; audit resources will be focussed in the areas considered to be greatest priority and progress of and any changes to planned work will be reported to the Corporate Governance Group at each meeting.

3. OTHER INTERNAL AUDIT ACTIVITY

The service continues to implement actions arising from the External Quality Assessment of the service as reported to the Governance Committee in April 2018. An update of the progress of implementation was provided to the Governance

Committee in October 2018, and an overview was included in the Annual Report to the Governance Committee in April 2019. A further assessment against the Public Sector Internal Audit Standards will be provided to a future meeting of the Corporate Governance Group.

In addition to Planned Audit Work, the service provides consultancy and advice, a summary of the areas where such additional support has been provided are included in Appendix 1.

APPENDIX 1 – PROGRESS AGAINST THE 2019/20 INTERNAL AUDIT PLAN

This Appendix summarises the work completed in respect of the 2019/20 Internal Audit Plan (approved by the Governance Committee in April 2019), and also reflects the audits from the 2018/19 Internal Audit Plan (approved by the Governance Committee in July 2018) which were in progress at the close of 2018/19. Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales.

	Audit Priority		**Current Status**	**Completed – Date Report to Governance Committee**
2018/19 Revised Internal Audit Plan – Audits In Progress At April 2019				
	Projects - Other	1	Completed	25 July 2019
	Asset Acquisitions	1	Completed	25 July 2019
	Business Continuity	1	Completed	25 July 2019
	Risk Management	1	Completed	25 July 2019
2019/20 Internal Audit Plan – All Audits				
1	Core Financial Systems	1		
2	Contract Management – Major Contracts	1	TOR Prepared	
3	Online Payments system	1	TOR Prepared	
4	Payroll	2		
5	Overtime - Operations	2	Completed	25 July 2019
6	Operations Quotations	3		
7	Debtors Efficiency	3		
8	North Essex Garden Communities (NEGC)	1		
9	S106 Income	2		
10	Development Management	1	TOR Prepared	
11	Planning Agreements	2		
12	Community Transport Volunteers	2		
13	Handy Person Scheme	2		
14	Safeguarding	2		
15	Contract Management	1		
16	DVSA Compliance	2		
17	Agency staffing – Operations Service	2	Completed	25 July 2019

18	Taxi Licensing	2	Completed	25 July 2019
19	Organisational Learning	3		
20	Pest Control	3		
21	Housing Application Document Verification	2		
22	Investments	2		
23	Risk Management	1		
24	Business Resilience	2		
25	Information Management	1	TOR Prepared	
26	Corporate Governance	1	TOR Prepared	
27	Digital Strategy and Cyber Security	1	TOR Prepared	
28	Culture & Ethics	2		
29	PCI DSS Compliance	2		
30	Uniform System - Street Scene Protection Scheme	3		
31	Performance Management	3		
32	Strategic Investment Projects - Advisory	1		
33	Annual Governance Statement	1		
34	Follow Up Reviews	2		
35	Fraud Risks	2		
Additional Work Completed				
	Barclaycard purchases		Completed	25 July 2019
	Vending Machine funds		Completed	25 July 2019
	Fitness Class Income		Completed	25 July 2019
	Access Cards (Members)		Completed	25 July 2019
	Council Tax Review (Members)		Completed	25 July 2019

ADDITIONAL WORK COMPLETED

Since the last report to the Governance Committee, the following additional work has also been performed by the Internal Audit Function. The outcome from this work is summarised in Appendix 2:

- Review of Barclaycard purchases
- Vending Machine Funds
- Use of Funds Paid by Staff

Consultancy

Since the last report to the Governance Committee, the function has provided ad hoc advice and guidance in a number of areas, including:

- Guidance on service provision for a customer in debt to the Council
- Review of Members Council tax status (prior to Full Council)
- Support to Procurement to update approver levels on Marketplace

- Provision of BACS EPay transaction information to Finance (and additional updated information)
- Liaison with Human Resources regarding an employee payment
- Advice to Council tax regarding the Direct Debit Guarantee
- Advice on periodic invoices process
- Advice on cash handling procedures
- Advice on appropriate controls for a review of authorisation limits
- Consultation regarding procurement arrangements for Assets
- Assistance in revision of Marketplace user profiles
- Support to Finance for Float reconciliation
- Advice on contract authorisation protocols
- Advice on arrangements for purchase of stocks and supplies
- Fraud advice to a customer who had received scam phone calls

APPENDIX 2 - OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO GOVERNANCE COMMITTEE (24th April 2019)

The following work has been completed since the preparation of the report for the Governance Committee meeting (24th April 2019):

Audit	Overview of Scope	Summary of Findings	Recommendation(s)	Priority	Agreed / Responsible Officer / Action Date
Projects – Other **Significant Assurance**	The audit reviewed the following: - Did projects operate in accordance with corporate objectives - Were Business Cases and Project Initiation documents completed - Were Project Plans completed - Were financial arrangements defined and risk management completed - Were change control notices completed - Was regular project monitoring taking place - Were project post implementation reviews completed	Generally good practice relating to: - Projects and project updates were recorded on the Performance Management system - Regular review by managers of projects within their service area and periodic oversight by Management Board, Governance Committee and Cabinet - Projects were linked to corporate priorities There were some opportunities to improve: - Business cases and Project Initiation documents were not always completed - Project plans and change control notices were not always completed - Project post implementation reviews did not take place	a) Project management processes are followed: Business Plans, Project Initiation Documents (PID), Risk Assessments and Project Plans are completed. b) Project Management processes are followed: Change Management, and Post Implementation Reviews	Medium	Service Unit Managers reminded of requirements by Internal Audit A follow up review will be undertaken later this year
Asset Acquisitions **Significant Assurance**	The audit reviewed the following: - Asset acquisition processes - Whether purchasing	Good practice relating to: - The Asset Management team staff includes Chartered Surveyors and a Legal Executive - Monthly budget reports are prepared	a) Document processes involved in acquisition of assets	Medium	Head of Asset Management a) Will complete September 2019

	was in accordance with Contract Procedure Rules - Production of management information	- Annual condition surveys are prepared and used to produce planned maintenance schedules There were some opportunities to improve: - The team has adopted procedures including a Director review of the investment appraisal, but procedures are generally not documented - Procurement quotations registers and exemption forms were not always completed	b) Ensure quotation registers and exemption forms are completed		b) Completed
Business Continuity **Limited Assurance**	The audit reviewed the following: - Did Business continuity & Disaster Recovery (BC & DR)plans reflected key risks, key corporate activities or priorities - Were BC & DR plans reviewed, up to date and tested regularly - Had resources and inter-dependencies been identified and verified - Had training been provided to key staff	The Limited Assurance assessment reflected the status of the Council's preparedness for Business Continuity as assessed at the time of the audit, a number of actions to resolve identified weaknesses are currently in progress and the direction of travel is positive. Staff have completed training and are reviewing plans, including to demonstrate the link to other Council policies, and are reviewing engagement with management. The previous plan was reviewed and tested in 2017, and actions arising from that review were implemented. The ICT Plan has been updated, and a Cyber Security review completed	a) Ensure the new plan includes definitions of key services and functions, and clear recovery plans b) Corporate Business Continuity Plan and management engagement to be reviewed, and revise the pro-forma for Service BC plans c) Determine testing schedule including frequency, method, post-test reporting and engagement with key persons	Medium	Business Continuity arrangements are being developed, and will require ownership and input from services. Plans will be tested, and service level measures will reflect risks
Risk	The audit reviewed the	Good practice relating to:	a) Review the Risk	Medium	To be considered

Management **Significant Assurance**	following: - Risk Management policy - up to date and adequately defined risk management protocols - Is Risk maturity assessed - Was the Risk Register up to date, and did it clearly state the risks and actions to mitigate them - Were risks periodically reviewed and mitigating actions monitored	- A strategic risk register is maintained and reviewed by the Management Board and Governance Committee - We confirmed existence of majority of stated mitigating controls for 2 risks There were some opportunities to improve: - The Risk Policy & Strategy had not been reviewed since 2006 and was not easily accessible to staff - There had not been a periodic review of the approach to risk management - Key aspects of risks in the Strategic Risk Register were not clear, the register included both strategic and operational risks - Not all Operational risk registers were subject to regular review - BC workforce planning was not clear for all services reviewed	policy, strategy & implementation plan at least annually b) Add the Risk Management policy to the intranet to ensure it is accessible c) Review the scope and content of the Strategic Risk Register in line with the updated policy, and ensure risks are clear d) Implement process to ensure operational risk registers are up to date and linked to service business plans e) Monitor risks to manage to below the tolerance level		by management, anticipated that actions and training will be determined and delivered as part of the Business Planning process which commences in Autumn 2019
Overtime – Operations **Full Assurance**	The audit reviewed the following: - The recording of overtime claims (accuracy of payments and management information) - Defined parameters for entitlement and	Good practice relating to: - Overtime claimed is recorded and approved by a Team Leader or Supervisor - Overtime was paid in accordance with agreed protocols	N/A	N/A	N/A

	authorisation of overtime - Management checks and oversight				
Agency Staffing – Operations **Full Assurance**	The audit reviewed the following - The approach to identifying daily staffing needs - Communications between the service and agency to ensure delivery of required staff - Allocation of agency staff	Good practice relating to: - Clear system for identifying daily staff needs, good communication, including weekly meetings with the agency, and clear approach to allocation of staff We noted that the current spend on agency staffing exceeded the value recorded in the Contract Register. The Procurement team were aware of the limited market, and the contract will be retendered for April 2020. An LGA Funded Productivity Expert study was carried out in 2018 and included Agency staff spend, the Council's Commercial Manager is preparing to report to the Corporate Management Board with findings and proposals to work towards cost effective ways to meet staff demand	N/A	N/A	N/A
Taxi Licensing **Full Assurance**	The audit reviewed the following: - To ensure safeguarding requirements were addressed - Application forms and knowledge tests were completed - Right to work was verified, DBS checks conducted and fee paid	Good practice relating to: - Application forms were completed and fees paid - Applications were processed promptly with the appropriate validity checks being made Current safeguarding requirements were met, although we noted that the Department for Transport has recently conducted consultation on statutory guidance for Licensing Authorities, therefore requirements may be subject to change	N/A	N/A	N/A

The following unplanned work was also undertaken by the Internal Audit Team:	
Investigations: - **Barclaycard Purchases** - **Vending Machine Funds** - **Use of Funds Paid by Staff** **(No Assurance Level Assigned)**	Barclaycard Purchases: This was an unplanned review of controls relating to purchases made using a Council Barclaycard, identified in management checks by the Head of Finance. The review identified weaknesses in controls relating to: the security, treatment and recording of items of value; segregation of duties such that one person does not have sole control over the purchase, distribution, recording and reconciliation of items of value; the security of arrangements where funds or items of value are transferred between organisations; the effectiveness of oversight arrangements for projects involving the handling and distribution of funds In addition, feedback was also provided to a partner organisation with whom the Council was working in connection with the purchases. Vending Machine Funds: This was an unplanned review of the use of funds claimed through Petty Cash for use in the Council's drinks vending machines, and followed an unusual pattern of claims being identified by Cashiers. The review identified some weaknesses in the availability of machine records and in authorisation and oversight of Petty Cash claims Use of funds Paid by Staff This was an unplanned review of the use of funds paid by staff which established staff funds had been borrowed by a member of staff for personal use, the funds had been paid back. Staff were advised this was not appropriate and notified of the persons they could approach with any concerns or questions.

