



Audit & Governance Committee

Thu 16 Jan
2014
7.00 pm

Committee Room 2
Town Hall
Redditch

REDDITCH BOROUGH COUNCIL

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difference*

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- In addition, the public now has a right to be present when the Council determines “Key Decisions” unless the business would disclose confidential or “exempt” information.
- Unless otherwise stated, all items of business before the Executive Committee are Key Decisions.
- (Copies of Agenda Lists are published in advance of the meetings on the Council’s Website:
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If you have any queries on this Agenda or any of the decisions taken or wish to exercise any of the above rights of access to information, please contact

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Welcome to today's meeting.

Guidance for the Public

Agenda Papers

The **Agenda List** at the front of the Agenda summarises the issues to be discussed and is followed by the Officers' full supporting **Reports**.

Chair

The Chair is responsible for the proper conduct of the meeting. Generally to one side of the Chair is the Committee Support Officer who gives advice on the proper conduct of the meeting and ensures that the debate and the decisions are properly recorded. On the Chair's other side are the relevant Council Officers. The Councillors ("Members") of the Committee occupy the remaining seats around the table.

Running Order

Items will normally be taken in the order printed but, in particular circumstances, the Chair may agree to vary the order.

Refreshments : tea, coffee and water are normally available at meetings - please serve yourself.

Decisions

Decisions at the meeting will be taken by the **Councillors** who are the democratically elected representatives. They are advised by **Officers** who are paid professionals and do not have a vote.

Members of the Public

Members of the public may, by prior arrangement, speak at meetings of the Council or its Committees. Specific procedures exist for Appeals Hearings or for meetings involving Licence or Planning Applications. For further information on this point, please speak to the Committee Support Officer.

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The emergency Assembly Area is on Walter Stranz Square.



Audit & Governance

Committee

16th January 2014

7.00 pm

Committee Room 2, Town Hall

Agenda

Membership:

Cllrs: Derek Taylor (Chair) Mark Shurmer
 Roger Hill (Vice-Chair) Yvonne Smith
 Roger Bennett Pat Witherspoon
 John Fisher

Independent Dave Jones (non-voting
 Member: co-opted)

1. Welcome - New Independent Member on Audit & Governance Committee	To welcome Mr Dave Jones as the new Independent Member on the Audit & Governance Committee. Mr Jones was appointed the role in December 2013 for a 12-month trial period. The Independent Member is a non-voting co-opted member of the Committee.
2. Apologies and named Substitutes	To receive apologies for absence and details of any Councillor nominated to attend the meeting in place of a member of the Committee.
3. Declarations of Interest	To invite Councillors to declare any Disclosable Pecuniary Interests and/or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.
4. Minutes (Pages 1 - 12)	To confirm as a correct record the minutes of the meeting of the Audit & Governance Committee held on 26th September 2013. (Minutes attached)
5. Audit & Governance Committee - Action List and Work Programme (Pages 13 - 18) Chief Executive	To consider the Audit & Governance Committee's ongoing Action List and Work Programme. (Action List and Work Programme attached) (No Direct Ward Relevance)

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6. Risk Monitoring & Reporting Exec Director (Finance and Corporate Resources)	To receive presentations from Heads of Service on the key operational risks identified within the following service areas: • Community Services; • Environmental Services; and • Legal, Equalities and Democratic Services. Also, to receive any additional Officer and/or Lead Risk Member (Councillors Bennett and Smith) oral updates in relation to risk monitoring activity which has taken place since the last meeting of the Committee. (Presentations and oral reports) (No Direct Ward Relevance)
7. Corporate Risk Register Exec Director (Finance and Corporate Resources)	To receive a presentation from the Executive Director, Finance and Corporate Resources, on the Council's Corporate Risk Register. (Presentation) (No Direct Ward Relevance)
8. Fraud Monitoring & Reporting (Pages 19 - 26) Head of Customer Access and Financial Support	To receive a written report on the performance of the Benefits Services Fraud Investigation Service during the period 1st September 2013 to 30th November 2013. Also, to receive any additional Officer and/or Lead Fraud Member (Councillors Fisher and Hill) oral updates in relation to fraud monitoring activity which has taken place since the last meeting of the Committee. (Report attached and oral reports) (No Direct Ward Relevance)
9. Debt Recovery Update - Quarters 1 and 2 2013/14 (Pages 27 - 34) Head of Customer Access and Financial Support	To advise Members on the collection and recovery processes of the Council's Income Team and on outstanding debt levels. (Report attached) (No Direct Ward Relevance)

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10. Internal Audit - Monitoring Report (Pages 35 - 64) Exec Director (Finance and Corporate Resources)	To consider the Internal Audit Monitoring Report as at 30th November 2013. (Report attached) (No Direct Ward Relevance)
11. Internal Audit - Provisional Audit Plan 2014/15 (Pages 65 - 72) Exec Director (Finance and Corporate Resources)	To consider the provisional Internal Audit Operational Plan for 2014/15. (Report attached) (No Direct Ward Relevance)
12. Annual Governance Statement 2013/14 - Progress Update Exec Director (Finance and Corporate Resources)	To receive an oral update from Officers on current progress in relation to the drafting of the Annual Governance Statement for 2013/14 and to seek any required member input into this. (Oral report) (No Direct Ward Relevance)
13. Portfolio Holder update - Quarterly Budget Monitoring Councillor John Fisher	To receive an oral update from Councillor John Fisher, Portfolio Holder for Corporate Management, on the latest Finance Monitoring Report referred to the Executive Committee. Note: This is a new regular item for the Audit & Governance Committee. As agreed at the 26th September 2013 meeting of the Committee the Finance Monitoring Reports which are referred to the Executive Committee will <u>not</u> be reproduced for the members of the Committee as all reports are available for viewing on the Council's website. Members are therefore requested to view any relevant reports online prior to meetings. The most recent Finance Monitoring Report, for Quarter 2 of 2013/14 (covering the period April to September 2013), was referred to the Executive Committee on 10th December 2013. (No separate report – see above) (No Direct Ward Relevance)

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14. Grant Thornton - Annual Audit Letter 2012/13 (Pages 73 - 90)	To present Members with the Annual Audit Letter for 2012/13 from the Council's External Auditors Grant Thornton. (Report attached) (No Direct Ward Relevance)
15. Grant Thornton - Grant Claims Certification Work 2012/13	To present Members with the Grant Claims Certification Work report for 2012/13 from the Council's External Auditors Grant Thornton. (Report to follow) (No Direct Ward Relevance)
16. Grant Thornton - Update Report 2013/14 (Pages 91 - 108)	To receive a progress report from Grant Thornton, the Council's External Auditors, including a summary of emerging national issues and developments of relevance to the Council. (Report attached) (No Direct Ward Relevance)
17. Grant Thornton - Review of Financial Resilience (Pages 109 - 148)	To receive a report from the Council's External Auditors, Grant Thornton, presenting their review of the financial resilience of the Council. (Report attached) (No Direct Ward Relevance)

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18. Exclusion of the Public

Should it be necessary, in the opinion of the Chief Executive, to consider excluding the public from the meeting in relation to any items of business on the grounds that exempt information is likely to be divulged, it may be necessary to move the following resolution:

“that, under S.100 I of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, the public be excluded from the meeting for the following matter(s) on the grounds that it/they involve(s) the likely disclosure of exempt information as defined in the relevant paragraphs (*to be specified*) of Part 1 of Schedule 12 (A) of the said Act, as amended.”

These paragraphs are as follows:

Subject to the “public interest” test, information relating to:

- **Para 1 – any individual;**
- **Para 2 – the identity of any individual;**
- **Para 3 – financial or business affairs;**
- **Para 4 – labour relations matters;**
- **Para 5 – legal professional privilege;**
- **Para 6 – a notice, order or direction;**
- **Para 7 – the prevention, investigation or prosecution of crime;**

may need to be considered as ‘exempt’.



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MINUTES

Present:

Councillor Derek Taylor (Chair), Councillor Roger Hill (Vice-Chair) and Councillors Roger Bennett, John Fisher, Yvonne Smith and Pat Witherspoon

Also Present:

Phil Jones and Zoe Thomas (Grant Thornton – External Auditors)

Officers:

A Bromage, T Kristunas and S Morgan

Committee Services Officer:

D Parker-Jones

13. APOLOGIES

An apology for absence was received on behalf of Councillor Mark Shurmer.

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES

RESOLVED that

the minutes of the Committee held on 27th June 2013 be confirmed as a correct record and signed by the Chair.

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Chair

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16. AUDIT & GOVERNANCE COMMITTEE - ACTION LIST AND WORK PROGRAMME

Action List

(i) Ref 1 – National Fraud Initiative

Officers confirmed that whilst a feasibility study had not been undertaken data matching work was continuing and was being managed. This would be reported on to Members at a later stage as part of the normal reporting arrangements. Work on this was also being carried out nationally, as part of the National Fraud Initiative, which would involve working with the Audit Commission.

Action: It was agreed that this item be removed from the Action List.

(ii) Ref 2 – Training dates for lead risk and fraud monitoring Members on the Committee

One of the lead Members responsible for fraud monitoring on behalf of the Committee advised that he and the second lead Member for fraud monitoring were, subject to both Members' availability, due to meet with Officers on 4th October for relevant training.

Regarding the lead Members responsible for risk monitoring on behalf of the Committee, a date which had been planned for one of the Members to meet with Officers was in the process of being rearranged. Officers agreed to contact the second lead Member for risk monitoring to make suitable arrangements for them to meet with Officers.

Action: It was agreed that this item be removed from the Action List.

(iii) Ref 3 – Delays in raising Council invoices for community meeting rooms and refreshments

The Chair stated that he had spoken with Officers on this matter and had requested that the issue of invoices being raised and payments having to be made at the point of booking be investigated.

Officers reported that they had raised this issue with the relevant Head of Service who had confirmed that this was

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being looked at as part of transformation and that the situation had improved.

It was noted that whilst the individual amounts of monies involved were often relatively small, when added together these could be more significant, with all monies constituting revenue for the Council.

When asked for their views on this issue, the external auditors commented that one of the key questions to consider was the amount of money involved and whether, based on the figures in question, it was worth reviewing the current processes.

Members requested therefore that Officers bring back to the next meeting details of the figures concerned, following which the Committee would determine whether any further action was required.

Action: Officers to report back at the 16th January 2014 meeting on the figures involved.

(iv) Ref 4 – Audit management software system

The written update in relation to the audit management software system included in the Action List was noted.

Action: It was agreed that this item be removed from the Action List.

(v) Ref 5 – Paolazzi murals

The external auditors stated that they had raised the issue of the ownership and trust arrangements of the murals as part of their audit as these had been designed by a well-known artist. It was therefore appropriate for these to be valued and the arrangements determined.

Officers advised that the authority's legal department had ascertained that the Council did not own the murals and that it had an option for the authority to own these in 2024.

Action: It was agreed that this item be removed from the Action List.

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(vi) Refs 6 to 9

It was noted that Officers were due to provide updates on these items at the 16th January 2014 meeting.

(vii) Ref 10 – Effectiveness of controls for monies collection and use for stated purposes

Officers queried the origin of this item and what information Members wished to receive in this regard.

It was agreed that a written report would be brought to the next meeting of the Committee on the recovery of debts.

Action: Officers to bring a written report on debt recovery to the 16th January 2014 meeting of the Committee.

(vii) Ref 11 – Future monitoring of use of balances to support expenditure

It was noted that Officers would be providing periodic updates to the Committee on information referred to the Executive Committee as part of the quarterly budget monitoring reports.

Action: to remain on Action List as an ongoing item.

Work Programme

In addition to the report noted at (vii) above, Officers advised of two further reports which would be referred to the 16th January 2014 meeting, namely:

- Financial Resilience Report; and
- Annual Governance Statement 2013/14 – Progress/Update Report.

The Chair advised that the Annual Governance Statement Progress/Update Report would appear as a regular item on all future meetings in order that the Committee could monitor and have input into the development of this.

RESOLVED that

subject to the comments detailed in the preamble above, the Committee Action List and Work Programme be noted and the amendments and updates in relation to these be agreed.

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17. RISK MONITORING & REPORTING

The Committee received a presentation from the Head of Finance & Resources on the Operational Risks identified within her service area, which covered:

- Finance & Resources;
- Benefits Services;
- Financial Services;
- Human Resources & Organisational Development;
- Property Services; and
- Revenue Services.

Officers responded to questions from Members on various aspects of the presentation.