Key:

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

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

CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Statement of Accounts 2018/19 and the External Auditor's Audit Completion Report	**Agenda No: 8**

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Phil Myers, Financial Services Manager**
Report prepared by:	**Phil Myers, Financial Services Manager**

Background Papers: Braintree District Council's Statement of Accounts 2018/19 Statement of Accounts 2018-19 Accounts and Audit (England) Regulations 2015	**Public Report** **Key Decision: No**

Executive Summary:

A draft set of Statement of Accounts were signed on 25th May 2019 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 31st March 2019.

The draft Statement of Accounts is available to view on the Council's website: **Here**

The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on International Financial Reporting Standards (IFRS), except where these are inconsistent with specific statutory requirements.

The Code constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.

The key change in the Code for 2018/19 was the adoption of IFRS9 Financial Instruments. Under IFRS9, changes have been made to the categories used for the Council's financial instruments (e.g. investments) and changes in the fair value of pooled funds is now recognised in the Surplus or Deficit on the Provision of Services (as reported in the Comprehensive Income and Expenditure Statement). This change potentially meant that unrealised gains or losses on these investments would directly impact on General Fund balances; however, under new statutory regulations issued by the Ministry for Housing, Communities and Local Government (MHCLG), any such gains/losses are deferred for up to a period of 5 years ending on 31st March 2023 or, if earlier, when shares or units are sold.

The Council's External Auditor, BDO LLP (BDO), commenced their final audit of the accounts on Monday 3rd June 2019. The findings from the audit are set out in the Draft Audit Completion Report appended to this report. During the audit, the Council agreed to a number of changes to be made to the draft accounts. It is currently anticipated that the auditor will issue an unqualified opinion on the accounts, and the final accounts will be published on/before the statutory deadline of 31st July 2019.

The External Auditor's report contains a request (Appendix D to the Draft Audit Completion Report), for the Council to provide a Letter of Representation to be signed by the Corporate Director and Chair of the Corporate Governance Group. A Letter of Representation has been prepared and covers the matters identified by the External Auditor. This will be available at the meeting.

The accounts were available for public inspection between 3rd June and 12th July 2019. There were no requests received to inspect the accounts.

Recommended Decision:

1. To receive and note the External Auditor's Audit Results Report for the year ended 31st March 2019.
2. To approve certification of the Letter of Representation by the Corporate Director and Chair of the Corporate Governance Group.
3. To approve the Council's Statement of Accounts 2018/19, subject to the changes being made as agreed with the External Auditor.

Purpose of Decision:

To comply with the Accounts and Audit Regulations that Members approve the Council's Statement of Accounts with the benefit of the External Auditor's report to the Corporate Governance Group.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	No new financial implications. The financial outturn for 2018/19 was reported to Cabinet on 8th July 2018, and this position has not changed as a result of the preparation and audit of the Statement of Accounts.
Legal:	The approval process for the Statement of Accounts is required under statutory rules set out in the Accounts and Audit Regulations. For 2018/19, the draft accounts were required to be completed by no later than 31st May, and the audited and final approved Statement of Accounts published by 31st July 2019.
Safeguarding:	No matters arising out of this report.

Equalities/Diversity:	No matters arising out of this report.
Customer Impact:	No matters arising out of this report.
Environment and Climate Change:	No matters arising out of this report.
Consultation/Community Engagement:	The draft Statement of Accounts was made available for public inspection over the period 3rd June to 12th July 2019.
Risks:	No matters arising out of this report.
Officer Contact:	Phil Myers
Designation:	Financial Services Manager
Ext. No:	2810
E-mail:	Phil.myers@braintree.gov.uk

Report to the Corporate Governance Group

BRAINTREE DISTRICT COUNCIL

Draft Audit Completion Report: Year ended 31 March 2019

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BDO

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We have pleasure in presenting our Audit Completion Report to the Corporate Governance Group. 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 completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Corporate Governance Group. At the completion stage of the audit it is essential that we engage with the Corporate Governance Group on the results of our audit of the financial statements and use of resources 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 Corporate Governance Group meeting 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.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Corporate Governance Group will refer such matters to the Council, together with any recommendations, as it considers appropriate.

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.

[insert signature]

Aphrodite Lefevre

[date]

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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 and use of resources. This report has been prepared solely for the use of the Corporate Governance Group 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.

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This summary provides an overview of the audit matters that we believe are important to the Corporate Governance Group in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2019.

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.

Overview

We have completed the majority of our audit work and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 35 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Note, this report is currently in draft while we conclude our audit work, a final version will be issued. An oral update will be provided to the group at the meeting on the 25 July 2019.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and use of resources subject to the completion of the outstanding work.

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THE NUMBERS

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Final materiality

Final materiality was determined based on gross expenditure.

There were no changes to final materiality and triviality from that reported in our Audit Plan.

Material misstatements

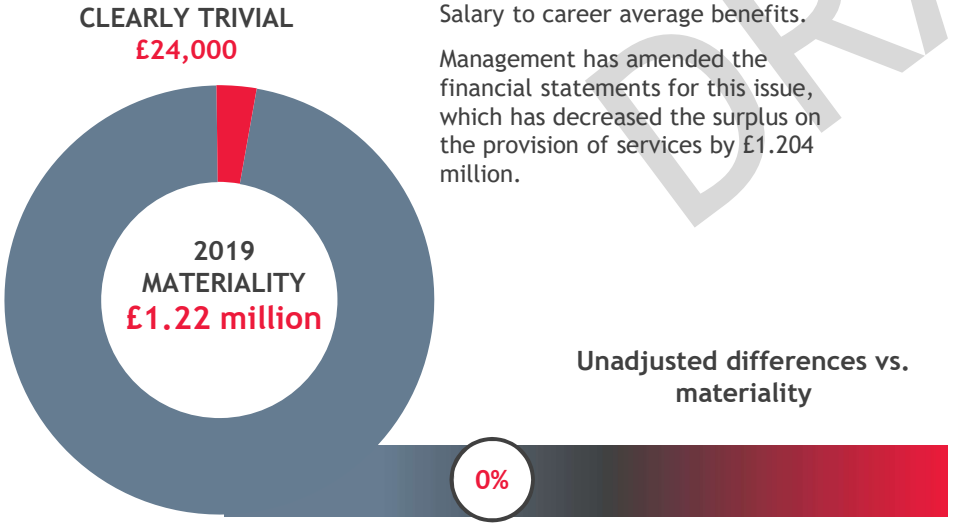
Our audit identified one material misstatement.

As a result of the Government not being given leave to appeal in relation to the "McCloud" Age discrimination case after the Council had authorised the accounts for issue on 25 May 2019, an adjustment is required to the accounts. It has been determined that the Council should account for the additional expected pension liabilities in 2018/19 as a result of the principals of this case being expected to also apply to the LGPS move from Final Salary to career average benefits.

Management has amended the financial statements for this issue, which has decreased the surplus on the provision of services by £1.204 million.

Unadjusted audit differences

We did not identify any audit differences that have not been adjusted.



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Financial reporting

- Based on work to date we have not identified any non-compliance with accounting policies or the applicable accounting framework.
- IFRS 9 *Financial Instruments* resulted in significant accounting policy changes that has impacted the current year resulting in the creation of a new Pooled Investment Fund Adjustment Account. We are satisfied with this accounting treatment.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool.

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 Ethical Standard.

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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 11 January 2019 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.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	Work still on going	No	Work still on going
Revenue and Expenditure recognition	Significant	No	No	Work still on going	No	Work still on going
Non Current Asset Valuations	Significant	Yes	Yes	Work still on going	Work still on going	Work still on going
Pension Liability Assumptions	Significant	Yes	Yes	Yes [1]	No	No

Areas requiring your attention

[1]Amendment arises as a result of the Government being refused leave to appeal the age discrimination case brought in relation to the New Judicial Pension scheme (known as the McCloud Judgement) and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019

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

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
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- Letter of Representation point

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

Results

Our audit work on journals has not identified any issues. We have noted that the Council does not have a policy of all journals requiring authorisation on the financial accounting system which we consider increases the risk of management override.

Our work to date on estimates has not identified any bias indicating a risk of material misstatement.

We have obtained an understanding for transactions outside the normal course of business for the Council such as land purchases and have not identified any indications of management override.

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REVENUE AND EXPENDITURE RECOGNITION

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Risk description

Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.

In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

Following our interim work, we have concluded that we can rebut the risk relating to fees and charges being materially misstated.

As most public bodies are net spending bodies due to being partly grant funded, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. Therefore we also consider there to be a significant risk around the completeness of expenditure.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.
- Tested an increased sample of transactions to ensure that expenditure has been recorded in the correct period.

Results and Conclusion

Our testing to date has not identified any issues, however a small number of samples are pending further evidence. We expect to receive this information prior to the Corporate Governance Group meeting.

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Risk description

Local authorities are required to ensure that the carrying value of non-current assets 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.

The Council appointed an external valuer to carry out revaluations on a sample of assets as at 31 March 2019.

Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or 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 can rely on the management expert.
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their use.
- Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions.
- Checked that the accounting policy adopted in relation to the valuation of assets is reasonable.

Results and Conclusion

Our audit work in relation to the accuracy and completeness of the data provided to the valuer and the assumptions used by the valuer is still ongoing.

We have reviewed the instructions to the valuer and the valuers skills and expertise and have determined that we are able to rely on them.

We have reviewed the accounting policy adopted for valuations and have no issues that we wish to report.

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Significant accounting estimates

Overview

Land and buildings used by the council for operational purposes are valued by reference to existing use market values Investment properties are valued by reference to highest and best use market value.

We have benchmarked the valuation movements to land and building price indices for the year produced by Gerald Eve LLP and reviewed the information and assumptions used by the valuers.