The key factors noted during the course of the discussion were:

- the shortage of trained benefits staff nationally and the length of time it took to train staff to an appropriate level, bearing in mind that the cost of any financial losses as a result of staff errors in dealing with benefit claims had to be met by the authority;
- the need for a single ledger system and managing the change for this; and
- the requirement for the introduction of a Council Tax Discount Scheme by January 2014.

RESOLVED that

the presentation be noted.

18. FRAUD MONITORING & REPORTING

The Committee received a report which advised on the performance of the Benefits Services Fraud Investigation Service from 1st April 2013 to 31st August 2013.

Members were pleased to note that the overall amount of overpaid Housing Benefit and excess payments of Council Tax Benefit was a small percentage of the overall entitlement for such benefits.

RESOLVED that

the report be noted.

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19. APPOINTMENT OF AN INDEPENDENT MEMBER

Further to Minute No. 6 of the 27th June 2013 meeting (Co-option of Independent (non-elected) Members on the Committee), Members received a report on a proposed process for the recruitment and selection of an independent member on the Committee.

Officers advised that, if agreeing to the suggested process, there would be an additional recommendation that authority be delegated to the interview panel to finalise recruitment following interviews.

Members considered the suggested criteria for appointment and debated whether the requirement for the independent member not to be a member of a political party should remain, or whether this might place too great a restriction on any interested candidates. The Committee determined that this requirement should remain to ensure the independence of the independent member.

Membership of the interview panel was discussed and it was agreed that the panel would comprise Councillors Bennett, Fisher, Hill and Witherspoon. It was further agreed that the interview panel would undertake the shortlisting process for candidates for interview.

Officers confirmed their understanding that the post would likely be advertised both on the Council's website and in the local press, at no financial cost to the authority. Officers added that they would make the necessary arrangements to proceed with the appointments process and would liaise with the interview panel, in consultation with the Chair of the Committee, to progress this.

RESOLVED that

- 1) the format of the recruitment and selection process and interview panel, as detailed in the report and in the preamble above, be approved;**
- 2) the interview panel comprise Councillors Bennett, Fisher, Hill and Witherspoon; and**
- 3) authority be delegated to the interview panel to finalise recruitment following the interview process.**

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20. GRANT THORNTON - PROGRESS REPORT

The external auditors advised that, in view of the following item on the agenda (Grant Thornton – Audit Findings Report), no separate progress report was necessary on this occasion.

RESOLVED that

the position be noted.

21. GRANT THORNTON - AUDIT FINDINGS REPORT

Members were asked to consider Grant Thornton's Audit Findings report for the Council for the year ended 31st March 2013.

An updated Audit Findings report was tabled by the external auditors at the meeting. This provided a full and up to date picture of the findings as the audit had not been finalised at the time the original report was issued. Officers further advised that paragraph 3.4 of the covering report contained in the agenda papers was not applicable and should be deleted, and that the figure quoted at paragraph 3.5 should read 3 and not 2 recommendations proposed by Grant Thornton.

The external auditors confirmed that they would be issuing unqualified opinions on the financial statements and value for money (VFM) by the statutory deadline of 30th September 2013.

A £1.3m adjustment had been made to the accounts as a result of double counting of the revaluation loss on the Housing Revenue Account. This was a human accounting error which had had no effect on the final reported financial position. The external auditors commented that this was a fairly common accounting error which related to a complex area.

Members noted the audit findings against significant risks and the external auditors stated that no particular issues had arisen around these. No new risks had been identified during the year.

Regarding internal controls relevant to the preparation of the financial statements, some minor IT audit deficiencies were noted which Officers had given assurances had been addressed.

In relation to VFM, the external auditor's key findings highlighted that whilst the Council currently had adequate levels of balances, these would not be sufficient should the Council be unsuccessful in plugging the gap in financial plans from 2014/15 onwards. It was

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therefore suggested that, as part of the 2014/15 budget setting process, the Council should review whether its minimum level of balances was sufficient. Whilst the Council was taking significant steps to achieve recurring savings the savings required to achieve financial balance were challenging. The external auditors had therefore assessed the Council as having significant risk in relation to its medium term financial plans. Officers stated that the Council's current minimum level of balances was set at £750,000 and that this level was due to be reviewed.

The external auditors felt that improvements to the Council's forecasting and a more robust review of achievement of savings plans would help the Council to manage its financial position. A further £1.4m of savings were required in 2014/15, meaning significant savings had to be delivered. There should be no last minute surprises regarding savings and the external auditors recommended that savings be continually monitored, with transparent reports clearly evidencing how savings were being made.

A Member queried whether regular budget monitoring reports in relation to identified savings and how identified savings were progressing should be referred to the Committee. Officers advised that the Executive Committee received quarterly budget monitoring reports and that Heads of Service continually monitored their budgets with finance Officers to see whether identified savings were being achieved.

The Portfolio Holder for Corporate Management stated that he had agreed with Officers that he would be going through the Executive reports in detail and that there was a balance to be had with such monitoring. It was agreed that the Portfolio Holder would provide an oral update on 'Financial Budget Monitoring', based on the quarterly reports referred to the Executive Committee, to each meeting of the Committee. On this point, it was noted that all members of the Council had access to the Executive Committee papers and that these would not therefore be reproduced for the Audit & Governance Committee, with members of the Committee being responsible for reading any such papers independently in advance of the Portfolio Holder's quarterly updates to the Committee. The Portfolio Holder added that if members had any questions on the quarterly monitoring reports they could address these to him.

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RESOLVED that

- 4) the Audit Findings Report 2012/13 from Grant Thornton be approved; and**
- 5) in accordance with the terms detailed in the preamble above, the Portfolio Holder for Corporate Management provide an oral update to each meeting of the Committee on Financial Budget Monitoring.**

22. STATEMENT OF ACCOUNTS 2012/13

The Committee received the Council's Statement of Accounts 2012/13 for approval, which it was noted had to be approved by the statutory deadline of 30th September 2013.

Members commented on certain aspects of the Statement. In relation to the estimated savings quoted on page 6 (Explanatory Foreword – Shared Services) of in excess of £300k savings for shared services for the year, it was queried whether the savings related to Redditch or Bromsgrove. Officers advised that this sentence had been removed from the final Statement as it was difficult to substantiate this and to show whether the savings were as a consequence of staff changes/vacancies or other factors. It was noted that the further wording at the top of page 7 (Explanatory Foreword – Economic Outlook) stating that sharing services with Bromsgrove District Council had generated over £1m during the last 4 years had also been moved from the final version of the Statement for the same reason.

Members felt that it was necessary to have a clear picture of any savings made through shared services and that figures which had been quoted in the draft Statement should not simply be removed. Officers responded that this issue had been raised fairly late in the audit process and that given the limited time available to substantiate the figures it had been agreed with the external auditors that the figures be removed. The Chair commented that the agreed future quarterly Portfolio Holder Financial Budget Monitoring oral updates for the Committee, as referred to in the previous agenda item, would assist in showing the reality of any savings.

Members debated the appropriateness of the wording relating to current balances at the top of page 7 of the Statement (Explanatory Foreword – Economic Outlook), which stated: "The current balances position of £1.0m is in excess of the prudent level

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recommended and if required could be utilised to fund the current projected shortfalls in budget to 2014/15.”

Officers confirmed that the current recommended prudent level for minimum balances stood at £750k, and that as the authority had £1.0m of balances a review of the Council’s minimum level for balances was merited. Any such review of balance levels might see the minimum figure either remain the same or increase, but would not see this fall. Discussions in this regard would therefore take place between Officers and the external auditors.

Whilst it was noted that the wording in relation to the current balances position was factually correct as at March, concern was expressed by some Members as to the appropriateness of the wording in relation to the projected shortfalls in the budget to 2014/15. Given the need to review the Council’s balance levels in the future, and in view of some of the major issues facing the Council as detailed in the Operational Risks presentation given by the Head of Finance & Resources earlier in the meeting, Members felt that the wording suggested the Council could fund the projected budget shortfall with balances. This was felt to be inaccurate and somewhat misleading given that in order to remain at a prudent level for balances only a maximum of £250k of current reserves could be utilised towards any budget shortfall.

It was therefore agreed, and after telephone consultation with the S151 Officer, that the latter part of the wording be removed and that the statement be amended to read: “The current balances position of £1.0m is in excess of the prudent level recommended.”

RESOLVED that

- 1) as detailed in the preamble above, the wording of the third paragraph of the Economic Outlook section of the Explanatory Foreword of the Statement of Accounts be amended to read: “The current balances position of £1.0m is in excess of the prudent level recommended”;**
- 2) subject to the amendment detailed at 1) above, the 2012/13 Statement of Accounts be approved; and**
- 3) a copy of the amended Statement of Accounts be signed at the meeting by the Chair.**

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23. INTERNAL AUDIT - MONITORING REPORT

Members considered the Internal Audit Monitoring Report as at 31st August 2013.

Officers highlighted the fact that the Limited Assurance Level given for Regulatory Services – Licensing Income was for Members' information only as the service was hosted by another authority.

Officers added that, in the usual manner, any exceptions arising from audit reviews and/or any follow-up monitoring work would be reported to the Committee.

In relation to the weaknesses identified as part of the control environment for the One Stop Shop and Cash Collection review, which were increasing the financial and reputational risk to the Council, the Chair commented that he hoped planned improvements would ultimately lead to a Significant Assurance Level.

RESOLVED that

the report be noted.

The Meeting commenced at 7.00 pm
and closed at 9.05 pm

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Chair

AUDIT & GOVERNANCE COMMITTEE ACTION LIST – 16TH JANUARY 2014 MEETING

Officers: Andy Bromage - Worcestershire Internal Audit Shared Services Manager
 Sam Morgan - Financial Services Manager
 Jayne Pickering - Executive Director, Finance and Resources

Note: Members have determined that quarterly Risk Monitoring and Fraud Monitoring updates will be provided to the Committee, which will include any relevant updates from those Members appointed to oversee Risk and Fraud Monitoring on behalf of the Committee. Both items appear in the Committee's Work Programme and, as such, are not included in the Action List.

Ref	Action/Issue	Origin	Lead Officer/ Member	Priority/ timescale	Officer Response/Action Status
1	Lead Fraud and Risk Members on Committee to provide update on any training undertaken (dates and nature of training) in connection with their monitoring roles.	Request of Chair of Committee made following 26.09.13 meeting	Cllrs Bennett, Fisher, (Roger) Hill & Smith	16.01.14 meeting	
2	Council delays in raising invoices for payment of community meeting rooms (etc) and refreshments by external organisations. Look into possibility of introducing a system for making payments at point of booking.	Minutes 12 of 27.06.13 & 16 (iii) of 26.09.13 meetings refer	Sam Morgan / John Godwin	16.01.14 or 24.04.14 meeting	Agreed at 26.09.13 meeting that Officers would look into figures involved and report back on these at 16.01.13 meeting in order to determine whether any further action required. Chair subsequently confirmed Officers could report on this to either 16.01.14 or 24.04.14 meeting.
3	Regarding the review of the service agreement in place with County Council for the valuation of assets (Annual Governance Statement 2012/13), are details of any site visits and comparisons made as part of the valuation process now being included in valuation certificates, as part of the	Minute 9 of 27.06.13 meeting refers	Sam Morgan / Jayne Pickering	16.01.14 or 24.04.14 meeting	Officers agreed to report on this at the 26.09.13 meeting. Chair subsequently rescheduled to 16.01.14 or 24.04.14 meeting.

AUDIT & GOVERNANCE COMMITTEE ACTION LIST – 16TH JANUARY 2014 MEETING

	judgements made?				
4	Member concerns in relation to Redditch Market and any relevant risk register inclusions.	Minute 11 of 27.06.13 meeting refers	Cllr (Derek) Taylor / any other relevant Members	16.01.14 or 24.04.14 meeting	Officers advised Members at 27.06.13 meeting that any concerns in relation to the Market should be directed to the appropriate Head of Service, in order to ascertain whether these needed to be included in the appropriate risk register. Members to report back on any relevant risk register information as separate Overview and Scrutiny (O&S) Committee monitoring applies in relation to O&S Market recommendations). Chair scheduled update on this for 16.01.14 or 24.04.14 meeting.
5	External sale of previously-used car parking machines.	Minute 12 of 27.06.13 meeting refers.	Sam Morgan / Jayne Pickering	16.01.14 meeting	Officers agreed at 27.06.13 meeting to check position on this. Chair rescheduled update for 16.01.14 meeting.
6	Feasibility of introducing monthly rents on commercial buildings in advance via direct debit.	Minute 12 of 27.06.13 meeting refers.	Sam Morgan / Jayne Pickering	16.01.14 or 24.04.14 meeting	Officers agreed at 27.06.13 meeting to look into this. Chair rescheduled update to 16.01.14 or 24.04.14 meeting.
7	Future monitoring of use of balances to support expenditure. Relates to District Auditor's finding that in relation to Value For Money the Council could not continue to rely on using balances to support expenditure, with considerable savings being necessary over following 3 years (Annual Audit Opinion 2011//12).	Minutes 26 of 18.03.13, 38 (x) of 25.04.13 & 21 of 26.09.13 meetings refer.	Sam Morgan, Jayne Pickering & Cllr Fisher	16.01.14 & ongoing	Officers to provide ongoing periodic updates to Committee on information referred to Executive Committee as part of quarterly Budget Monitoring reports. Cllr Fisher (as Portfolio Holder) also to provide oral updates on Financial Budget Monitoring to each meeting of the Committee (wef 16.01.14).