Discussion

Land and buildings have increased by £3,458,000 (5.4%) in 2018/19.

Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the use of the asset.

At the time of writing our work on the assumptions used by the valuers is still on going. As part of this work we will consider reasons as to why the valuation movements are different to the benchmark report as set pout below.

Our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +2.8%, although this is subject to a higher degree of volatility and estimation from regional costs and other factors.

Investment properties have increased £1,050,000 (3%) in 2018/9.

Our benchmark report for the eastern region suggests an increase of 4.2% for office space and an increase of 10.5% for industrial space. The report is done on a regional basis and may not be granular enough for local circumstances.

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Risk description

The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund, and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the membership data and cash flows provided to the actuary as 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Work performed

- Reviewed the consulting actuary report over the competency and experience of the actuary and reasonableness of assumptions used.
- Reviewed the competence of the management expert (actuary).
- Agreed the disclosures to the information provided by the pension fund actuary.
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.
- Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- Checked whether any significant changes in membership data have been communicated to the actuary.

Results

No issues have been noted from our work to date, however we are still awaiting the assurance letter from the auditors of the Pension Fund.

The Government have been refused leave to appeal the age discrimination case brought in relation to the New Judicial Pension scheme (known as the McCloud Judgement). Therefore the accounts will require amendment to reflect the additional liability which is yet to be confirmed.

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PENSION LIABILITY ASSUMPTIONS

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Significant accounting estimates

Pensions disclosures with the councils accounts are based on a number of assumptions which are made by the Actuary as Managements Expert.

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Braintree's share of the LGPS net pension liability reduced by £8.2 million to £58.4 million in the year. This includes an increase in scheme assets of £9.1 million from interest and gains on investments and an increase in liabilities of £0.9 million.

We have compared the assumptions used to an acceptable range and those used across the local government actuaries. The PwC consulting actuary review of the relative strength of the main assumptions suggests that the methodologies used will produce reasonable assumptions for all employers.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.45%	3.40 - 3.45%	Reasonable
- CPI increase	2.45%	2.40 - 2.45%	Reasonable
- Salary increase	3.95%	3.10 - 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.45%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Mortality:			
- Male current	22.9 years	22.4 - 25.0	Reasonable
- Female current	25.4 years	25.0 - 26.6	Reasonable
- Male retired	21.3 years	20.6 - 23.4	Reasonable
- Female retired	23.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

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

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Fraud

Whilst the directors 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 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 Plan on 23 January 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements. However we are still awaiting confirmation from the Monitoring Officer that there are no changes since year end.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Related parties

Whilst 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.

We did not identify any significant matters in connection with related parties.

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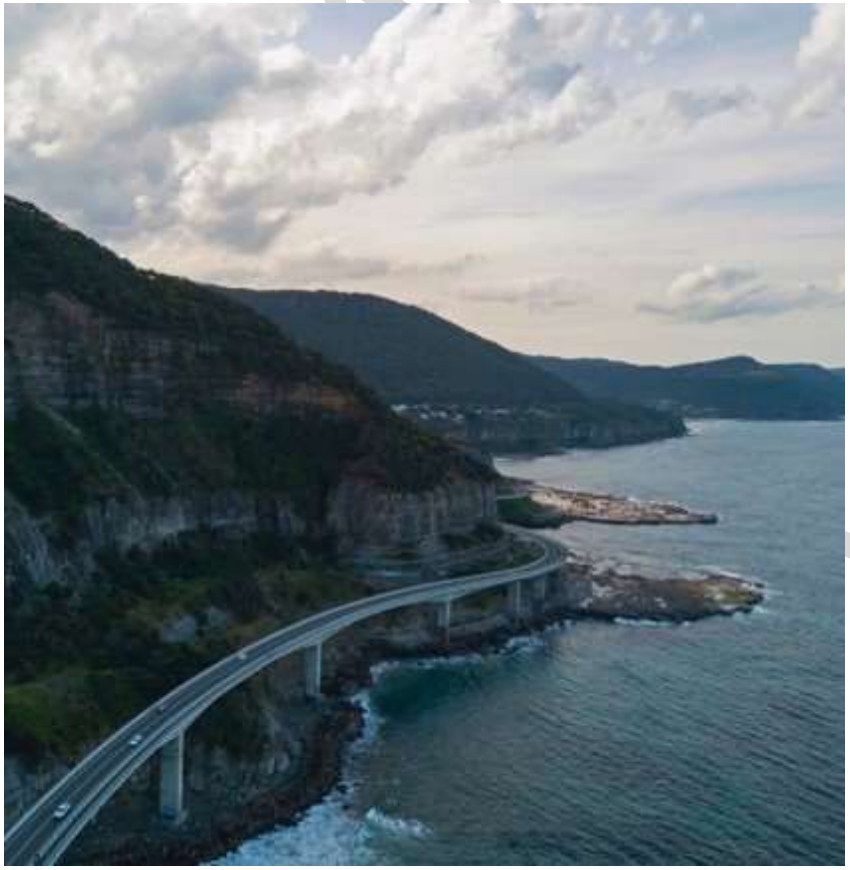

Unadjusted audit differences

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

We have no unadjusted audit differences to bring to your attention although our work remains on going in certain areas. We will update the Corporate Governance Group at the meeting on 25 July 2019.

Adjusted audit differences

As a result of the government not being given leave to appeal the McCloud case the Council has amended its accounts to reflect the potential increase in liability.

This decreased the draft surplus on the provision of services and decreased net assets by £1.204 million.

The general fund balance is not impacted as a result of these adjustments, however unusable reserves have decreased by £1.204 million.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Adjusted audit differences	NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
Surplus on the provision of services before adjustments	(5,990)				
1: Change in Pension Liability as a result of the McCloud Judgement					
DR Pensions Past Service Cost		1,204			
CR Pensions reserve (unusable reserve)				1,204	
Total adjusted audit differences	1,204				
Adjusted surplus on the provision of services	(4,786)				

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We are required to bring to your attention other financial reporting matters that the Corporate Governance Group is required to consider.

Unadjusted disclosure omissions and improvements

We have no matters to report however our work is still on going and will be subject to quality reviews which may identify other matters to report.

Adjusted disclosure omissions and improvements

One disclosure matter was noted. The Council sold land in June with a material value, this has been disclosed as a non adjusting subsequent event.

Our work is still on going and will be subject to quality reviews which may identify other matters to report.

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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.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
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.

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WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We are planning to submit the relevant section of the assurance statement to the National Audit Office by 31 July 2019.

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We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No
Commercialisation agenda	Informed decision making	Significant	No

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Sustainable resource deployment

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Risk description

The update to the Medium Term Financial Strategy to 2022/23 has forecast further reductions in Government core grant funding. The Council is in a relatively strong financial position due to successfully achieving savings plans in previous years, largely from its commercialisation agenda. A balanced budget has been set for the next few years, with a budget gap expected to arise from 2020/21 of £508k.

Work performed

We have:

- Reviewed the assumptions used in the Medium Term Financial Strategy, particularly around the likely levels of income from commercial activities.
- Reviewed the Council's capital/revenue planning for future capital projects and investments.
- Monitored the delivery of the budgeted savings in 2018/19 and the plans to deliver identified savings for 2019/20.

Results and conclusion

The Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term.

We have reviewed the MTFS and the assumptions used for revenue planning and are content that these are reasonable. The Council made a surplus compared to budget of £1.5million in 2018/19 which is currently being reviewed to help understand the different elements and impact on future years' savings targets. The Council is budgeting a small surplus for 2019/20 and deficits totalling £700,000 for the following 3 years. However, these deficits are considered relatively small compared to the unallocated general fund balance of £5.7 million and the surplus made this year and it is likely that savings will be identified by the Council.

We have reviewed the Councils approach to capital planning and found no issues with their approach. All capital spend requires approval as part of the budget setting process.

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INFORMED DECISION MAKING

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Informed Decision Making

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Normal risk
Significant management judgement
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Unadjusted error
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Risk description

The Council continues to have a large commercialisation agenda to assist in generating income. This includes the Town Centre Redevelopment, Housing Developments, new Doctors' Surgeries, new industrial units, Garden Communities and the Horizon 120 project. Due to the nature and scale of some of these projects, there is a risk that the Council could not be adequately informed prior to the decision making as well as over the Council's ability to deliver such projects within the resources available.

Work performed

We have:

- Checked that any current or future borrowing considerations are in line with CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code.
- Reviewed the current governance and corporate arrangements for some of the large capital projects currently underway to ensure that they are fit for purpose.

Results and Conclusion

The Council has suitable arrangements in place for monitoring spend on the commercialisation projects that it is currently undertaking.

We have reviewed the Treasury Management strategy and Capital Strategy and confirmed that these are in accordance with the CIPFA Prudential code and Treasury Management code. The Treasury Management Strategy sets out how the Council has complied with the guidance and the prudential indicators that it measures itself against.

The Council are applying their standard expenditure and Budget monitoring polices to the Commercialisation projects. Initial approval is obtained from Full Council on recommendation of the Cabinet as part of the capital programme for the year. Delegated authority then applies to decisions in line with the Council's Constitution. Any decision made by the Cabinet remains subject to call in procedures.

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Corporate Governance Group.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, 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.

We do not have any significant deficiencies to report.

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Area	Observation & implication	Recommendation	Management response
Journals Authorisation	During the course of our work we noted that the Council does not require all journals to be authorised on the financial accounting system and instead relies on budgetary control to identify errors in posting. Currently controls include incoming journals to the finance team come from authorised individuals as recorded in a register maintained by Internal Audit; and only journals being produced in accountancy by senior staff with considerable knowledge/ expertise. Journals are then generally processed by other staff. All journals are referenced indicating the source of the journal, and who has processed the journal.	Introduce a system of journal authorisation or review within the financial accounting procedures to reduce the risk of fraudulent or incorrect journals being posted.	Procedures will be reviewed to assess whether it is practicable to introduce any additional controls over those currently in place.

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OVERVIEW

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Opinion on financial statements

Based on work done to date we anticipate issuing an unmodified opinion on the financial statements.

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

Conclusion on use of resources

We are proposing to issue an unmodified use of resources conclusion.

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.

Other information

We have not identified any material misstatements 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.

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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 2019.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Corporate Governance Group in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We note that the Councils Head of Internal Audit is a former BDO employee and left BDO in January 2018. She did not work with the current audit team and therefore we do not consider there to be a threat to our objectivity or 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 / Pension Fund.