(End)

AUDIT & GOVERNANCE COMMITTEE

16th January 2014

WORK PROGRAMME 2013/14 & ONGOING

2013/14 MUNICIPAL YEAR

24th April 2014

- **Committee Action List & Work Programme**
- **Operational Risk Reporting (including risk register presentations from Head of Leisure & Cultural Services, Head of Housing and Head of Business Transformation) & Risk Monitoring** (including any oral updates from those members of the Committee charged with overseeing Risk Monitoring on behalf of the Committee)
- **Benefits Investigations & Fraud Monitoring** (including any oral updates from those members of the Committee charged with overseeing Fraud Monitoring on behalf of the Committee)
- **Accounting Standards (Statement of Accounting Policies)**
- **Annual Governance Statement 2013/14 – Progress Update**
- **Treasury Management Strategy, Prudential Indicators and Minimum Revenue Policy Provision 2014/15**
- **External Audit – Auditing Standards 2013/14 (Communication with the Audit and Governance Committee and Executive)**
- **External Audit – Progress Report** (if applicable)
- **External Audit – Audit Plan 2013/14**
- **External Audit – Audit Fee Letter 2014/15**
- **Internal Audit – Monitoring Report**
- **Internal Audit – Annual Audit Plan 2014/15 (Final)**
- **End of Year Review of Operation and Effectiveness of the Audit & Governance Committee (Chair’s Report) & annual review of the Committee’s Procedure Rules** (Minute 4 (Audit and Governance Committee – Procedure Rules) of 28th June 2012 meeting refers)
- **Calendar of Meetings 2014/15**

Meeting date to be determined

- **External Audit – ‘Councillors on the frontline’**
To consider the Select Committee report on the role councillors play in the community (Minute 45 (Grant Thornton – Audit Update) of 25th April 2013 meeting refers)

AUDIT & GOVERNANCE COMMITTEE

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2014/15 MUNICIPAL YEAR (Meeting dates to be determined)

June 2014

- **Committee Action List & Work Programme**
- **Operational Risk Reporting & Risk Monitoring** (including any oral updates from those members of the Committee charged with overseeing Risk Monitoring on behalf of the Committee)
- **Benefits Investigations & Fraud Monitoring** (including any oral updates from those members of the Committee charged with overseeing Fraud Monitoring on behalf of the Committee)
- **Annual Governance Statement 2013/14 (for inclusion in the Statement of Accounts)**
- **External Audit – Progress Report** (if applicable) **including oral update on Value for Money Conclusion**
- **Internal Audit – Monitoring Report**
- **Internal Audit – Annual Report 2013/14 (including review of effectiveness of Internal Audit)**

(Note: Copies of the draft Annual Accounts and Annual Governance Statement will be sent to all members of the Committee at the same time as they are issued to the External Auditors.

There will also be a Member Briefing on the Statement of Accounts for the members of the Committee in early/mid-September 2014, prior to the Committee's formal consideration of the Statement of Accounts at the meeting of the Committee in late September 2014.)

September 2014

- **Committee Action List & Work Programme**
- **Operational Risk Reporting & Risk Monitoring** (including any oral updates from those members of the Committee charged with overseeing Risk Monitoring on behalf of the Committee)
- **Benefits Investigations & Fraud Monitoring** (including any oral updates from those members of the Committee charged with overseeing Fraud Monitoring on behalf of the Committee)
- **Audited Statement of Accounts 2013/14**
- **Annual Governance Statement 2014/15 – Progress Update**
- **Review of Independent Member on the Committee** (initial 12-month trial appointment ends December 2014)
- **External Audit – Progress Report** (if applicable)
- **External Audit – Audit Findings Report 2013/14**
- **Internal Audit – Monitoring Report**

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- **Committee Action List & Work Programme**
- **Operational Risk Reporting & Risk Monitoring** (including any oral updates from those members of the Committee charged with overseeing Risk Monitoring on behalf of the Committee)
- **Corporate Risk Register** (if applicable for 2015)
- **Benefits Investigations & Fraud Monitoring** (including any oral updates from those members of the Committee charged with overseeing Fraud Monitoring on behalf of the Committee)
- **Annual Governance Statement 2014/15 – Progress Update**
- **Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2015/16** (or may go to April 2015 meeting)
- **External Audit – Progress Report** (if applicable)
- **External Audit – Annual Audit Letter**
- **External Audit – Grant Claims Report**
- **Internal Audit – Monitoring Report**
- **Internal Audit – Annual Audit Plan 2015/16 (Draft)**

AUDIT AND GOVERNANCE COMMITTEE

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BENEFITS INVESTIGATIONS 1st September 2013 – 30th November 2013

Relevant Portfolio Holder	Councillor John Fisher, Portfolio Holder for Corporate Management
Portfolio Holder Consulted	√
Relevant Head of Service	Amanda de Warr, Head of Customer Access and Financial Support
Wards Affected	All Wards
Ward Councillor Consulted	N/A
Non-Key Decision	

1. SUMMARY OF PROPOSALS

To advise Members on the performance of the Benefits Services Fraud Investigation Service during 2013/14.

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that, subject to any comments, the report be noted.

3. KEY ISSUES

Financial Implications

- 3.1 The Benefits Service decides entitlement to Housing Benefit and Council Tax Support in the local area. There is an average of just over 8,100 live benefit claims at any one time and currently an average of 90 new claims and 618 changes in circumstances are decided each week.
- 3.2 £32m in Housing Benefit and Council Tax Benefit was paid in the financial year 2012-13.

Legal Implications

- 3.3 There are no specific legal implications.

Service/Operational Implications

- 3.4 Within the Benefits Service there is a dedicated counter fraud team whose purpose is to prevent and deter fraud as well as investigating any suspicions of fraudulent claims. This report provides information on activity to detect and prevent fraud during the period 1st September 2013 to 30th November 2013, as well as the outcome of investigations.

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Background

- 3.5 Just over half of the benefits caseload is made up of people of working age, which results in a large number of changes in circumstances when moving in and out of work and also claiming other out of work benefits.
- 3.6 Although some information regarding changes to DWP benefits and Tax Credits is received directly, the information that leads to that change isn't and remains an area of risk of fraud and error entering the system. It is necessary for us to make direct contact with the customers to establish the nature of the change but due to the quantity it is not possible to do this by any means other than by letter. We have developed a new form in an attempt to improve the quality of information we receive in response.
- 3.7 As both Housing Benefit and Council Tax Support are means tested there are potential financial incentives to under declare income and savings or not to report a partner who is working or may have other income.
- 3.8 The Investigation Service comprises a team of officers who have completed the nationally recognised best practice qualifications in Professionalism in Security (PinS).

Activity

- 3.9 During the period covered by this report 225 fraud referrals were received by the team.
- 3.10 31% of these fraud referrals came from data matching. The majority of these were through the Housing Benefit Matching Service (HBMS) which is a scheme run nationally for Local Authorities by the Department for Work and Pensions (DWP).
- 3.11 Our live benefit caseload is submitted and cross matched on a monthly basis against DWP records relating to nationally paid benefits and private pensions, HMRC records relating to Tax Credits, work or savings as well as Post Office post redirection records.
- 3.12 10 of the data match cases were identified through the 2012/13 National Fraud Initiative (NFI) and 2 were raised as a result of matches through Locta, an additional data matching facility available to local authorities for prevention of fraud and debt recovery.
- 3.13 Data matching continues to be an excellent tool in detecting fraud but some of the data that ours has been matched against will have changed and the matches cannot be taken to be correct without further investigation.

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- 3.14 Approximately 26% of the fraud referrals received during the period came from members of the public.
- 3.15 About 2/3 of these referrals were made by phone call and the remaining 1/3 by email or letter.
- 3.16 An increase in referrals from members of the public is always experienced following reports of successful prosecutions in the local press and when interviewed under caution for benefit fraud offences many customers are more concerned that their names will appear in the local press than attending Court and the consequences of a criminal conviction. Press releases therefore continue to be our most valuable tool in the prevention of fraud and encouraging the public to report their suspicions.
- 3.17 The remaining referrals received, approximately 43%, were from official sources. The majority of these were within Redditch Borough Council (RBC), showing the value of maintaining awareness of benefit fraud with employees.
- 3.18 A joint approach is taken on fraud referrals which relate to benefits paid by both RBC and the DWP to ensure that the full extent of offending is uncovered and the appropriate action is taken by both bodies. This maximises staffing resources by preventing duplicate investigation work.
- 3.19 There were 45 positive closures during the period and 7 negative closures where following investigation no fraud or error was proven.
- 3.20 3 people were prosecuted in this period. 2 of these were for undeclared work and the other for an undeclared partner.
- 3.21 Cautions were accepted by 7 people. 6 of these were for undeclared or under-declared work and the other 1 for non-residency.
- 3.22 No Administrative Penalties were offered during the period. Under the Welfare Reform Act these penalties increased from an additional 30% to 50% of the overpaid benefit with a minimum of £350 and maximum of £2,000. Through our transformation work we have established the practice of considering the customer's full circumstances, including ability to pay a financial penalty when deciding on the appropriate sanction in each case. The DWP are no longer able to offer cautions as an alternative to prosecution and there have been occasions in joint investigations where the DWP have offered an Administrative Penalty and a caution has been offered for Housing/Council Tax Benefit/Support offences.

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- 3.23 A further 33 cases were closed as fraud/error proven with a change to entitlement and/or an overpayment of benefit established. Another 2 cases were closed as fraud/error proven but with no change to benefit or overpayment. Cases where payment has been prevented are included in this category.

Impact on other areas

- 3.24 The successful investigation of fraud can impact upon other areas of benefit administration. One of the biggest impacts is upon overpaid Housing Benefit and excess payments of Council Tax Support. On the files closed during the period of this report, the team identified £36k in overpaid Housing Benefit and £9k in excess Council Tax Support.
- 3.25 Investigations can also have implications on Council tenancies or other areas of the Council's services. In these cases the Investigation Officers work closely with appropriate Officers in order for all aspects to be covered. Likewise, if the investigation identifies a potential impact for an external service area, the information will be shared.

Future plans

- 3.26 Further information regarding the Single Fraud Investigation Service (SFIS), as announced as part of the Government's Welfare reform plans was given in the Autumn Statement by the Chancellor of the Exchequer on Thursday 5 December 2013.
- 3.27 In a letter addressed to Local Authority Chief Executives by the DWP it was confirmed that SFIS will be launched within DWP as a single organisation and implementation will commence in 2014. The letter said that they are looking forward to continuing close working with partners to enable the national rollout. Local authorities remain key partners and their expertise and knowledge continues to be invaluable in the development of SFIS. Current implementation plans are that SFIS will be implemented on a phased basis between October 2014 and March 2016. Consideration is also being given to trialling a small number of test sites before full roll-out commences. The DWP has taken the strategic business decision that in order to maintain an effective fraud investigation service it is keen for the staff assigned to this work to transfer with it but at this stage there is insufficient information to say conclusively whether TUPE will or will not apply.
- 3.28 It was also announced in the Autumn Statement and details given in a letter sent by the Rt Hon Eric Pickles MP to all Local Authority Leaders on 5 December that alongside the roll out of SFIS, the DCLG and DWP are investing in local government's capacity to tackle non-welfare fraud. The package will include extra funding over 2014-15 and 2015-16.

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- 3.29 The introduction of the Council Tax Support (CTS) scheme also has implications for the Team. Powers to investigate CTS have been introduced will need to be incorporated into the local scheme. Because CTS offences are not within Social Security legislation there will be an effect on joint working with the DWP. SFIS plans include creating a national framework of protocol agreements to facilitate joint working and support mechanisms for non-welfare benefit fraud investigation.
- 3.30 A package of support, including extra funding over 2014-15 and 2015-16 has been announced to support new fraud investigator posts in order for councils to focus on non-welfare fraud. No details are yet available but consideration will be given for existing skills invested within the existing team to be used to investigate other areas of fraud.

Customer / Equalities and Diversity Implications

- 3.31 None specific.

4. RISK MANAGEMENT

Without effective counter fraud activity there is a high risk of claims being paid where there is no or reduced entitlement.

5. APPENDICES

Appendix 1 – Example cases

6. BACKGROUND PAPERS

None

AUTHOR OF REPORT

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APPENDIX 1

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Example cases

FF015416

A 72 year old man accepted a caution for failing to declare that he was had been working as a taxi driver on a part time basis for 5 years.

The suspicion in this case was identified by the 2012/13 National Fraud Initiative. In view of the customer's age an Intervention visit was initially requested in order to give the customer the opportunity to confirm whether the suspicion was founded.

The case was referred back to the Investigations Team after details of the work were obtained and the customer was interviewed under caution after evidence had been obtained.

Overpayments of £2,276.56 in Housing Benefit and £670.97 Council Tax Benefit were identified and are being recovered by instalments. A caution was offered as an alternative to prosecution after the customer's mitigating circumstances into consideration.

FF015121

A 29 year old man was prosecuted for failing to declare that he was working as a subcontractor between May 2012 and January 2013 whilst continuing to claim Housing Benefit and Council Tax Benefit along with his Jobseeker's Allowance.

This investigation began as a result of the local knowledge of member of the Benefits Team who raised the suspicion. The DWP were invited to join the investigation in order for all offences to be uncovered.

Overpayments of £1,004.96 Housing Benefit, £474.869 Council Tax Benefit and £964.76 Jobseeker's Allowance were established. An alternative sanction could not be considered in this case because the customer failed to co-operate with the investigation and chose not to attend an interview under caution.

The customer pleaded guilty to the offences and was sentenced to a 120 hour unpaid work community order and ordered to pay a victim surcharge of £60.00. In sentencing Magistrates told him that they had taken in to account his guilty plea however they were mindful that he should have known better as he has previously received a slap on the wrists from the DWP by way of an Administrative Penalty for the same thing.

The overpayments are being recovered through current benefit entitlement.

FF015513

Prosecution of a 28 year old woman was decided to be inappropriate after an investigation into her claim resulted in overpayments of £3,031.86 Housing Benefit, £671.50 Council Tax Benefit and £335.75 Council tax Reduction.

This case was raised after the NFI exercise identified that the customer was receiving a Student Bursary.

The customer co-operated with the investigation by attending an interview under caution during which she said that she had been advised by the Administration Team at the University that Housing Benefit would not be affected by the Bursary. This claim was also made by others in a similar situation. The customer later advised that seven students she knew of were in the same situation. The Administrators have now spoken to all students to inform them correctly.

Arrangements have been made for the overpaid benefit to be repaid.

FF015644

An investigation into an allegation that a 21 year old woman was living with a partner was closed as fraud not proven.

This file was raised as a result of a joint working invitation from the DWP after several financial links had been obtained indicating that the suspicion they had received was founded.

The customer provided reasonable explanations for the evidence when she attended an interview under caution whilst maintaining that her claim was correctly in payment.

The explanations were considered to be sufficient and the file was closed with no further action.

**AUDIT AND GOVERNANCE
COMMITTEE**

16th January 2014

DEBT RECOVERY UPDATE - QUARTERS 1 AND 2 2013/14

Relevant Portfolio Holder	Cllr John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Amanda de Warr, Head of Customer Access and Financial Support
Ward(s) Affected	All
Ward Councillor(s) Consulted	N/A
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 This report advises members on the collection and recovery processes of Council's Income Team.
- 1.2 The report updates members on outstanding debt levels

2. RECOMMENDATIONS

The Audit and Governance is asked to RESOLVE:

- 2.1 That the contents of the report are noted, and
- 2.2 Consider whether a regular 6 monthly update report is required, and instruct officers accordingly.

3. KEY ISSUES

- 3.1 The role of the Income Team is a centralised invoicing and collection service for miscellaneous debts and Former Tenancy Arrears to Redditch Borough Council.
- 3.2 Alongside this the Team administers and collects the residual council house mortgage scheme and staff car loans.

Financial Implications

- 3.3 Former tenancy arrears, whilst relatively low in numbers, create the most work for the Income Team of any individual debt type. This is due to the debt recovery process in relation to these debts being extremely labour intensive.
- 3.4 Current former tenancy arrears for 2013/14 at the end of the second quarter total £336,723. This relates to 395 individual cases.
- 3.5 The level of arrears on Former Tenancy accounts is the lowest in 6 years with arrears reducing year on year as shown for the last three years in the following chart.

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Year	Total Debt outstanding	New debts raised
2010/2011	£476,772	£147,505
2011/2012	£375,175	£128,020
2012/2013	£333,659	£104,994

Over the last few years we have been able to put more resources into debt recovery in relation to these debts which we believe has resulted in the corresponding drop in outstanding debts. In addition, the Housing Team work more closely with tenants before arrears escalate which has resulted in a drop in new debts created.

- 3.6 All other payments due to the Council are categorised as general invoice collection and relate to a wide variety of debts, including licencing, hire of Council buildings, domestic and commercial service charges, garage rentals, lifeline charges, commercial rents and allotments.
- 3.7 Each invoice that is raised has credit terms attached – this is the number of days the customers has to pay before a reminder process starts. There are numerous different recovery timescales and reminder notices dependant on the debt type.
- 3.8 The total arrears outstanding at 30th September 2013 were £917,962. This was made up 11,335 outstanding invoices or instalments issued to date, many of which will be paid before the end of the financial year.
- 3.9 The current collection rate for general debt is 79%. This compares with a 66% at the same point 6 years ago demonstrating that collection rates are increasing steadily each year. The following table shows the total debt outstanding at the end of each financial year for the last three years along with the total number and value of new invoices raised.

Year	Total Debt outstanding	Number of outstanding invoices	New invoices raised	Number Live Accounts	Number Invoices Raised
2010/2011	£1,671,18	3,694	£7,163,205	24,343	36,695
2011/2012	£2,038,243	3,266	£7,501,580	26,488	34,012
2012/2013	£991,713	2,826	£8,619,938	28,166	26,265

The total debt and number of outstanding debts relate to many years and these are the totals outstanding at the end of each financial year.

There are a number of reasons for the increase in collection rates. Again we have been able to use our resources more effectively through changes to processes.

Housing Benefits Overpayments are now dealt with within the Benefits Service, by a specialist officer.

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Changes have been made in relation to the recharge of repairs to void properties. These were traditionally almost impossible to collect and created a large amount of waste work in the team, costing more to process than the money received in. There has been no recharge for this current financial year and therefore you see a corresponding impact overall on collection rate.

Clearer guidance and challenging of current procedures has been developed for staff which has resulted in better processing.

- 3.10 Within our internal collection processes we may refer cases to the Court. A judgement must be made as to the likelihood of such action resulting in a positive outcome as the fees increase the overall debt and will cost us if that debt is not recovered.
- 3.11 Court fees are determined by the Court and depending on the amount of outstanding debt. The Council pays this fee when we pass the case to Court and this is recharged to the customer, as part of the overall debt.

In addition Issue Costs are applied as follows:

Court agrees judgement and no challenge	£22.00
Warrant of Execution - (covers the costs of the County Court bailiff collecting the monies owed (potentially through an arrangement)	£100.00
Attachment of Earnings	£100.00
Charging Order (applies when not possible to recover the money but debtor has assets)	£100.00
Reissue - of the warrant	£30.00

Legal Implications

- 3.12 The process of debt recovery is governed by various acts including County Court Act 1984, Tribunals, Courts and Enforcement Act 2007

Service / Operational Implications

- 3.13 The recovery process taken varies depending on the debt in question. This is due to variable credit terms and recovery periods. Attached at Appendix 2 is a summary of the recovery action taken on 2 different debt types plus action taken for collection of former tenancy arrears.
- 3.14 Each case can require a range of recovery paths as the customers circumstances can change during the lifetime of the debt.

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- 3.15 Our income management system dates back to Oct 2006 but many of the 293 debts outstanding totalling £190,488 date back further. These are still live on the system and deemed collectable. 28 debts older than Oct 2006 relating to Former Tenancy arrears and total £28,112 are live and considered inappropriate to be written off.
- 3.16 No debt is written off until all recovery paths have been exhausted or it is deemed uneconomical for the Authority to incur additional court fees.

Customer / Equalities and Diversity Implications

- 3.17 It is important for the Council's reputation to evidence to customers that that every effort is made to recover debts to the Council.
- 3.18 The process for the recovery of debts is equitable and proportionate.
- 3.19 Efforts are made to contact customers by telephone at various stages of the recovery process depending on the circumstances or type of debt. For example, Lifeline customer are always contacted by telephone (where it is possible to do so) before we take further recovery action. Where customers are known to us, or, have a history of late payment, or require additional support to make payments the team will make contact via telephone to support the individual needs of the customer.
- 3.20 Where possible realistic arrangements are always made to help support customers in debt, and individual circumstances are taken into account.

4. RISK MANAGEMENT

- 4.1 Failure to have appropriate debt recovery processes in place could result in an increase in unpaid debt which would impact on the Council's finances.

5. APPENDICES

Appendix 1 - Recovery Process

6. BACKGROUND PAPERS**AUTHOR OF REPORT**

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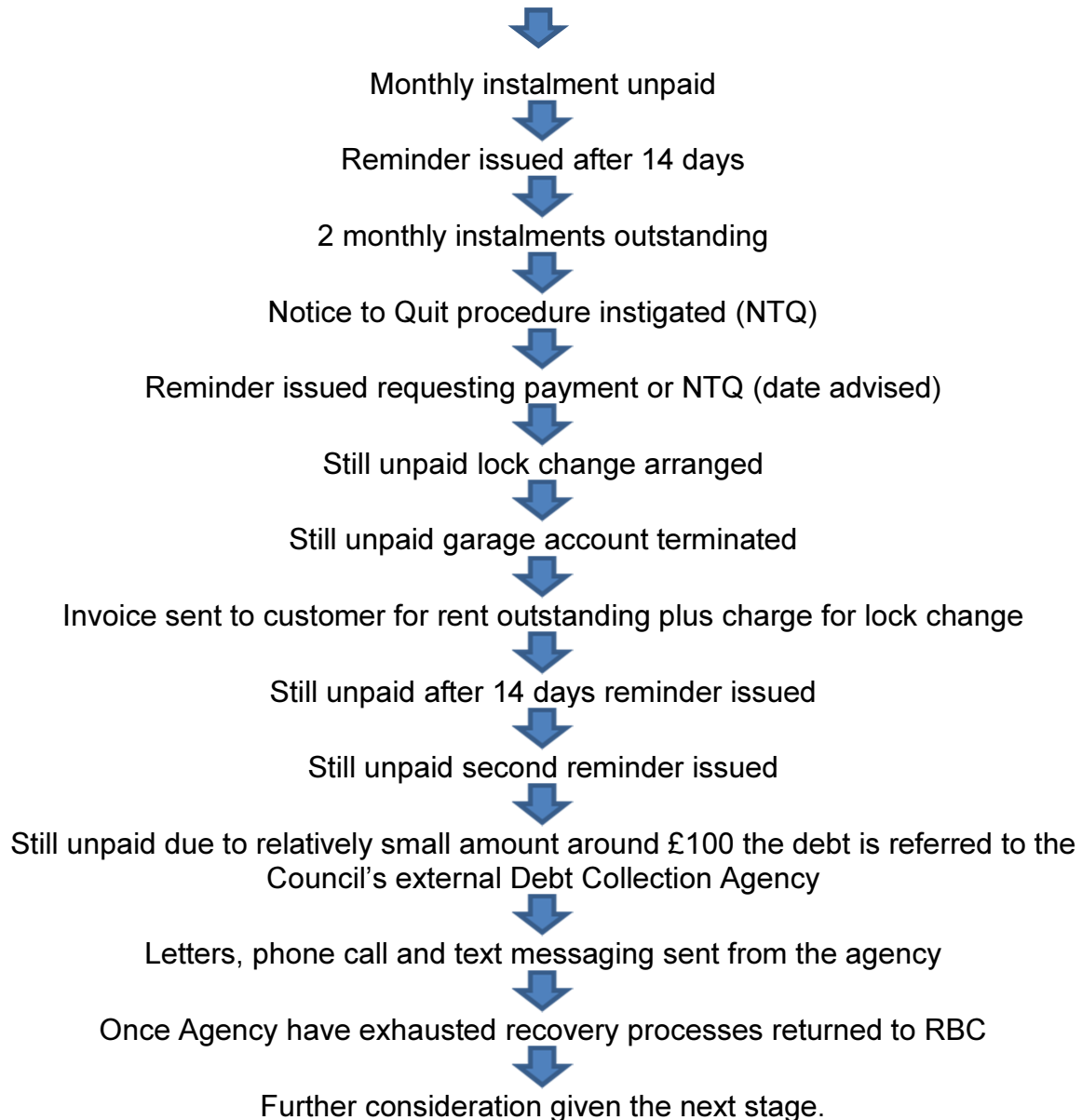
DEBT RECOVERY REPORT - APPENDIX 1

RECOVERY PROCESS

Garage Rental – non council tenants – Current arrears £6662.57

Garage rentals are advised to the Income Team on a weekly basis and are managed by the Housing Locality Team based at Woodrow.