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

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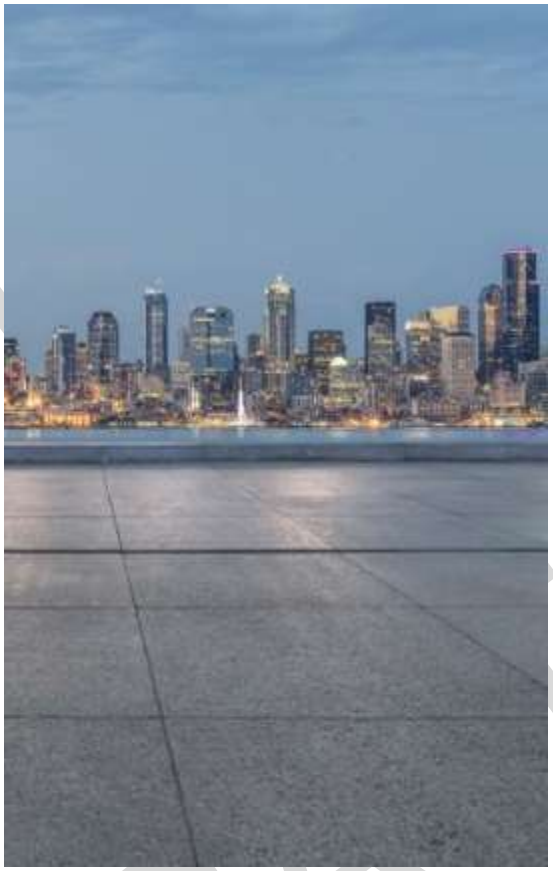
FEES

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee: financial statements and use of resources	46,012	46,012	59,579
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	Work not yet started	10,000	13,728
Fees for other non-audit services	-		16,333
Total fees		**56,012**	**89,817**



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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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 financial statements. We report our opinion on the financial statements to the members of 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 where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Corporate Governance Group 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.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION AND REPORTS ISSUED

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 Corporate Governance Group.

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 met 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
Fee Letter	28 April 2018	Governance Committee
Audit Plan	23 January 2019	Governance Committee
Draft Audit Completion Report	25 July 2019	Corporate Governance Group
Final Audit Completion Report	31 July 2019	Corporate Governance Group
Annual Audit Letter	August 2019	Corporate Governance Group

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We have completed the majority of our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

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 Corporate Governance Group meeting at which this report is considered:

- Receipt of letter of representation
- Receipt of revised accounts
- Completion of Manager and Director reviews
- Completion of work on Valuations of PPE and Investment property
- Completion of income and expenditure testing
- Completion of Subsequent events review
- Completion of Financial statement procedures
- Review of the NNDR appeals provision
- Receipt of remaining investment confirmations

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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 all 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 a 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

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Letter of representation

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[Client name and 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 2019

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 2019 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 Corporate Director (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 2019 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.

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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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.

To the best of our knowledge we are not aware of any 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

You have not advised us of any unadjusted misstatements in the financial statements or other information in the Narrative Report.

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 30 to the financial statements, there were no loans, transactions or arrangements between the Council and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

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 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. These assumptions include:

- Rate of inflation (CPI): 2.45%
- Rate of increase in salaries: 3.95%
- Rate of increase in pensions: 2.45%
- Rate of discounting scheme liabilities: 2.4%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

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b) Valuation of other land and buildings and investment properties

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

We confirm that the valuations applied to other 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.

We are satisfied that investment properties have been appropriately assessed as Level 2 or Level 3 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2019 are consistent with our knowledge of the business.

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

Chris Fleetham

Corporate Director (Finance)

[date]

Chair of Corporate Governance Group

FOR MORE INFORMATION:

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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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Operational Risk Management	**Agenda No: 9**

Corporate Priority:	**Delivering excellent customer service**
Portfolio Area:	**Corporate Services and Asset Management**
Report presented by:	**Trevor Wilson, Head of Finance**
Report prepared by:	**Trevor Wilson, Head of Finance**

Background Papers:	**Public Report**
Risk Policy, Strategy and Implementation Plan – Council 19th April 2006.	**Key Decision: No**

Executive Summary:

Operational risks are those risks identified by managers and staff which are likely to be encountered in the day-to-day work environment.

Annually, Heads of Service are requested to review and update the risks faced in their service areas and to incorporate these in their Business Plan. Risks identified which are significant, in terms of potential impact on the achievement of the Council's plans and objectives, will be considered for inclusion in the Council's Strategic Risk register. Risks identified relating to major projects are recorded in the specific risk register for the appropriate project.

A summary of the operational risks identified is provided in the table below:

Operational Risks	No. of Risks	Risks above Tolerance
Business Solutions	8	**0**
Housing	4	**0**
Environment, Leisure and Town Hall	14	**2**
Finance	7	**1**
Governance	9	**1**
Operations	11	**3**
Asset Management	6	**0**
Total number of risks in Business Plans	59	**7**

Details of the seven risks identified, with a risk rating above the Risk Tolerance Line, are provided in the attached appendix. Also included is detail of the management action plans for mitigating these risks.

An audit of Risk Management was undertaken by Internal Audit as part of the 2018/19 Audit Plan. A summary of the findings are included in the Audit Manager's Internal Audit Update report on tonight's Agenda.

Whilst the overall assurance given to the Council's risk management approach is Significant Assurance, some weaknesses in the arrangements have been identified. With regard to operational risks, the report concludes that these are not all subject to regular review and key aspects of some of the risks are not clear. These findings are being considered by Management, but it is anticipated that actions and training will be determined and delivered, as appropriate, as part of the Business Planning process for 2020/21, which commences in Autumn 2019.
Decision: Members are asked to note the Operational Risks and the Action Plans for managing the high rated risks.
Purpose of Decision: For Members of the Corporate Governance Group to be assured that the Council's strategic and operational risks, with a high risk rating, are being actively managed.

Any Corporate implications in relation to the following should be explained in detail	
Financial:	Risks and associated management action plans concerning the Council's finances are recorded in the Strategic Risk Register.
Legal:	There are no specific risks of a legal nature at this time.
Safeguarding	There are no specific risks regarding safeguarding at this time.
Equalities/Diversity	The Council's processes and approach to equalities and diversity are well developed and are not regarded as a risk.
Customer Impact:	The potential impact on a proportion of residents in the District, in particular vulnerable groups, of the Government's Welfare Reforms is identified as a strategic risk.
Environment and Climate Change:	There are no specific risks regarding climate change at this time.
Consultation/Community Engagement:	No specific risk identified concerning consultation and community engagement; however, these are important elements in a number of the strategic risks e.g. Local Plan and Community Resilience.
Risks:	A robust Risk Management process is an important element of the Council's governance arrangements.

Officer Contact:	Trevor Wilson
Designation:	Head of Finance
Ext. No.	2801
E-mail:	Trevor.wilson@braintree.gov.uk

RISK PROFILE

LIKELIHOOD				
A				
B				
C				
D				
E				
F				
	IV	III	II	I

IMPACT

KEY:

Likelihood:

A – Very High
B – High
C – Significant
D – Low
E – Very Low
F – Almost impossible

Impact:

I – Catastrophic
II – Critical
III – Marginal
IV – Negligible

Risks with a rating which places them in the unshaded area are above the Risk Tolerance Line requiring active management.

Operational risks identified with a risk rating above the Tolerance Line are listed below:

Service Unit	Current risk rating	Previous risk rating	Above tolerance?	Vulnerability	Trigger	Consequence
All services in Finance Department	C2	C2	*Yes*	Maintaining the service and performance levels with reducing staff numbers	Staff leaving- including in advance of potential change e.g. implementation of Universal Credit.	All services in Finance Department

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
○ Health and Wellbeing programme available to staff. ○ Business Planning process and performance reviews. ○ Sickness management policy. ○ Endeavour to ensure resilience with cover arrangements - training available for staff. ○ Staff kept informed - meetings and other communications with staff	○ Assess Housing Benefit staffing requirements during the transition to Universal Credit and for the benefits/council tax support service that the Council will continue to provide. ○ Succession planning ○ Cross training of CSC staff to assist in other areas ○ Identify key bottle neck areas ○ Manage customer expectations	Service Managers and Head of Finance	Service standards and performance maintained	Ongoing	October 2019 (budget process commences)	Information updates from DWP regarding the roll-out of Universal Credit shared in timely manner with staff. New staff structure for shared Payroll service between this Council, Colchester BC and Epping Forest DC. Service to be based at Braintree. Restructured the management arrangements of services previously managed by the Audit, Insurance & Risk Manager who retired in March 2018. To ensure a focus on Internal Audit, Risk and Fraud services only.

Service	Current Risk Rating	Previous Risk Rating	Above Tolerance?	Vulnerability	Trigger	Consequence
Leisure Contract ***Joint Use Agreements***	C2	B2	Yes	Financial risk with the JUA negotiations breaking down with Ramsey and Tabor Academy	School failing to make further payments to BDC for JUA costs	BDC left with loss of income

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Meetings are underway with both the academies at Tabor and Ramsey to resolve the outstanding issues. At Ramsey we are looking to replace the JUA with a hirers agreement and with Tabor we are involving ECC to arbitrate	To maintain a dialogue with the two academies to ensure a successful outcome	Leisure and Contracts Manager Head of Environment	Both JUA issues will be resolved by the start of the new academic year	Monthly	September 2017	Meetings organised with both academies this month

Service	Current Risk Rating	Previous Risk Rating	Above Tolerance?	Vulnerability	Trigger	Consequence
Town Hall ***Manor Street Development***	A2	A2	Yes	The closure of Town Hall Car Park, Manor St. and Victoria St. Car parks for the period of development. Following the completion of the development the total loss of Town Hall Car parking as car park being designated as "Public Realm"- causing loss of hirers.	Lead in period to car park closure. Key milestones in project. Contractor wanting to use the car park as a secure compound.	Loss of income potentially circa £60k p/a

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Meetings are underway with the architects to try and minimise to total loss of car parking spaces during the construction phase. Also see if the car park can be re-instated.	To maintain a dialogue with the architects and project manager to ensure a successful outcome	Leisure and Contracts Manager Head of Environment	Minimum amount of car parking space lost	Monthly	September 2018	Meetings organised with both architects and project management team.

Service Unit	Current risk rating	Previous risk rating	Above tolerance?	Vulnerability	Trigger	Consequence
Operations	B3	D2	No	a) Rise in fuel and utility costs in excess of base budget. b) Fuel Drivers Strike or Fuel Blockade preventing delivery of fuel to site.	a) Increase in fuel prices and gas, electricity and water charges. b) Industrial action by trade unions.	a) Increase required in base budget otherwise unable to provide front line services. b) Fuel depletion affecting service delivery – potential non delivery of services.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Operations Manager reviews impact of fuel costs at quarterly finance meetings with Service Accountant who reports significant variations against profiled spend to Management Board.	Monitor fuel cost and notify Head of Finance of significant variations.	Operations Manager	Maintain budget to ensure delivery of statutory waste collection service.	Annually	March 2020	Q1 accounts reviewed.

Service Unit	Current risk rating	Previous risk rating	Above tolerance?	Vulnerability	Trigger	Consequence
Operations	B2	B2	Yes	Loss of income from Markets.	Reduction in market traders. Current economic downturn. Adverse weather. Concessions to new traders.	Loss of income. Affects prosperity of town centres. Reduction in customer satisfaction.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Operations Manager working with Economic Development Team to review and develop service and relationships as part of a wider town centre regeneration project.	Increase market traders and income through additional publicity and incentives to attract new traders onto markets	Operations Manager	Improved vitality and interest in markets. Increased footfall into town centres. Increased income.	Annually	March 2020	Markets under review by Economic Development.

Service	Current Risk Rating	Previous Risk Rating	Above Tolerance?	Vulnerability	Trigger	Consequence
Operations	C2	C2	Yes	Reduction in external funding e.g. IAA.	ECC renegotiate budget. Loss of work which we have tendered.	Significant financial impact on food waste service and ability to deliver this without a significant increase in base budget. Reduction in external income.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Some reductions built into base budget.	Refute/refuse any further revenue reduction by ECC as this will impact on service delivery.	Head of Operations & Waste Operations Manager	Maintain same levels of funding from ECC.	Annually	March 2020	

Service	Current Risk Rating	Previous Risk Rating	Above Tolerance?	Vulnerability	Trigger	Consequence
Operations	C2	C2	Yes	New variable shared risk contract with Suffolk CC. Market value of dry recycling will affect the gate fee being charged to BDC.	Market value of recyclable material during three year extension period of contract.	Increase/decrease in gate fees to BDC. Affect costs of the service to householders. Requirement to increase/decrease base budget.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Formal legal SLA/Contract with Suffolk CC (SCC) started on 16 May 2019. The contract period is for 10 years ending 2029	Basket of indicators included in the Contract which are reviewed every 3 months. Risk spread amongst the Partnership including Viridor and managed by SCC.	Operations Strategy & Policy Manager.	Minimised revenue cost for disposing of dry recyclable waste.	Annually	March 2020	Base budget adjusted to allow for agreed gate fee.

Service	Current Risk Rating	Previous Risk Rating	Above Tolerance?	Vulnerability	Trigger	Consequence
Governance	C2	D2	Yes	Government proposals for HM Land Registry to be responsible for Land Charges register.	Although the Infrastructure Act is now in law this has yet to be implemented; implementation will trigger this risk.	Divide searches between HM Land Registry and local authorities.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Liaison established with Land Registry to maintain flow of information. Staff involved fully briefed with any information we receive.	Study proposed secondary legislation when released to assess opportunities and constraints. Opportunities fully investigated through better at business agenda.	Head of Governance	Consideration of requirements in transition plan.	As appropriate when updates from government .	Transition plan to be produced by Land Registry; not available at this time.	Meeting held with Land Registry and email communication established. Regular staff briefings including with HR where appropriate.

CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Treasury Management Annual Report 2018-19	Agenda No: 10

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services** **Delivering better outcomes for residents and businesses and reducing costs to taxpayers**
Report presented by:	**Phil Myers, Financial Services Manager**
Report prepared by:	**Phil Myers, Financial Services Manager**

Background Papers:	**Public Report**
Treasury Management Strategy Statement 2018/19 approved by Cabinet on 5th February 2018 and Full Council 19th February 2018. **Council Budget and Council Tax 2018-19 and Medium Term Financial Strategy 2018-19 to 2021-22**	**Key Decision: No**

Executive Summary:

1. Introduction

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management strategy prior to the commencement of the financial year; receive at least one mid-year report; and then receive an annual report after the financial year-end.

1.2. The Council's Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 19th February 2018 as part of the overall Budget and Council Tax Setting report. A mid-year report was considered by Full Council on 10th December 2018. Both of these reports were first reviewed by the Governance Committee.

2. Treasury Management Strategy Statement (TMSS) 2018/19

1.1. The TMSS was based on the following presumptions:

- A fully funded capital programme, using mainly capital receipts and reserves, including a portion of the District Investment Strategy (DIS) reserve, which was set aside in 2016/17 as part funding for the Council's strategic investment plans.

- The availability of cash balances for investment – the assumption was that these would average around £50million comprising core cash of £37million and in-year cash flows of £13million.
- No specific new borrowing would be required in 2018/19; however, the Council's strategic investment plans include provision for new borrowing to be undertaken in the future. The exact timing of any new borrowing would need to be kept under review in light of interest rate forecasts and capital spending profiles.
- Maintaining the Council's approach to risk by diversification of its investments including retaining longer-term investments to counter the risks associated with a prolonged period of relatively low interest rates.

3. External Context

3.1. The report includes an economic and market commentary of the 2018/19 financial year, provided by the Council's treasury management advisors, Arlingclose attached as **Appendix A.**

4. Capital Expenditure and Financing

4.1. The Council's capital expenditure and financing have a significant impact on both the levels of borrowing required and cash balances available for investment.

4.2. Actual capital spend was £11.409m which was higher than originally planned in the original TMSS, but slightly lower than forecast at the mid-year report. The increase in spend was largely due to a number of decisions made on projects under the District Investment Strategy (DIS), including acquisition of land for the proposed Horizon 120 employment site, which was purchased in December 2018.

4.3. Further details of the outcomes from the Council's capital expenditure can be found in the Annual Performance Report [Here] and Statement of Accounts [Here].

4.4. Capital expenditure and how this has been financed is reflected in a balance sheet derived measure known as the Capital Financing Requirement or CFR. The CFR indicates the extent to which spending on capital has yet to be financed from the Council's own resources. The CFR can therefore be considered a proxy indicator as to the amount of external borrowing the Council could justify as being required to meet past capital expenditure; however, actual borrowing could be different.

4.5. The report shows that whilst the CFR increased in the year from £8.791m to £12.215m, the Council's borrowing and other debt liabilities reduced from £9.861m to £8.499m. This means that whilst at the start of the year the Council's borrowing was above the level suggested by the CFR, by the end of the year the position had switched and borrowing was now below the level of the CFR. This difference represents the extent of "internal borrowing" being undertaken to finance capital expenditure in the short-term, i.e. effectively using cash balances held for other purposes in lieu of external borrowing.

5. Borrowing and Other Debt

5.1. Borrowing comprised two £3m Lender Option, Borrower Option (LOBO) loans, which were originally taken out in 2002. These loans provide for the lender to propose an increase in the interest rate being charged, following which the Council has the right to repay the loan(s) in full at no additional cost. The continuing low interest rate environment means that to date the lender has not exercised their options.

5.2. Other debt comprises finance lease liabilities, a form of borrowing which has been used in previous years to finance property and vehicle acquisitions. In 2018/19 an advance of £1m was repaid to Essex County Council (ECC) being its share of the funding provided for the Braintree Local Authority Mortgage Scheme (LAMS). This scheme, which helped first-time buyers, formally ended in January 2019, although Lloyds Bank had previously ceased to provide new offers of assistance under the scheme on 31st July 2016. In total, 26 mortgages with a loan value of £4.6m were supported under the scheme with an indemnity of £0.934m. The £2m cash-backed guarantee given by the Council was repaid in full.

5.3. The Council's medium term plans forecast an increased need to borrow for its strategic and other commercial investments. Analysis undertaken during the year on the potential "cost of carry" did not indicate that borrowing in advance of this need would be cost effective. However, this position remains under review taking into account interest rate forecasts and the Council's developing investment programme.

6. Investment Activity

6.1. Usable reserves and working capital represent the underlying resources available for investment. In addition, the extent to which the Council's borrowing differs from its CFR will add/detract from cash balances, and in-year timing differences between income received and expenditure incurred will also influence the amount available to invest. Across the year, the Council's investments ranged between £42.259m and £68.267m, with the average amount invested over the year being £58.343m.

6.2. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Consequently, the Council's objective when investing money has been to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low returns.

6.3. In furtherance of these objectives, and given the continuing risk and low returns from short-term unsecured bank investments, the amount invested in long-term pooled funds was increased by the addition of two new diversified funds to the Council's portfolio with a placement of £1million in each. This took the total amount invested in long-term pooled funds to £18 million at 31st March 2019. These investments have been made on the basis that, if held for the medium-long term, they would offer the potential for enhanced returns whilst recognising there could be short-term volatility in their market pricing. The Council holds

distributing share classes in these funds in order to receive regular income.

6.4. At 31st March 2019, the total market valuation (fair value) of the Council's pooled funds was £19.308m, representing an unrealised gain of £1.308m on the amounts invested and which is £373,000 higher than the overall valuation at 31st March 2018. This change in market valuation was most prominent in equity funds and in particular funds exposed to global equities.

6.5. Under new accounting rules introduced with effect from 1st April 2018, the change in fair value on the Council's pooled funds is a proper credit (or charge) to the Surplus or Deficit on Provision of Services, as reported in the Council's Statement of Accounts. However, under statutory regulations issued by the Ministry for Housing, Communities, and Local Government (MHCLG), the accounting impact is adjusted so that ultimately there is no effect on the General Fund balance until such time shares/ units are sold. This statutory reversal is currently in place for a period of five years commencing from April 2018.

6.6. The progression of credit risk and return metrics for the Council's investments are measured and benchmarked by Arlingclose on a quarterly basis, the results of which are set out in the main report. These show that the Council's position compares favourably on a number of indicators. In particular, both income and total returns were higher (due mainly to the contribution of the pooled funds), whilst also maintaining a high measure of credit quality on the remainder of the portfolio. The proportion of investments exposed to bail-in was higher, which is due in part to the Council having a comparably higher allocation of investments in pooled funds (which are excluded from this measure), leaving the residual portfolio with a higher proportion of unsecured investments (e.g. bank deposits) as opposed to secured investments (e.g. covered bonds).

7. Financial Implications

7.1. Interest paid on borrowing amounted to £283,000, at an average rate of 4.7%. Further interest of £126,000 was paid on finance leases, and other interest of £23,000 paid, mainly to ECC for its share of LAMS funding.

7.2. Total investment income was £1.158m (equivalent to an overall return of 1.98%), and which was £343,000 more than budget due to a combination of higher cash balances and increased market interest rates. Dividends from long-term pooled funds were £866,000, a 5.24% return, whereas short-term investments contributed £292,000 of interest which equated to a return of 0.70%.