Invoice issued to customer at the start of tenancy to the end of the current financial year, this includes information on the monthly instalments due.



Questions asked at this stage - Is there any prospect of recovery through County Court? How much would it cost in Court Fees to recover the debt?

Consider writing off debt

Commercial Rents – Current arrears £45,753.96

For this example a shop lease managed by Worcestershire Council Property Team has been used. Rents are invoiced quarterly 21 days in advance of the due date.

Rent unpaid 7 days after the due date reminder issued



Still unpaid further reminder issued informing customer if not paid Bailiffs will be instructed



Still unpaid Income Team liaise with Property Services over Bailiff action



Councils Bailiff instructed to collect/distrain on outstanding rental under Distress for Rent legislation. The leaseholder will also be responsible for the charges incurred. These charges are set under the legislation.

If Bailiff action is inappropriate e.g. no goods on which to levy, then consideration will be given to forfeiture action as the Authority may be happy for the unit to be returned.

If this action is also unsuitable then a Money Claim through County Court can be considered.

All these actions are considered with liaison with the Property Services Team and Court Costs are incurred by the customer.

Former Tenancy Arrears

Tenancies can end for many reasons, some of which are property abandoned, tenant deceased, mutual exchange, imprisonment, or property no longer required.

Income Officers assess the new cases each week to decide on the recovery path to take.

Each reason will require a different recovery path for example if a tenant abandoned the property a trace procedure is required. This currently will run for a 12 month period before any consideration is given to writing off debt. Attempts will be made at regular intervals to retrace the debtor during the period using the tracing options available to us.

Initial 7 day reminder letter sent



Still unpaid 2nd reminder issued



Still unpaid an assessment is made as to the further recovery required either:

County Court action or Referral to Debt Collection Agent

To consider County Court action we must consider ability to repay the debt, court fees/costs can be considerable. Below are some possible outcomes that need to be considered before any County Court action is entered into:

Is the debtor working, can an attachment of earning be made? Costs to the debtor incurred.

Does the debtor own their own property? Can a charging order be granted? Costs to the debtor incurred.

Does the debtor have funds in a bank account? Can a third party debt order be made? Costs to the debtor incurred.

All these questions need to be answered before County Court authorised as costs can be considerable.

Whereas costs for County Court are recharged to the debtor, charges are incurred by referring debts to a Debt Collection Agent are paid directly by the Authority at a commission rate of 17.5% on balances collected. Therefore the Income Team will ensure all appropriate recovery methods are exhausted as the Authority is liable for commission payment if the Agency manages to collect the outstanding charges.

AUDIT & GOVERNANCE COMMITTEE

Date: 16th January 2014

**THE INTERNAL AUDIT MONITORING REPORT OF THE SERVICE MANAGER
OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- the monitoring report of internal audit work as at 30th November 2013.

2. RECOMMENDATIONS

2.1 **The Committee is asked to RESOLVE that the report be noted.**

3. KEY ISSUES

Financial Implications

3.1 There are no direct financial implications arising out of this report.

Legal Implications

3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2011 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Service / Operational Implications

3.3 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement.

AUDIT & GOVERNANCE COMMITTEEDate: 16th January 2014

This section of the report provides commentary on Internal Audit's performance for the period 01st April 2013 to 30th November 2013 against the performance indicators agreed for the service and further information on other aspects of the service delivery.

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST REPORT (26th September 2013):

2013/2014 Audits:

Development and Building Control

The review was a full systems audit concentrating on the receipt, payment and processing of Building Control applications as operated on behalf of Redditch Borough Council. This audit did not cover the Service Level Agreement for the North Worcestershire Building Control Service. The review found there is a sound system of control in place. Audit testing highlighted no significant delays in the processing of building control applications and all income was traced to the relevant financial ledgers. In addition, there is regular monitoring of performance including the number of applications processed and level of work load per Building Control Officer. However, one high priority recommendation has been made regarding the lack of a financial charging statement in accordance with the Building (Local Authority Charges) Regulations 2010. It should be noted however, although this is a requirement under the regulations it no longer forms part of the final account process as with previous years.

Current Status: Final Report issued 29th October 2013

Assurance: Significant

Disabled Facilities Grants (DFG's)

The review was a health-check audit and was limited to controls in place at the time of the audit including whether the Disabled Facilities Grants are awarded in accordance with defined eligibility criteria and fully documented, payments are correct and made on a timely basis following a formal review of work quality and completion of the contract, and, there is evidence of effective budget monitoring practices. The review found there is generally sound system of internal control in place in particular the approval and review process of grant applications as well as the monitoring of case works. However, testing has identified isolated weaknesses with a few areas, including the process for registering the Council's financial interests for larger claims whereby the Council is entitled to claw-back monies should an applicant breach the conditions of the grant claim. In addition, the storage of case file documentation needs to be reviewed to ensure adequate controls are in place to minimise the risk of loss. Further work and training is required to

AUDIT & GOVERNANCE COMMITTEEDate: 16th January 2014

address the use of the 4Risk risk register system, to effectively record and monitor risks affecting the Service. There has also been a reduction in the monitoring of capital budget information extracted from the Finance system, although this process is currently under review.

Current Status: Final Report issued 10th December 2013
Assurance: Significant

Allotments

The review was a full system audit concentrating on areas of the Allotments including the adequacy of procedures and controls over the cash collections for all allotment payments, fair procedures are in place with regard to the allotment waiting list, there is an approved system/agreement in place for associations that have been appointed to manage the Council's allotments and there is an effective debt recovery process in operation. The audit did not cover future developments of the Allotments system and the budget monitoring process. The review found overall there is a sound system of control in place but some of the expected controls are not in place and/or operating effectively. Testing identified that although Allotment Associations are run under the Redditch Borough Council's Leisure and Cultural Services team, there is no formal agreement in place to govern their operation. Internal Audit also identified that the Allotment Associations are in regular communication with the Council in regards to any concerns and/or issues raised on their site. The resolutions of these queries are being met by the Council adequately although evidence of this was not always found recorded on the Colony system used for Allotments. A Draft Redditch Allotment Strategy (2013-2018) has been drawn up and is under review.

Current Status: Final Report issued 24th October 2013
Assurance: Moderate

Palace Theatre

The review was a full system audit concentrating on areas of the Palace Theatre including controls over security and access to the cash float, takings and safe, all income received for box office ticket sales, kiosk and bar takings are receipted and banked correctly and shows in the main ledger, and, adequate controls are in place regarding the purchasing of goods bought for resale and stock taking procedures. The review did not cover the recruitment and induction of staff and volunteers of the Palace Theatre. The review found there is a system of control in place but some of the expected controls are not in place and others are not operating effectively. The Haven system is being used adequately to ensure that income received into the Palace theatre is being recorded and banked accurately. The controls around the purchasing

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of goods for resale are operating effectively although the stock taking procedures were not being implemented fully for the stock used for resale and the Palace theatre Money-off vouchers. Audit also identified although there was a lack of sufficient regular review of the floats the use of floats that had been approved by senior management. There are some areas relating to lost property, bankings, cashing up records, stock procedures and the 'Haven' system where controls could be strengthened to help reduce the risk to the Council.

Current Status: Final Report issued 25th October 2013

Assurance: Limited

Summary of assurance levels for 2013/14:

<u>Audit</u>	<u>Assurance Level</u>
<u>2013/14</u>	
Development Control	Significant
Disabled Facilities Grants	Significant
Allotments	Moderate
Palace Theatre	Limited

2012/13 AUDITS NEARING FINAL COMPLETION 30th November 2013

Rent Arrears, Payment and Collection

The review is a limited scope audit and will concentrating on procedures relating to the collection of rent arrears and procedures relating to the monitoring and control of rent arrears. Housing Services are currently undergoing a full Transformation Review and a trial introducing procedural changes being considered effecting the collection and control of rent arrears is about to commence; however management expectations in relation to the actioning and collection of rent arrears are broadly in line to those currently followed, with the emphasis changing in relation to initial/on-going contact with tenants in arrears.

Current Status: Draft Report Stage

Corporate Governance ~ Shared Service

The review is a full systems audit concentrating on documentation provided to the Shared Services Committee and the financial data surrounding recharges to the individual councils. The review has included areas such as savings made as a result of Shared Services/Transformation being clearly and accurately recorded, reports being issued to Members/Boards of all

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Shared Services/Transformation are accurate, clear and timely with savings against projected targets displayed, and, all related recharges to relevant Council's are accurate and timely.

This audit had reached draft report stage but in discussion the s151 Officer requested further work to be undertaken in this area. The audit, therefore, is progressing and will be reported in the near future.

Current Status: Additional work requested by s151

As work on the above audits is nearing completion an 'Assurance' level will be assigned on completion.

2013/14 AUDITS ONGOING AS AT 30th November 2013

Playing Field and Football Pitches

The review is a critical review and challenge audit concentrating on the controls in operation at Playing fields and football pitches with regard to the system in place for booking, billing and collection of income for Playing fields and football pitches, to review the arrangements in place for the ground maintenance of Playing fields and pitches to ensure they are appropriate, and, to review and assess any complaints and compliments in relation to this. The review will not include the marketing strategies or staffing issues involved in the playing field and football pitches process.

Current Status: Draft Report Stage

Kingsley Sport Centre

The review is a full systems audit concentrating on the controls in operation at Kingsley Sports centre to ensure security and access to the cash float, takings and safe, all income received for activity bookings are receipted and banked correctly, there are adequate controls in place regarding cashing up, a reconciliation is carried out to ensure all income is banked, agrees to the Council's bank account and is reflected in the main ledger correctly, and, hours claimed by staff (including overtime) agree to rotas, sickness, annual leave records and "booking in and out" records.

Current Status: Clearance Meeting Stage

Council Tax

The review is a full system audit concentrating on areas of the Council Tax system to ensure there is a reconciliation of the opening debit at the beginning of the financial year, there are regular reconciliations from Council Tax system

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to feeder systems i.e. Cash Receipting, the Benefits system and Financial ledger, empty properties are regularly monitored and billed promptly where necessary, effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, accounts with credit balances are regularly reviewed and there are appropriate controls in place for account transfers and refunds, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, systems access is appropriate.

Current Status: Clearance Meeting Stage

NDR

The review is a full system audit concentrating on areas of the NNDR system to ensure there is a reconciliation of the opening debit at the beginning of the financial year, empty properties are regularly monitored and billed promptly where necessary, there are regular reconciliations from NNDR system to feeder systems i.e. Cash Receipting, the Benefits system and Financial ledger, effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, accounts with credit balances are regularly reviewed and there are appropriate controls in place for account transfers and refunds, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, system access is appropriate.

Current Status: Clearance Meeting Stage

Benefits

The review is a full system audit. The review is concentrating on areas including Overpayments occurring as a result of Local Authority error, Essential Living Fund payments, Fraud Identification, assessment and recovery, and, reconciliations of Benefits, Council Tax and General Ledger entries.

Current Status: Clearance Meeting Stage

S106's

The review is a full system audit concentrating on S106 Planning Obligations from the point the agreement is signed and will consider areas such as procedures are in place for the allocation and use of S106 monies including

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appropriate authorisation, records are in sufficient details to provide management information that, where applicable, can be acted upon in a timely manner, Redditch Borough Council is recording and monitoring all S106 Planning Obligations i.e. where cash and related contributions are sought as well as planning agreements which have been put in place as a means of regulating development activities (where no contribution is sought) and plans are in place to ensure that the Council is ready for or will be in a position to implement the Community Infrastructure Levy (CIL).