7.3. To manage the financial impact of the inherent treasury management risks, the Council retains a treasury management reserve. The amount held in the reserve was increased to £985,000 as part of the Council's medium term financial plan and to strengthen financial resilience in light of future uncertainties.

8. Other Non-Treasury Investments and Loans

8.1. Although not classed as treasury management activities, the CIPFA Code requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration reasons as well as commercial investments which are made

mainly for financial reasons. The Council holds direct property investments with a market value at 31st March 2019 of £36.304m comprising: industrial land and units; shops; offices; and other commercial property. Properties are leased to third parties generating rental income for the Council. Net rental income was £2.234m, representing a return of 6.3% on the value of assets.

8.2. During the year the Council acquired a new investment property in Silver End. A number of existing assets were also reclassified to being held as investment property. The overall market value of investment property increased by £1.05m, due mainly to rent reviews and other changes to lease terms resulting in improved yields.

8.3. The Council also has a number of loans and deposits which have been made for service reasons. At 31st March 2019, the amount outstanding on these was £327,000. The largest single loan outstanding of £200,000 is currently due to be repaid in 2019/20, and a mortgage loan of £47,000 has since been redeemed early by the borrower at the end of April 2019.

9. Compliance Report

9.1. The Corporate Director (Finance) can confirm that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved TMSS. Compliance with debt and investment limits is demonstrated in the main report through a number of indicators.

10. Treasury Management Indicators

10.1. The Council measures and manages its exposures to treasury management risks using a number of indicators. The report confirms that activity during the year was contained within the relevant limits.

11. Treasury Management Advisors

11.1. The Council continued to employ Arlingclose as its treasury management advisors. Regular communications and updates on related matters have been received by officers during the year and strategy meetings held involving Members, including attendance at the Strategic Investment Programme Group which was established in the year to provide oversight of all the Council's investment activities, both through commercial property and treasury management.

Recommended Decision:

To recommend to Cabinet acceptance of the Treasury Management Annual Report 2018/19 prior to its submission to Full Council.

Purpose of Decision: The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services, which requires that the Council receives an annual report on the treasury management function. This report is to be considered first by the Corporate Governance Group in order to exercise its responsibility for scrutiny over treasury management activities. The report will then be considered by Cabinet before submission to Full Council with the benefit of any proposed changes and/or comments of the Corporate Governance Group.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	No new financial implications arise out of this report which is a report on treasury management activities in the 2018/19 financial year. The financial implications of these activities are reflected in the Council's budgetary outturn and Statement of Accounts.
Legal:	The Council's treasury management activities are subject to regulation by a number of professional codes, underpinned by statutory regulations and advice. There are no new legal implications from the report, although the report does contain details of changes to the regulatory framework.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	No new risks introduced. The report details activities that have been undertaken to manage the inherent risks within the treasury management function.
Officer Contact:	Phil Myers
Designation:	Financial Services Manager
Ext. No:	2810
E-mail:	Phil.myers@braintree.gov.uk

Treasury Management Annual Report 2018/19

1. Introduction

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management strategy prior to the commencement of the financial year; receive at least one mid-year report; and then receive an annual report after the financial year-end.

1.2. The Council's Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 19th February 2018 as part of the overall Budget and Council Tax Setting report. A mid-year report was considered by Full Council on 10th December 2018. Both of these reports were first reviewed by the Governance Committee.

1.3. The Council invests substantial sums of money and continues to hold legacy borrowing and is therefore exposed to a range of financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management activities.

2. Treasury Management Strategy Statement (TMSS) 2018/19

2.1. The TMSS was based on the following presumptions:

- A fully funded capital programme, using mainly capital receipts and reserves, including a portion of the District Investment Strategy (DIS) reserve, which was set aside in 2016/17 as part funding for the Council's strategic investment plans.
- The availability of cash balances for investment – the assumption was that these would average around £50million comprising core cash of £37million and in-year cash flows of £13million.
- No specific new borrowing would be required in 2018/19; however, the Council's strategic investment plans include provision for new borrowing to be undertaken in the future. The exact timing of any new borrowing would need to be kept under review in light of interest rate forecasts and capital spending profiles.
- Maintaining the Council's approach to risk by diversification of its investments including retaining longer-term investments to counter the risks associated with a prolonged period of relatively low interest rates.

3. External Context

3.1. A brief economic and market commentary of the 2018/19 financial year, provided by the Council's treasury management advisors, Arlingclose, is attached at **Appendix A**.

4. Capital Expenditure and Financing

4.1. The Council's capital expenditure and financing have a significant impact on both the levels of borrowing required and cash balances available for investment.

4.2. The following table shows the original estimated capital expenditure and financing as set out in the approved TMSS alongside the actual for the year:

Table 1: Capital Expenditure & Financing 2018/19

	TMSS £000	Forecast[1] £000	Actual £000
Capital programme	5,090	4,948	4,141
District Investment Strategy	1,583	8,915	7,268
Total Expenditure	**6,673**	**13,863**	**11,409**
Funded by:			
Capital receipts	(3,961)	(3,153)	(1,895)
District Investment Strategy reserve	(1,723)	(1,290)	(1,152)
Better Care Funding	(700)	(604)	(898)
Affordable Housing reserve[2]	-	(822)	-
Other Grants & Contributions	(239)	(671)	(383)
Revenue and reserves	(50)	(469)	(690)
Transferred under S106 and other donated assets	-	-	(222)
Internal borrowing	-	(6,854)	(6,169)
Total Finance	**(6,673)**	**(13,863)**	**(11,409)**

[1] As per Mid-Year report

[2] Previously held by Greenfields in the CHIP Fund

4.3. The above table shows that actual capital spend for 2018/19 was higher than originally planned when the TMSS was approved, but slightly lower than was forecast at the mid-year report. The increase in spend from the TMSS was largely due to a number of decisions made earlier in the year on projects under the District Investment Strategy (DIS), including acquisition of land for the proposed Horizon 120 employment site, which was purchased in December 2018.

4.4. Further details of the outcomes from the Council's capital expenditure in 2018/19 can be found in the Annual Performance Report [Here] and Statement of Accounts [Here].

4.5. Capital expenditure and how this has been financed is reflected in a balance sheet derived measure known as the Capital Financing Requirement or CFR. The CFR indicates the extent to which spending on capital has yet to be financed from the Council's own resources, including amounts charged annually to the General Fund revenue account in the form of Minimum Revenue Provision (or MRP). The CFR can therefore be considered a proxy indicator as to the amount of external borrowing the Council could justify as being required to meet past capital expenditure; however, actual borrowing

could be different.

4.6. The following table shows the movement in the CFR for the year, compared to that assumed in the TMSS and as forecast in the mid-year report:

Table 2: Capital Financing Requirement (CFR) 2018/19

	TMSS £000	Forecast £000	Actual £000
CFR at start of the year	8,817	8,791	8,791
Increase due to internal borrowing	0	6,854	6,169
Repayment of captal advances	(2,000)	(2,000)	(2,004)
Minimum Revenue Provision	(379)	(379)	(379)
Finance leases annual principal	(355)	(355)	(362)
Net change in CFR	**(2,734)**	**4,120**	**3,424**
CFR at end of the year	**6,083**	**12,911**	**12,215**

4.7. The table above shows that whilst the TMSS assumed the CFR would reduce, mainly as a result of a £2m capital advance being repaid (this was a deposit made with Lloyds Bank Plc provided as a cash-backed indemnity for the Braintree Local Authority Mortgage Scheme or LAMS); and the annual repayments of MRP and finance lease rentals. At the mid-year stage it was forecast that the overall CFR would increase – this reflected the decision to meet the short-term financing requirement for the acquisition of land for Horizon 120 from internal borrowing, pending completion of a detailed business plan which would determine the future disposal/ retention strategy and long-term funding requirement.

4.8. The Braintree LAMS scheme was set up to provide assistance to first-time buyers by guaranteeing an element of mortgages meaning more favourable terms could be offered to borrowers even where only a minimal deposit was paid (5%). The scheme formally ended in January 2019, although Lloyds Bank had previously ceased new offers of assistance from 31st July 2016. In total 26 mortgages with a loan value of £4.6m were supported under the scheme with an indemnity of £0.934m.

5. Borrowing and Other Debt

5.1. The following table shows the amount of borrowing and other debt and the movements in year:

Table 3: Borrowing and Other Long-Term Liabilities

	Borrowing £000	Finance Leases £000	Other Long-Term Liability £000	Total £000
Amounts owed 1 April 2018	6,000	2,861	1,000	9,861
Additions	-	-	-	-
Repayments	-	(362)	(1,000)	(1,362)
Amounts owed 31 March 2019	**6,000**	**2,499**	**0**	**8,499**

5.2. Borrowing comprises two £3m Lender Option, Borrower Option (LOBO) loans, which were originally taken out in 2002 and where the lender has the option to propose an increase in the interest rate at six-monthly intervals, at which point the Council has the option to either accept the new rate or to repay the loan(s) at no additional cost. During 2018/19, the lender did not exercise their option.

5.3. Finance leases are arrangements which take the form of borrowing where interest is paid and the liability is extinguished by annual revenue repayments. The majority of the amount outstanding relates to a long-term lease for a property asset, with the remainder used for financing vehicles.

5.4. The Other Long-Term Liability was an advance made by Essex County Council as part funding towards the Braintree LAMS. This liability was repaid in January 2019.

5.5. The following table compares the CFR with level of external borrowing:

Table 4: CFR compared to external borrowing

	31-Mar-18 £000	31-Mar-19 £000
CFR at the end of year	8,791	12,215
Less finance leases and other long-term liabilities	3,861	2,499
Borrowing CFR	4,930	9,716
Less external borrowing	6,000	6,000
(Over)/ under borrowing	**(1,070)**	**3,716**

5.6. The table above shows that at the end of March 2018 the Council's external borrowing was higher than its CFR, whereas at 31st March 2019 the position switched such that external borrowing is now below the CFR. Where borrowing is higher than the CFR the difference will reflect in an increase in cash balances. Conversely, where borrowing is below CFR, a position referred to as “internal borrowing”, this will reduce the Council’s cash balances. Whilst internal borrowing is a cost effective alternative to external

borrowing, this can only be on a temporary basis as at some point in the future the cash used is likely to be required for its original purpose.

5.7. The Council's medium term plans forecast an increased need to borrow for its strategic and other commercial investments. Analysis undertaken during the year on the potential "cost of carry" did not indicate that borrowing in advance of this need would be cost effective. However, this position remains under review taking into account interest rate forecasts and the Council's developing investment programme.