Current Status: Fieldwork Stage

IT

The review is a full systems audit concentrating on the controls in operation by IT Services with regard to measures of success including ICT helpdesk functionality since the merging of the Redditch Borough Council and Bromsgrove District Council, there are adequate controls around the starters and leavers from the point where network access is requested, and there are effective and efficient controls around the disposal of IT equipment.

The audit will not cover starters and leavers procedures covered under Human Resources, and, controls around the acquisition of IT equipment as this is covered under Procurement.

Current Status: Fieldwork Stage

Treasury Management

The review is a full system audit of Treasury Management concentrating on areas of control to ensure Treasury Management is undertaken in line with Statutory and Internal procedures, all monies not immediately required by the Council are invested prudently and that funds are available for use by the Authority when required, there is a complete audit trail for all transactions from the point where the monies are paid out/received into the Council's bank account to the point where the monies are repaid into/out of the Council's bank account, all transactions are clearly recorded in the Council's financial recording system, regular reconciliations are undertaken between the ledger and Treasury Management records by an independent person, and, the computer system is subject to basic I.T. controls. The audit will not cover the rate of interest obtained for individual investments/loans or the ratings of the financial institutions used to invest in or obtain loans from.

Current Status: Fieldwork Stage

Creditors

The review is a full system audit concentrating on the controls over the Creditor System ensuring orders have been authorised and the goods/service have been received before the invoice is authorised and paid to the correct

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creditor, purchase orders are raised prior to the receipt of goods/services unless specifically excluded, supplier details for new creditors and amendments to these records are authorised and subject to internal checks, invoices are paid once and are recorded correctly and accurately in the main ledger, reconciliations between the main ledger and the creditors ledger are carried out in a timely manner, adequate controls exist over BACS payments, appropriate access controls are in place for the Council's E-procurement/Cedar system, requirements of the HMRC's Real Time Information reporting are met in relation to any payments made to sub-contractors, and, payment of invoices are monitored on a regular basis to ensure there are no late payment penalties incurred by the Council under the "The Late Payment of Commercial Debts 2013" regulations. The audit will not cover the procurement process.

Current Status: Fieldwork Review Stage

Debtors

The review is a full system audit concentrating on the controls from the point where the invoice is raised to entry onto the main ledger. The review will assess the system is operated in accordance with the Council's Financial Regulations and agreed procedures, Debtors invoice requests are raised onto the IBS system correctly and in a timely manner, all accounts raised and payments made to the Council are in a timely manner, cancellation and 'Write off' of debts are controlled independently and carried out in accordance with the Council's Financial Regulations and justifiable reasons provided, there is an effective debt recovery system in operation, inhibits and recovery suppressions are controlled and monitored independently, all accounts and payment details are recorded correctly and accurately in the main ledger and regular reconciliations are undertaken, and, basic IT Controls are in place. The audit will not look at the Cash collection procedures as this will be covered in a separate audit.

Current Status: Fieldwork Review Stage

Main Ledger

The review is a full system audit concentrating on the control of the Main Ledger to ensure the quality (validity, accuracy, completeness) and timeliness of the input to the ledger, (for example from the feeder systems, procurement cards and direct debits), the timely locating/correcting of errors and omissions within the system (for example the use of suspense codes), sufficient, relevant, reliable information is available to budget holders and budget holders are managing, monitoring and controlling their budgets effectively in accordance with approved procedures, all budget journals and virements are controlled effectively in accordance with agreed procedures and the Council's

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Financial Regulations, and, bank reconciliations are undertaken on a regular basis and any balancing items are investigated and dealt with promptly. The VAT process will not be covered by the review and will be audited separately.

Current Status: Fieldwork Review Stage

Cash Collection

The review is a full system audit concentrating on the control of the cash collection from the point where the cash is received by the Council to entry onto the main ledger. The audit is to ensure adequate controls are in place regarding the cashing up process undertaken by the One Stop Shops and the Town Hall Cash Office, all income receipted in the 'Paris' system is credited to the Council's bank account correctly and in a timely manner, the cash receipting suspense account is reviewed on a regular basis ensuring all payments are allocated correctly to the general ledger in a timely manner, and, controls are in place regarding the collection of cash by G4S.

Current Status: Fieldwork Review Stage

3.4 AUDIT DAYS

The table in Appendix 1 shows the progress made towards delivering the 2013/14 Internal Audit Plan and achieving the targets set for the year. As at 30th November 2013 a total of 233 days had been delivered against an overall target of 484 days for 2013/14. The target days to the end of quarter 3 are in line with the target figure for the year as part of the key performance indicators for the service.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Committee on the 18th March 2013 for 2013/14.

Appendix 3 shows the tracking of completed audits.

Appendix 4 shows the 'high' and 'medium' priority recommendations which have are reported to the Committee for information.

3.5 OTHER KEY AUDIT WORK

Much internal audit work is carried out "behind the scenes" but is not always the subject of a formal report. Productive audit time is accurately recorded against the service or function as appropriate. Examples include:

- Governance for example assisting with the Annual Government Statement
- Risk management

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- Transformation review providing support as a 'critical appraisal'
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers' attention to specific audit or risk issues
- Audit advice and commentary
- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative.
- Investigations

Customer / Equalities and Diversity Implications

3.6 There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 The main risks associated with the details included in this report are:

- Failure to complete the planned programme of audit work within the financial year; and,
- The continuous provision of an internal audit service is not maintained.

These risks are being managed via the 4Risk risk management system within the Finance and Resources risk area.

5. APPENDICES

Appendix 1 ~ Internal Audit Plan delivery 2013/14
Appendix 2 ~ Key performance indicators 2013/14
Appendix 3 ~ Tracking analysis of previous audits
Appendix 4 ~ 'High' and 'Medium' priority recommendations

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

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N/a

AUTHOR OF REPORT

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APPENDIX 1

Delivery against Internal Audit Plan for 2013/14
1st April 2013 to 30th November 2013

Audit Area	DAYS USED TO 30/11/13	2013/14 PLANNED DAYS	Target Days to 31/12/13
Core Financial Systems (Note 1)	63	114	93
Corporate Audits(Note 2)	46	155	64
Other Systems Audits	92	161	100
TOTAL	201	430	257
Audit Management Meetings	13	20	15
Corporate Meetings / Reading	6	9	7
Annual Plans and Reports	1	12	6
Audit Committee support	7	13	10
Other chargeable	5	0	0
TOTAL	32	54	38
GRAND TOTAL	233	484	295

Note 1

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for the Annual Governance Statement and Statement of Accounts.

Note 2

A number of the budgets in this section are 'on demand' e.g. consultancy, investigations so the requirements can fluctuate but are calculated on an equal apportionment per quarter over the year.

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APPENDIX 2

Key Performance Indicators (KPIs) for 01st April 2013 to 31st March 2014.

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2012/13. Further to the request of Members at the Internal Audit Committee of the 25th April 2013 performance indicators have been reviewed and agreed with the Portfolio Holder and are reported below.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Position (as at November 2013)	Frequency of Reporting
1	No. of high recommendations	Downward	12	6	Quarterly
2	No. of moderate or below assurances	Downward	10	2	Quarterly
3	No. of customers who assess the service as excellent	Upward	2	4	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered =27 &(2x Draft Reports)	Target =29 Delivered =5 (12 progressing)	Quarterly

WIASS operates within and seeks to conform to the Public Sector Internal Audit Standards.

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APPENDIX 3

Planned Follow Ups:

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action taken against those audits and whether further follow up is planned. Commentary is provided on those audits that have already been followed up and audits in the process of being followed up to the end of November 2013. Exceptions will be reported to the Committee.

For some audits undertaken each year follow-ups may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the over all work load and are assessed by the Lead Auditors.

Follow up in connection with the core financials is undertaken as part of the routine audits that are/were performed during quarter 3. Although identified on the list these will be removed when the audits have been completed and the follow up has been completed.

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Responsible Officer</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
			High and Medium Priorities 6mths after final report issued as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed
2011-12 Audits					
Housing Repairs & Maintenance	5th December 2011	Head of Housing & Housing Services Manager	Feb-13 Assessing follow up requirement		
Housing Capital Contracts - Interim Valuation and Post Contract Appraisal	24th February 2012	Head of Housing & Housing Services Manager	Feb-13 Assessing follow up requirement		
VAT	31st July 2012	Financial Services Manager	To be followed up in the 2013/14 audit		
Maintenance Contracts	31st July 2012	Head of Housing Services	Jan-13 Assessing follow up requirement		
2012-13 Audits					
Garages	16 July 2012	Head of Housing & Housing Services Manager	Followed up in October 2013. Outcome: Awaiting management response/action plan as service has been developed. Consider being made as to whether audit report remains valid due to changes.		

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Grants to Voluntary Organisations	12 September 2012	Acting Head of Community Services	Having spoken to client the recommendations relate to the approval of grants which will take place in January 2014. Therefore this will be revisited at this point to obtain evidence of implementation. HT 29/10/2013		
Landscaping & Ground Maintenance	14 September 2012	Head of Environmental Services	Mar-13 Assessing follow up requirement		
Creditors	03 January 2013	Financial Services Manager	Follow up in 13/14 audit –completed		
Treasury Management	21 December 2012	Financial Services Manager	Follow up in 13/14 audit		
Street Scene	7th January 2013	Head of Environmental Services	Jul-13 Assessing follow up requirement		
Payroll	17th March 2013	Financial Services Manager	Follow up in 13/14 audit -completed		
Debtors	1st March 2013	Financial Services Manager	Follow up in 13/14 audit -completed		
IT Services	26th February 2013	ICT Operations Manager	Follow up in 13/14 audit		
Stores, Depot and Small Plant	27th March 2013	Head of Environmental Services	Sep-13 Assessing follow up requirement		
Arrow Vale Sports Centre	2nd April 2013	Leisure Services Manager	Oct-13 Assessing follow up requirement		
Markets	18th March	Head of Planning	Sep-13 Assessing		

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	2013	Services	follow up requirement		
Main Ledger inc Budgetary control	26th April 2013	Financial Services Manager	Follow up in 13/14 audit		
Procurement / Contract Compliance	20th May 2013	Financial Services Manager	Nov-13 Assessing follow up requirement		
Corporate Governance incl Shared Service arrangements	Draft report	To be confirmed	To be confirmed		
Risk Management	9th May 2013	Head of Finance and Resource	No follow up required. Critical friend audit done.		
Crematorium and Cemeteries	26th April 2013	Head of Environmental Services	Oct-13 Assessing follow up requirement		
Workshop & Fleet	29th April 2013	Head of Environmental Services	Oct-13 Assessing follow up requirement		
One Stop Shop / Reception Services and Cash Collection	10th June 2013	Head of Customer Services	Dec-13 – Audit currently in progress		
Waste	26th April 2013	Head of Environmental Services	Oct-13 Assessing follow up requirement		
Energy Monitoring	Draft report PG to chase Sam 17.7.13	Financial Services Manager	Feb-14		
Abbey Stadium	2nd May 2013	Leisure Services Manager	Nov-13		
Council Tax	22nd May 2013	Revenue Services Manager	Follow up in 13/14 audit – completed		
Benefits	20th June 2013	Benefits Manager	Follow up in 13/14 audit - completed		
NNDR	22nd May 2013	Revenue Services Manager	Follow up in 13/14 audit -completed		

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Housing Intervention	24th July 2013	Head of Housing & Housing Options Manager	No follow up required. Critical friend audit done.		
2013-14 Audits					
Dial-A-Ride	24th June 2013	Dial A Ride Manager	Jan-14		
Palace Theatres	25 th October 2013	Leisure Services Manager	Apr-14		
Allotments	24 th October 2014	Capital Project & Greenspace Manager	Apr-14		
Building Control	29 th October 2013	Building Control Manager	Apr-14		

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APPENDIX 4

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively. No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.
Significant Assurance	There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk. Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.
Moderate Assurance	The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's objectives. Assurance can only be given over the effectiveness of controls within some areas of the system. Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.
Limited Assurance	Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively. Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.
No Assurance	No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed. Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.