6. Investment Activity

6.1. During 2018/19, the Council's investment balances averaged £58.343m, ranging between £42.259m and £68.267m. The year-end investment position and year-on-year change is shown in the table below:

Table 5: Treasury Management Investment Activity

	31-Mar-18	2018/19 Movement		31-Mar-19	31-Mar-19	31-Mar-19
	Balance	Made	Matured	Balance	Rate	WAM[1]
	£000	£000	£000	£000	%	days
Long-Term Investments						
Equity funds	13,000	-	-	13,000	5.36%	T+3/4
Diversified funds	-	2,000	-	2,000	5.89%	T+3
Property fund	3,000	-	-	3,000	4.56%	1mth[2]
Sub-Total Long-Term	**16,000**	**2,000**	**-**	**18,000**	**5.24%**	
Short-Term Investments						
UK Banks & Building Societies	3,000	12,000	(9,000)	6,000	1.00%	140
Non UK Banks	3,000	3,000	(3,000)	3,000	1.00%	174
Other Local Authorities	8,000	12,000	(14,000)	6,000	0.95%	78
Debt Management Office (UK Govt)	-	34,000	(34,000)	-	0.00%	N/a
Money Market Funds – LVNAV	7,500	40,750	(40,250)	8,000	0.76%	On call
Money Market Funds – VNAV	4,000	-	-	4,000	0.75%	T+2
Sub-Total Short-Term	**25,500**	**101,750**	**(100,250)**	**27,000**	**0.88%**	
Long and Short-Term Investments	**41,500**	**103,750**	**(100,250)**	**45,000**	**2.10%**	
Lloyds Bank current account	(161)			1,527		
Impaired Deposit	2			-		
Total Investments	**41,341**			**46,527**		

[1] Weighted Average days to Maturity. Where "T+" is stated this means settlement is x no. of days following the Transaction Date

[2] Units redeemable on each Valuation Date (i.e. end of each month)

6.2. Usable reserves and working capital represent the underlying resources available for investment. The extent to which the Council's borrowing differs from its CFR as described in paragraph 5.6 above will also influence cash balances. In-year cash flows typically results in balances peaking around Sept/ Oct before reducing back to the final closing position.

The following table shows the main sources of investment balances at the start and end of the year:

Table 6: Source of Cash Balances for Investment

	31-Mar-18 £000	31-Mar-19 £000
General Fund unallocated balance	2,860	5,787
Earmarked reserves	21,482	22,625
Capital receipts	10,913	15,843
Former CHIP Fund monies	2,718	3,102
Other capital grants and contributions	2,062	3,159
Collection Fund balances and provision	7,383	6,034
Working capital	-7,147	-6,307
Usable reserves and working capital	**40,271**	**50,243**
Difference between CFR and actual borrowing	1,070	-3,716
Cash balances for Investment	**41,341**	**46,527**

6.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Consequently, the Council's objective when investing money has been 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.

6.4. In furtherance of these objectives, and given the continuing risk and low returns from short-term unsecured bank investments, the amount invested in long-term pooled funds was increased by the addition of two new diversified funds to the Council's portfolio with a placement of £1million in each. This took the total amount invested in long-term pooled funds to £18 million at 31st March 2019. These investments have been made on the basis that, if held for the medium-long term, they would offer the potential for enhanced returns whilst recognising there could be short-term volatility in their market pricing. The Council holds distributing share classes in these funds in order to receive regular income.

6.5. At the 31st March 2019, the total market valuation (fair value) of the Council's pooled funds was £19.308m, representing an unrealised gain of £1.308m on the amounts invested and which is £373,000 higher than the overall valuation at 31st March 2018. This change in market valuation was most prominent in equity funds and in particular funds exposed to global equities.

6.6. The following table shows the Council's long-term pooled fund investments:

Table 7: Long-Term Pooled Funds at 31 March 2019

	Invested £000	Fair Value £000
Schroder UK Income Maximiser Seeks to provide income and capital growth with target income of 7% p.a. by investing in mainly UK equities	2,500	2,356
Threadneedle UK Equity Income Steady growth in income and acceptable capital growth. Aims for a yield greater than 110% of the FTSE All Share Index	5,000	5,440
M&G Global Dividend Fund Aims to: deliver an income stream that increases every year; deliver a yield above that available from the MSCI All Countries World Index over any five year period; and deliver a higher total return over the MSCI All Countries World Index over any five year period	2,500	3,336
M&G UK Income Distribution Fund Aims to increase income distributions over time and targets a yield greater than the FTSE All-Share Index. The investment manager will also aim for capital growth.	3,000	2,951
CCLA Local Authorities Property Fund Aims to provide long-term capital and income return. The fund must pay out the income it generates.	3,000	3,157
Investec Diversified Income Fund Aims to provide steady income (4-6% p.a.) and the opportunity to grow the value of the investment over the long term by investing in an actively managed global multi-asset portfolio	1,000	1,012
Kames Diversified Monthly Income Fund Aims to provide income with the potential for capital growth over the medium term. The fund also aims for half to two-thirds of the volatility of the MSCI World Index.	1,000	1,056
Total	**18,000**	**19,308**

6.7. Under new accounting rules introduced with effect from 1st April 2018, the change in fair value on the Council's pooled funds is a proper credit (or

charge) to the Surplus or Deficit on Provision of Services, as reported in the Council's Statement of Accounts. However, under statutory regulations issued by the Ministry for Housing, Communities, and Local Government (MHCLG), the accounting impact is adjusted so that ultimately there is no effect on the General Fund balance until such time shares/ units are sold. This statutory reversal is currently in place for a period of five years commencing from April 2018.

6.8. The Council's treasury management advisors benchmark client investment activity on a quarterly basis. The following table shows the progression of credit risk and return metrics over the course of the year, comparing the final quarter with that of other local authority clients:

Table 8: Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM (days)	Income Return	Total Return
31-Mar-18	4.16	AA-	51%	21	2.08%	0.97%
30-Jun-18	4.88	A+	84%	60	1.79%	2.67%
30-Sep-18	4.72	A+	78%	37	1.79%	2.57%
31-Dec-18	4.58	A+	73%	36	1.95%	-0.34%
31-Mar-19	**4.34**	**AA-**	**64%**	**74**	**2.41%**	**3.29%**
Similar LAs	4.13	AA-	53%	86	1.74%	1.79%
All LAs	4.20	AA-	55%	29	1.45%	1.43%

6.9. The table above shows that the Council's position compares favourably on a number of indicators. In particular, both income and total returns were higher (due mainly to the contribution of the pooled funds), whilst also maintaining a high measure of credit quality on the remainder of the portfolio. The proportion of investments exposed to bail-in was higher which is due in part to the Council having a comparably higher allocation of investments in pooled funds (which are excluded from this measure), leaving the residual portfolio with a higher proportion of unsecured investments (e.g. bank deposits) as opposed secured investments (e.g. covered bonds).

7. Financial Implications

7.1. Interest paid on borrowing amounted to £283,000, at an average rate of 4.7%. Further interest of £126,000 was paid on finance leases, and other interest of £23,000 paid, mainly to ECC for its share of LAMS funding.

7.2. Total investment income was £1.158m (equivalent to an overall return of 1.98%), and which was £343,000 more than budget due to a combination of higher cash balances and increased market interest rates. Dividends from long-term pooled funds were £866,000, a 5.24% return, whereas short-term investments contributed £292,000 of interest which equated to a return of 0.70%.

7.3. To manage the financial impact of the inherent treasury management risks the Council retains a treasury management reserve. The amount held in the reserve was increased to £985,000 as part of the Council's medium-term

financial plan and to strengthen financial resilience in light of future uncertainties.

8. Non-Treasury Investments and Loans

8.1. Although not classed as treasury management activities, the CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Council holds direct property investments with a market value of £36.304m comprising: industrial land and units; shops; offices; and other commercial property. Properties are leased to third parties generating rental income. Net rental income was £2.234m, representing a return of 6.3% on the average value of assets.

8.2. Spending on investment property totalled £407,000; the purchase of premises in Silver End. A number of existing assets were also reclassified to being held as investment property. The overall market value of investment property owned by the Council increased by £1.05m, due mainly to rent reviews and other changes to lease terms resulting in improved yields (a key determinant in the value of a leased property).

8.3. The Council also has a number of loans and deposits which have been made for service reasons. At 31st March 2019, the amount outstanding on these was £327,000. The largest single loan of £200,000 is currently due to be repaid in 2019/20, and a mortgage loan of £47,000 has since been redeemed early by the borrower at the end of April 2019.

9. Compliance Report

9.1. The Corporate Director (Finance) can confirm that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved TMSS. Compliance with specific limits is demonstrated below.

Table 9: Compliance against Borrowing Limits

	2018/19 Maximum £m	31-Mar-19 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	6.000	6.000			
Finance Lease	2.861	2.499			
Other Debt	1.000	0.000			
Total Debt	**9.861**	**8.499**	**11.000**	**25.000**	√

9.2. Table 9 demonstrates compliance against the operational boundary and authorised limit for external debt. Whilst the operational boundary is a management tool for in-year monitoring, and under the Code may be breached on occasions due to variations in cash flow, this is not counted as a compliance failure. However, at no point during the 2018/19 year was total

debt above the operational boundary.

9.3. In approving the TMSS, limits were set for amounts invested and these are detailed in the table below:

Table 10: Compliance against Investment Limits

	2018/19 Max £m	31-Mar-19 Actual £m	2018/19 Limit £m	Complied
Any single UK/ Non-UK bank or building society (unsecured)	3.000	3.000	3.000	√
Any single AAA rated Money Market Fund	5.000	5.000	5.000	√
Any single unrated Investment (Pooled) Fund	5.000	5.000	5.000	√
Aggregate Unrated Investment Funds	18.000	18.000	20.000	√

9.4. For the purposes of day-to-day banking the aim is to maintain a balance of no more than £1.5m on the Council's current accounts, subject to short-term cash flow requirements. Table 11 shows how the Council performed against this objective.

Table 11: Day-to-Day Banking Balance

Objective:	2018/19 Min £m	2018/19 Max £m	2018/19 Weighted Average £m	31-Mar-19 Actual £m
Aim not to have > £1.5m at any time	0.043	7.267	1.509	1.965
No of days <= £1.5m			219	
As % of days in the year			60%	

9.5. The above performance compares to the previous year where a balance equal to or less than £1.5m was achieved on 275 days or 75%. In 2018/19 higher amounts were held on the Council's bank account for short-periods as a result of major asset acquisitions pending completion, or due to investments being placed after receipt of proceeds from the sale of assets. Funds were also held liquid whilst the Council completed account set-up for two new pooled funds.