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Definition of Priority of Recommendations

Priority	Definition
H	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
M	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.
L	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Development and Building Control 2013/14					
Assurance: Significant					
Summary: The review was a full systems audit concentrating on the receipt, payment and processing of Building Control applications as operated on behalf of Redditch Borough Council. This audit did not cover the Service Level Agreement for the North Worcestershire Building Control Service.					
1	H	There is no clear demonstration that Redditch are breaking even on fee charging income for Building Control Services.	Risk of non compliance with the Building (Local Authority Charges) Regulations 2010 leading to reputational damage.	Redditch Council to satisfy themselves that they are acting in accordance with the Building (Local Authority Charges) Regulations 2010 by ensuring that a Fee Charging financial statement is produced at the end of each financial year and is signed off by an appropriate financial officer of each Council.	Responsible Manager: Financial Services Manager/Building Control Manager Implementation date: To be addressed at Final Account closedown for 13/14. Agreed.
2	M	Whilst reviewing payments receipted by the Redditch Cashiers it was noted that they do not always record the applicants name/address.	Unable to identify/prove payment in the event of challenge leading to possible financial loss.	The Redditch Cashiers to be reminded that full payment details for example name and address of property should be entered when receipting payments.	Responsible Manager: Head of Customer Access and Financial Support Implementation date: 21 st October 2013 All staff advised that name and address details must be entered for all payments not linked to an account. Extra training provided where necessary. Monitoring to take place and individual issues to be discussed with staff ongoing.

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Disabled Facilities Grant 2013/14					
Assurance: Significant					
Summary: The review was a health-check audit and was limited to controls in place at the time of the audit including the Disabled Facilities Grants are awarded in accordance with defined eligibility criteria, and fully documented, payments are correct and made on a timely basis following a formal review of work quality and completion of the contract, and, there is evidence of effective budget monitoring practices.					
1	M	<u>Registering of Council Interests</u> The Authority is able to claw-back costs relating to Disabled Facilities Grants which are above a £5,000 value, limited to a total re-imbursement charge of £10,000 per application. At present, these interests are registered using the Land Registry process as an active charge against the property up to a period of 10 years after the works are completed. This process has suffered extended delays, whereby documentation must be received from the applicant, and processed by Legal Services before being sent to Land Registry. A more generally accepted practice for registering charges against the property is by using the Land Charges system, which is currently cheaper and less time consuming.	Failure to formally record Council interests in a timely and appropriate manner, resulting in lost reimbursement should the terms of the Disabled Facilities Grant be broken.	The process for registering charges against a property to be reviewed, to ensure the most appropriate method is in place for formally registering the Council's interests.	Management Response: Agreed – this has been an area of challenge for some time, with differing opinions, even amongst Legal themselves as to the best way forward. Responsible Manager: Housing Strategy Manager Implementation date: February 2014

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
2	M	<u>File Management</u> The file for 1 of a random sample of 15 works selected for testing could not be located during the audit fieldwork. The grant file contains personal information regarding members of the public, as well as financial information on the housing works. As at the time of the audit work, the whereabouts of this file was still unknown. The related grant claim has been completed, with payments made to the contractor. The file would not be subject to potential claw-back of funding should the applicants fail to abide with the grant scheme terms.	Failure to adhere to Data Protection requirements, resulting in potential legal challenge against the authority.	Procedures to be introduced to record the location and movements of grant files. File storage security practices to be enhanced, to reduce the risk of unauthorised access.	Management Response: Agreed – file transfers and storage facilities are not as we would wish. Responsible Manager: Housing Strategy Manager Implementation date: January 2014

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Allotments 2013/14					
Assurance: Moderate					
Summary: The review was a full system audit concentrating on areas of the Allotments including the adequacy of procedures and controls over the cash collections for all allotment payments, fair procedures are in place with regard to the allotment waiting list, there is an approved system/agreement in place for associations that have been appointed to manage the Council's allotments and there is an effective Debt recovery process in operation. The audit did not cover future developments of the Allotments system and the budget monitoring process.					
1	H	<u>Formal Agreements</u> There are no written procedures or formal agreements that currently exist between the Allotments Associations and Redditch Borough Council.	There is a risk of financial loss possible fraudulent activity and reputation loss to the Council.	A Formal Agreement clearly outlining the controls required in the running of the Allotments on behalf of Redditch Borough Council, including the expectations of both the Council and Allotment Associations to be put in place as soon as possible.	We are currently developing the agreement between the Council and Associations through Redditch Allotments Forum, based upon by the draft Allotments Strategy 2013 to 2018. This will ensure that the Associations and RBC have a clear formal procedure and areas of responsibility and expectation are clearly identified and allocated. Responsible Manager: Capital Project & Greenspace Manager Implementation date: 31 st October 2014
2	M	<u>System Updates</u> Internal Audits walkthrough of the system identified that the Colony system was not always being updated or followed through timely for tenants that required the termination procedure to be completed. For example, final inspections or final 'follow-up' results are not being	Risk of financial and reputational loss to the Council	Reasons for terminations need to be clearly entered on to the Colony system with supporting evidence attached where required in a timely manner.	Further training is required by Officers on the Colony system to ensure the system is correctly used and its potential maximised, this is being arranged accordingly. Specifications/data fields within Colony will be updated/ improved to ensure full functionality of the system in order to meet

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		updated or carried out in some cases. It was also noted that scanned documentation of final notices sent out had not been attached to file were appropriate.			audit requirements. Responsible Manager: Capital Project & Greenspace Manager Implementation date: 31st October 2014

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Date: 16th January 2014

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Palace Theatre 2013/14					
Assurance: Limited					
Summary: The review was a full system audit concentrating on areas of the Palace Theatre including adequate controls over security and access to the cash float, takings and safe, all income received for box office ticket sales, kiosk and bar takings are receipted and banked correctly and shows in the main ledger, and, adequate controls are in place regarding the purchasing of goods bought for resale and stock taking procedures. The review did not cover the recruitment and induction of staff and volunteers of the Palace Theatre.					
1	H	<u>Banking for bar takings</u> Banking for bar takings are not being performed on a weekly basis.	There is a risk of non compliance with the Council's Financial regulations by both employee and the Council, which can lead to theft and financial loss.	Senior management need to ensure that the Palace Theatre is complying with the Council's Financial Regulations which require income to be banked promptly, i.e. by banking weekly.	This will be implemented as this is directly linked to "Matter Arising 5" Responsible Manager: Cultural Service Manager Implementation date: 31/10/2013
2	H	<u>Lost and found</u> There were miscellaneous items kept in the lost and found box; a bank card (that expired in 2011) and a digital camera that was held in the reception safe. Our walkthrough identified that there was no recording system in place for the Lost and found property or any evidence that any disposals are done correctly.	Insufficient details on collection or disposal of lost and found property retained can increase the risk of loss and theft of valuable items	All lost and found property must be recorded and completed in full, that is, the date found, disposal date and who completed the procedure. The Palace Theatre need to have a lost and found procedure put in place and reviewed on a yearly basis this to include what to do in the event of a bank card being found.	A Normal Operating Procedure will be developed and implemented by the Assistant Theatre Manager Responsible Manager: Assistant Theatre Manager Implementation date: 30/10/2013

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date: 16th January 2014

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
3	H	<u>System log</u> While testing the cashing up records, Internal Audit identified records showing that the Haven system had been logged on by a staff member for more than 48 hours. The system had been used for bar sales by various staff members/volunteers.	Risk of misuse of another user's profile resulting in a loss of audit trail which could lead to financial loss and fraudulent activities	The Haven system must be logged in and out appropriately by the user who has completed their duties on a workstation.	Procedure will be developed and implemented by the Assistant Theatre Manager Responsible Manager: Cultural Services Manager Implementation date: 31/03/2014
4	H	<u>Cashing up records</u> 24 out of 25 Daily Cashing up reports tested did not have sufficient separation of duties. For example the reports for the cash collected at the end of the day showed: - One member of staff recording and authorising the takings; - the cashier recording the cashing up but no authorising signature; or - no signature from both the cashier or the authorising officer.	Insufficient evidence of separation of duties may increase the risk of fraud and theft	The Box Office Supervisor and the Assistant Theatre Manager to ensure that there is adequate separation of duties in the daily cashing up procedure.	Procedure will be developed and implemented by the Assistant Theatre Manager Responsible Manager: Assistant Theatre Manager Implementation date: 31/10/2013
5	M	<u>Floats</u> There are currently 12 floats kept in the Palace Theatre of which internal audit found that: - One of the floats had not been active (£25 programme float) - One of the floats was being used	Risk of retaining surplus amounts of cash which increases the risk of theft and financial losses to the council	Senior management to review the floats kept at the palace theatre at least once a year to ensure that they remain relevant this could be undertaken as part	Programme Float – set up to service the annual Pantomime (on advice from finance) Float to purchase – the issue of GPC cards

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date: 16th January 2014

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		for petty cash to purchase bar lemons. (£50 bar float) One of the floats was recorded as £500 but when counted on site it was found to be £600. There is no evidence of the floats kept on site being regularly reviewed by senior management.		of the year end statement of accounts process.	has negated the need for this practice All Floats are reviewed on an annual basis and a return submitted to finance at the end of each financial year The relevance of all floats will be reviewed & rationalised Responsible Manager: Cultural Service Manager Implementation date: 28/02/2014
6	M	<u>Stock taking procedures</u> There is currently no stock taking procedures in place at the Palace Theatre. It was noted that the last weekly stock take was done 10th July 2012.	Lack of information/controls may increase the risk of financial loss and fraud to the Council	Stock taking procedures to be agreed and implemented at the Palace Theatre. The procedures should be realistic and should weigh the resources implication with the risk to ensure that they do not become onerous.	A full Bar and Kiosk Audit was completed 02/04/13 and the Tourist Information Centre was completed on 03/04/2013 Random stock checks will be completed on a monthly basis. A rotation process will be implemented by the Assistant Theatre Manager, to ensure that stock checks are done for each product at least once a year. Responsible Manager: Assistant Theatre Manager Implementation date: 30/11/2013

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date: 16th January 2014

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
7	M	<u>Vouchers storage</u> Unused Palace Theatre money voucher booklets with monetary vouchers worth £20, £10, £5 and £1 were not securely stored. There is also no stock list maintained of these vouchers.	There is a risk of theft and financial loss to the Council.	Vouchers must be stored securely; an up to date stock list being maintained providing a clear audit trail of sale details.	All vouchers are secured in the Managers Office with a an appropriate stock list Responsible Manager: Theatre Manager Implementation date: Implemented in August 2013
end					

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 16th January 2014**THE PROVISIONAL 2014/15 INTERNAL AUDIT PLAN REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS**1.1 To present:**

- the Redditch Borough Council Provisional Internal Audit Operational Plan for 2014/15;
- to confirm the key performance indicators for the Worcestershire Internal Audit Shared Service for 2014/15

2. RECOMMENDATIONS**2.1 The Committee is asked to RESOLVE that the report be noted.****3. KEY ISSUES****Financial Implications****3.1 There are no direct financial implications arising out of this report.****Legal Implications****3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2011 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.**

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

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Service / Operational Implications

Internal Audit Aims and Objectives

3.3 The aims and objectives of the Worcestershire Internal Audit Shared Service are to:

- examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the council and recommend arrangements to address weaknesses as appropriate;
- examine, evaluate and report on arrangements to ensure compliance with legislation and the council's objectives, policies and procedures;
- examine, evaluate and report on procedures to check that the council's assets and interests are adequately protected and effectively managed;
- undertake independent investigations into allegations of fraud and irregularity in accordance with council policies and procedures and relevant legislation; and
- advise upon the control and risk implications of new systems or other organisational changes e.g. transformation.

Formulation of Annual Plan

The Internal Audit Plan for 2014/15, which is included at **Appendix 1**, is a risk based plan which takes into account the adequacy of the council's risk management, performance management and other assurance processes. It has been based upon the risk priorities per discussions with the s151 Officer and Heads of Service as well as an independent risk assessment of the audit universe by Internal Audit. The Internal Audit Plan for 2014/15 has been agreed with the council's section 151 officer.

By bringing a provisional plan of work to Members at this stage of the planning process it allows Members to have a positive input into the audit work programme for 2014/15 and make suggestions as to where they feel audit resources should be directed. As with all plans it may be subject to review as the year progresses in consultation with the s151 Officer.

REDDITCH BOROUGH COUNCIL

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Resource Allocation

The Internal Audit Plan for 2014/15 has been based upon a resource allocation of 484 chargeable days, a resource allocation which has been agreed with the council's s151 officer. The Service Manager of the Worcestershire Internal Audit Shared Service is confident that, with this resource allocation, he can provide management, external audit and those charged with governance with the assurances and coverage that they require over the system of internal control, annual governance statement and statement of accounts.

The draft Internal Audit Plan for 2014/15 is set out at **Appendix 1**.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2014/15 will be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service and will be reported to the Shared Service's Client Officer Group, which comprises the s151 officers from client organisations, on a quarterly basis and to the Audit Committee on a quarterly basis.