10. Treasury Management Indicators

10.1. The Council measures and manages its exposures to treasury management risks using the following indicators:

10.2. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk.

Table 12: Compliance against Interest Exposure Limits

	31-Mar-19 Actual	2018/19 Limit £m or %	Complied
Investments			
Upper limit on fixed rate interest exposure	£0m	£10m	√
Upper limit on variable rate interest exposure	100%	100%	√
Borrowing			
Upper limit on fixed rate interest exposure	29%	100%	√
Upper limit on variable rate interest exposure	71%	80%	√

10.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. As the Council's LOBO debt is subject to six-monthly call options when the interest rate could be varied this is treated as variable rate debt for the above indicator.

10.4. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limit on the long-term principal sum invested to final maturities longer than 364 days, or where the intention was to hold the investment for more than one year was £25m. At the 31st March 2019, the amount held with intention of being longer than 364 days was £18m, as per the Council's holdings in pooled funds.

11. Treasury Management Advisors

11.1. The Council continued to employ Arlingclose as its treasury management advisors. Regular communications and updates on related matters have been received by officers during the year and strategy meetings held involving Members, including attendance at the Strategic Investment Programme Group which was established in the year to provide oversight of all the Council's investment activities, both through commercial property and treasury management.

Appendix A – Economic and Market Commentary by Arlingclose (April 2019)

Economic commentary

After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing towards $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continued to rise steadily and provided some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no further changes to monetary policy were made in the year.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, MPs voted to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Talks were ongoing between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs. Whilst the EU have granted an extension, its leaders have been clear that the terms of the deal were not up for further negotiation. The ongoing uncertainty continued to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 was overshadowed by a gathering level of broader based economic uncertainty. The US continued to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with the EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with Germany and France both suffering from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial Markets

December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) fell in pure price terms around 13%. However, since the beginning of 2019 markets rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new calendar year with benchmark gilt yields falling. The increase in Bank Rate

pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

A summary of rates across different periods is shown in the Table below:

Table: Money Market Rates

	Bank Rate	Overnight LIBID	7-day LIBID	1-mth LIBD	3-mth LiBID	6-mth LIBID	12-mth LIBID
Average	0.66	0.50	0.62	0.63	0.75	0.89	1.03
Maximum	0.75	0.66	0.71	0.74	0.90	1.06	1.16
Minimum	0.50	0.00	0.42	0.42	0.55	0.66	0.83
Spread	0.25	0.66	0.29	0.32	0.35	0.40	0.33

LIBID= London Interbank Bid Rate

Credit Background

Credit Default Swap (CDS) spreads, which are used as an indicator of market sentiment over credit risk, drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continued to remain low in historical terms.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the year.

Money Market Fund regulation

In line with the EU regulations for Money Market Funds (MMFs) published in July 2017, many of the MMFs converted to the status of Low Volatility Net Asset Value (LVNAV) Money Market Funds. This meant the funds would be permitted to maintain a constant dealing NAV, provided they continue to meet the new strict criteria and minimum liquidity requirements.

CORPORATE GOVERNANCE GROUP
25th July 2019

Braintree District Council

Corporate Governance Group Programme of Work	Agenda No: 11
Portfolio	**Finance and Performance Management**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services**
Report presented by:	**Angela Mitchell, Audit Insurance and Fraud Manager**
Report prepared by:	**Angela Mitchell, Audit Insurance and Fraud Manager**
Background Papers:	**Public Report**
None.	**Key Decision: No**

Executive Summary:

This report provides the Corporate Governance Group with a programme of planned work for the coming year, and includes a brief summary of the scope of each report. Ad hoc reports may be added during the year where requested by Members, the External Auditor, or officers.

Members are requested to consider the programme of work, to recommend any additions, and to identify any training needs to enable them to effectively discharge their duties.

Recommended Decision:

That Members:

a) Note the Corporate Governance Group programme of work for 2019/20; and
b) Identify any training needs to enable them to effectively discharge their duties.

Purpose of Decision:

To receive a draft programme of the work and reports which will be undertaken and presented to the Corporate Governance Group over the upcoming 12 months.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	None.
Legal:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	None.
Officer Contact:	Angela Mitchell
Designation:	Audit, Insurance and Fraud Manager
Ext. No:	2821
E-mail:	Angie.mitchell@braintree.gov.uk

SCHEDULE OF REPORTS TO THE CORPORATE GOVERNANCE GROUP – 2019/20

Date of Meeting	Reports	Officer Contact
25 July 2019	Statement of Accounts for 2018/19 and BDO Audit Completion Report (BDO) To consider and approve the Statement of Accounts for 2018/19, the conclusions reached and recommendations made by External Audit are reported to those charged with governance at the time they consider the financial statements. The draft Statement of Accounts is scheduled to be certified by the Corporate Director by 31 May 2019. The Audit Completion Report details the key findings from the 2018/19 audit for the attention of those charged with governance, including the opinion on the Council's financial statements, comment on the Annual Governance Statement, the Use of Resources opinion, and any matters to bring to the attention of the Committee.	Phil Myers / BDO
	Financial Indicators Report Details of key financial indicators for the year to the end of June 2019.	Trevor Wilson
	Treasury Management Strategy Report on the delivery and performance of the Treasury Management Strategy for 2018/19.	Phil Myers
	Risk Management: Operational Risks Details of the annual review of the Council's Operational Risks and Information Asset Risks.	Trevor Wilson
	Internal Audit Update, Including Progress Against the 2019/20 Internal Audit Plan Progress against the 2019/20 Internal Audit Plan, and any other matters to bring to the attention of the Committee.	Angela Mitchell
	Corporate Governance Group Programme of Work 2019/20 A programme of the planned reports to be presented to the Corporate Governance Group, including a brief summary of the scope of each report.	Angela Mitchell
24 October 2019	Annual Audit Letter (BDO) Summary of the key issues arising from the work carried out in respect of the year ended 31 March 2019. It is addressed to the Council but provides a means of communicating the significant issues identified to stakeholders and the public. The Committee receives the report on behalf of the Council and may make observations to Cabinet who may determine improvement actions to address matters raised by the External Auditor.	Phil Myers / BDO

	Internal Audit Update, Including Progress Against the 2019/20 Internal Audit Plan Progress against the 2019/20 Internal Audit Plan, and any other matters to bring to the attention of the Committee. Treasury Management Strategy Mid-Year 2019/20 Report on the delivery and performance of the Treasury Management Strategy. Financial Indicators Report Details of key financial indicators for the year to the end of September 2019.	Angela Mitchell Phil Myers Trevor Wilson
16 January 2020	Draft Audit Plan (BDO) Summarises the work that the External Auditor (BDO) proposes to undertaken in respect of the audit of Braintree District Council for the 2019/20 financial year, including: - the work to deliver an opinion on the financial statements; - a conclusion on the economy, efficiency and effectiveness of use of resources; and - the return to facilitate preparation of the Council's Whole of Government Accounts (WGA) consolidated accounts. Grant Claim Certification for year ended 31 March 2019 Summarises the results of the External Auditor's work on the Housing Benefits Subsidy Claim. Draft Treasury Management Strategy Draft Treasury Management Strategy for 2019/20. The Committee may make observations on the draft to the Cabinet who will present the Strategy to Full Council for approval in February 2020. Internal Audit Update, Including Progress Against the 2019/20 Internal Audit Plan Progress against the 2019/20 Internal Audit Plan, and any other matters to bring to the attention of the Committee. Financial Indicators Report Details of key financial indicators for the year to the end of November 2019. Risk Management: Strategic Risks Report To provide a copy for information of the Cabinet Report on the Council's Strategic Risk Register, which details significant business risks being monitored and managed by Management Board in line with the Council's Risk Management Strategy.	Phil Myers / BDO BDO / Trevor Wilson Phil Myers Angie Mitchell Trevor Wilson Trevor Wilson
16 April 2020	Feedback from Interim Audit and Final Audit Plan (BDO) Internal Audit Progress Report	Phil Myers / BDO Angela Mitchell

	Performance against the 2019/20 Internal Audit Plan, and any other matters to bring to the attention of the Committee.	
	Internal Audit Annual Report Through reference to the work and findings of Internal Audit, including the outcome of the effectiveness of the Internal Audit function as assessed against the Public Sector Internal Audit Standards, provides a conclusion on the overall adequacy and effectiveness of the organisation's control framework of governance, risk management and control during the year 2018/19.	Angela Mitchell
	Annual Governance Statement To present for approval the Annual Governance Statement for incorporation in the Statement of Accounts – Regulation 6 (1) of the Accounts & Audit Regulations 2015 requires "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.	Trevor Wilson
	Internal Audit Plan 2020/21 To present the proposed Internal Audit Plan for 2020/21.	Angela Mitchell
	Financial Indicators Report Details of key financial indicators for the year to the end of February 2020.	Trevor Wilson
20 April 2020	***Council – Annual General Meeting*** ***Determine Committee Membership for forthcoming Year***	
23 July 2020	Statement of Accounts for 2019/20 and BDO Audit Completion Report (BDO) To consider and approve the Statement of Accounts for 2019/20, the conclusions reached and recommendations made by External Audit are reported to those charged with governance at the time they consider the financial statements. The draft Statement of Accounts is scheduled to be certified by the Corporate Director by 31 May 2020. The Audit Completion Report details the key findings from the 2019/20 audit for the attention of those charged with governance, including the opinion on the Council's financial statements, comment on the Annual Governance Statement, the Use of Resources opinion, and any matters to bring to the attention of the Committee	Phil Myers / BDO
	Financial Indicators Report Details of key financial indicators for the year to the end of June 2020	Trevor Wilson
	Treasury Management Strategy Report on the delivery and performance of the Treasury Management Strategy for 2019/20.	Phil Myers

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	Corporate Governance Group Programme of Work 2020/21 A programme of the planned reports to be presented to the Corporate Governance Group, including a brief summary of the scope of each report.	Angela Mitchell

Further Reports to be Scheduled

- Periodic Review of Internal Audit Charter.
- Periodic Review of the Risk Management Strategy.
- Periodic Fraud Updates.
- Assessment of the Internal Audit function against the Public Sector Internal Audit Standards and the outcome of the External Quality Assessment.
- Corporate Governance Group self-assessment – for Members to undertake an evaluation of the Committee's effectiveness and identify any training needs.
- Standards - Annual Monitoring Officers Report - Report from the Head of Governance on the Member Conduct (Standards) Framework for the District Council and Parish Councils.