The success or otherwise of the Internal Audit Shared Service will be determined by the performance against a set of key performance indicators which have been developed for the service. These have been agreed with the council's s151 officer and are included at **Appendix 2**.

Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 The main risks associated with the details included in this report are:

Failure to complete the planned programme of audit work within the financial year; and,

the continuous provision of an internal audit service is not maintained.

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

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These risks are being managed via the 4Risk risk management system within the Finance and Resources risk area.

5. APPENDICES

Appendix 1 ~ Draft Internal Audit Plan 2014/15
Appendix 2 ~ Key performance indicators 2014/15

6. BACKGROUND PAPERS

None

7. KEY

N/a

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REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 16th January 2014**APPENDIX 1****DETAILED PROVISIONAL PLAN FOR 2014/2015 AUDIT PROGRAMME**

Audit Area	Source	Planned days 2013/14	Planned Days 2014/15	Difference = + or -
Core Financial Systems				
Council Tax	Risk assessment score 34	12	12	0
Benefits	Risk assessment score 34	15	15	0
NNDR	Risk assessment score 32	12	12	0
Payroll (inc allowances, starters, leavers)	Risk assessment score 33	15	15	0
Creditors	Risk assessment score 31	12	12	0
Cash Collection	Risk assessment score 30 & HoS	6	12	6
Debtors	Risk assessment score 29	12	12	0
Treasury Management	Risk assessment score 28	7	7	0
Main Ledger inc Budgetary Control & Bank Reconciliation	Risk assessment score 28	17	15	-2
TOTAL		108	112	4
Corporate				
Shared Service Client	Risk assessment score 29	16	16	0
IT Services	Risk assessment score 29	15	15	0
Procurement / Contract Compliance/Tendering	Risk assessment score 28	0	17	17
Risk Management	Risk assessment score 26	15	15	0
Transformation Arrangement (Critical Friend)	s151	10	10	0
Corporate Governance (Health & Safety, Media & Comm's, Performance Indicators & data quality)	n/a	17	17	0
Fraud, Special Investigations and	n/a	26	25	-1

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE****Date: 16th January 2014**

National Fraud Initiative (NFI)				
Advisory and Consultancy / Contingency	n/a	15	14	-1
Previous Year Work completion	n/a	10	10	0
Statement of Internal Control	n/a	3	5	2
Follow Up on recommendations	n/a	17	16	-1
TOTAL		159	160	1
Other Systems Audits				
Rent Arrears /Rent Payment & Collection	Risk assessment Score 33	0	15	15
Housing Repairs & Maintenance	Risk assessment Score 32 & HoS	0	18	18
Planning Enforcement	Risk assessment Score 31	0	16	16
Golf Course	Risk assessment Score 29	0	10	10
Countryside Centre & Arrow Valley Park	Risk assessment Score 29	0	17	17
Reddicard/Fee Concessions	Risk assessment Score 28	0	12	12
Forge Mill Museum	Risk assessment Score 28	0	10	10
Planning Fees	Risk assessment Score 28	0	13	13
Land Charges Fees	Risk assessment Score 26	0	13	13
Rent Guarantee/Rent Deposit Scheme	Risk assessment Score 27	0	11	11
DFG's	Risk assessment Score 23	15	15	0
Threadneedle House	n/a	0	0	0
Bus Service Operators Grant	n/a	0	8	8
<i>Balancing Figure for 2013/14</i>		<i>148</i>		
TOTAL		163	158	-5
Audit Management Meetings	n/a	20	20	
Corporate Meetings / Reading	n/a	9	9	
Annual Plans and Reports	n/a	12	12	
Audit Committee support	n/a	13	13	
TOTAL CHARGEABLE		54	54	0
TOTAL CHARGEABLE		484	484	0

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE****Date: 16th January 2014****Summary of Days per Overall Audit Group for 2014/15.**

Planned Days for 2014/15	2013/14	2014/15
Core Financial Systems	108	112
Corporate Work	159	160
Other Systems Audits	163	158
Sub Total	430	430
Audit management meetings	20	20
Corporate meetings / reading	9	9
Annual plans and reports	12	12
Audit Committee support	13	13
	54	54
TOTAL Audit Days	484	484

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 16th January 2014**Appendix 2****KEY PERFORMANCE INDICATORS 2014/15**

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2014/15.

	KPI	Trend requirement	2013/14 Year End Position	2014/15 Position (as at xxxxxxxx)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward			Quarterly
2	No. of moderate or below assurances	Downward			Quarterly
3	No. of customers who assess the service as 'excellent'	Upward			Quarterly
4	No. of audits achieved during the year	Per target	Target = (minimum) Delivered =	Target = 24(minimum) Delivered =	Quarterly

WIAS considers it operates within, and conforms to, the Public Sector Internal Audit Standards 2013.

AUDIT & GOVERNANCE COMMITTEE

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GRANT THORNTON – ANNUAL AUDIT LETTER 2012/13

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	No
Relevant Head of Service	Jayne Pickering
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Annual Audit letter for 2012/13 from the Councils External Auditors Grant Thornton.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note the report.**

3. KEY ISSUES

Financial Implications

- 3.1 There are no specific financial implications as a result of this report. The fee of £94k was charged in connection with the External Audit work undertaken during 2012/13.

Legal Implications

- 3.2 None as a direct result of this report. The Council has a legally binding contract with Grant Thornton to provide the External Audit service for at least the next 5 years.

Service / Operational Implications

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice.
- 3.4 The Annual Audit Letter as attached at Appendix 1 focuses on 3 areas:
- Audit of Financial Statements
 - Value for Money Conclusion
 - Certification of grant claims and returns
- 3.5 There are a number of points raised within the report:

AUDIT & GOVERNANCE COMMITTEE

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- An unqualified opinion received on the 2012/13 accounts
- A unqualified opinion in relation to value for money
- Assurance of the Whole of Government Accounts Statement was made to the National Audit Office
- 2 grant claims were audited without amendment.

3.6 In addition a number of issues were raised for the Council to monitor and manage:

- Financial Pressures – to be clear on levels of savings to be realised
- Business Rate Pooling – to understand the future forecasting of business rates
- Transformation – to pursue savings whilst improving service delivery
- Welfare Reform – to assess the impact of welfare reform changes on the services provided by the Council

Customer / Equalities and Diversity Implications

3.7 There are no implications arising out of this report.

4. RISK MANAGEMENT

4.1 As part of all audit work the auditors undertake a risk assessment to ensure that adequate controls are in place within the Council so reliance can be placed on internal systems.

5. APPENDICES

Appendix 1 – Annual Audit Letter

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

AUTHOR OF REPORT

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The Annual Audit Letter for Redditch Borough Council

Year ended 31 March 2013
October 2013

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Section 1: Executive summary

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Certification of grant claims and returns

This report summarises the findings from our audit work covering the financial year 2012/13. The work undertaken is in line with the plan issued to members in March 2013. Fees charged are consistent with those set out in the fee letter issued in April 2013. We will confirm in the certification report the fees for that work when completed.

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Redditch Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- An audit review of the Council's Whole of Government Accounts submission was not required, instead we provided a short form assurance statement to the National Audit Office.
- we have certified 2 grant claims and returns, which were certified without amendment and we are in the process of auditing the Housing Benefits grant claim, which will be completed by the national deadline of 30 November.

Executive summary(cont)

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future. In the audit plan we highlighted the following national issues being faced by the Council:

Financial pressures

In common with other councils, Redditch is facing significant reductions in central government grants. Recent government announcements have made clear that the current financial pressures on funding will remain for the near future. The budget for 2012-13 required considerable savings to be delivered. The Council managed the outturn position with a relatively small overspend. Future budgets will also require large savings. The level of general fund balances will not be sufficient if savings are not made.

Business rate pooling

The Localising of Business Rates, increases the risk and creates more unpredictability in this stream of income. Pooling seeks to minimise this risk and this year the Council has decided to work with the Greater Birmingham and Solihull cluster as this was judged to offer the greater financial benefit to the Borough.

Transformation

The term 'Transformation' is a relatively common term used in the public sector to describe an approach to service reviews. The Council has been using this approach to review most of its services. This programme is continuing and it is expected that Transformation will both refocus and improve services but also contribute significantly to the savings needed by the Council. The Council's shared services agenda may not now yield much in the way of further savings going forward. Transformation is therefore the key driver of cost savings but it is important that other avenues for delivering savings are actively pursued as well.

Welfare reform

Welfare reform is being rolled out over the next few years, although the timetable and the full impact on local authorities is not yet clear. The changes could impact on a Council such as Redditch.

The 'bedroom tax' introduced in 2013 has received considerable press coverage due to the difficulties faced by some people who are facing cuts in benefit.. There may be an insufficient supply of properties with fewer rooms to meet demand. Some Councils are already reporting increases in rent arrears as a result of the changes, although this has not yet had a large impact in Redditch. This also places increased pressure on front line staff who have to deal with people in need who are often frustrated. . Additional security has been required at some Councils to protect their staff. Some Councils are starting to think differently about the housing stock needs in their local areas, with a move from ensuring a supply of aspirational 3 bed properties to smaller properties.

Acknowledgements

This Letter has been agreed with the Director of Finance and Corporate Resources and will be presented to the next meeting of the Audit Committee.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Certification of grant claims and returns

The accounts were certified by the Director of Finance and Corporate Resources and provided for audit on 28 June 2013. An unqualified opinion on the accounts was issued on 30 September 2013, in line with the statutory timetable.

Audit of the accounts

The statement refers to further development of a risk management framework within the Council during 2013/14. As part of next year's audit we will look to see that arrangements become embedded in the culture of the Council.

We also look forward to seeing the development to the performance management framework, with the introduction of measures that relate to the new corporate priorities. Both of these developments will improve corporate governance arrangements at the council.

Whole of government accounts (WGA)

The council's WGA return was below the £300 million threshold and so an audit review was not required. Instead we confirmed that balances relating to property, plant and equipment and pensions items were correctly mapped from the audited accounts to the WGA data return. We submitted a short form assurance statement to the National Audit Office.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013 in accordance with the [national deadline](#). Working papers were made available on request from the start of the audit fieldwork, which commenced on 5 August 2013.

Some amendments were made to the accounts to improve the disclosure, however no significant matters, adjustments or concerns were highlighted in the course of the audit.

Issues arising from the audit of the accounts

There was only one significant amendment made to the accounts and this arose from the consolidation of the housing revenue account income and expenditure into the main Consolidated Income and Expenditure Statement. There was no impact on the net income and expenditure as a result of this change.

Annual governance statement

We considered the Annual Governance Statement (AGS), both in terms of consistency with our knowledge of the Council but also against good practise indicators. The AGS complied in all significant aspects with the models provided by CIPFA and SOLACE. Whilst the document clearly lays out the council framework and processes, it could be better at outlining how arrangements have actually been assessed

Section 3: Value for Money

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Certification of grant claims and returns

We issued an unqualified opinion on the Council's arrangements for securing value for money on 30th September. Arrangements are assessed against the criteria set out annually by the Audit Commission.

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that the Council is financially resilient in the short term, but faces considerable challenges in the medium term. Reductions in government funding and other economic factors mean that over £1.4m savings will need to be made in 2014/15. The Council's general fund balances are relatively low and so there is little scope for slippage in this target.

There are not yet robust plans in place to identify how these savings are to be made and this work needs to commence as a matter of priority. It is vital that when the budget is approved there is clarity around schemes and measures in place to make the savings. Effective in year monitoring and understanding by members will be key to ensuring that the council is on track.

Further details are provided in our Financial Resilience report

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council has taken significant steps to reduce underlying costs, but also to improve focus on customer needs. In partnership primarily with Bromsgrove DC, but also with other Worcestershire districts, a programme of shared services has been rolled out over the last 3 years. This has resulted in a reduction in headcount at the Council, particularly at management levels. In addition the Council is continuing its programme of Transformation, which seeks to focus on customer priorities and remove waste in processes. Clearly the Council has been proactive in seeking to remove costs but at the same time improve key services.

Whilst the approaches adopted will undoubtedly have removed underlying costs, the Council is not able to be precise about actual savings achieved in year from shared services and Transformation. Year-end reporting does not include a review of achievement of overall planned savings, despite original budget setting reports highlighting large savings some of which had yet to be identified. Savings are embedded in budgets as they are identified and in year reports focus on variances from budget.

Due to the development of new corporate priorities, performance reporting has not been consistent this year. The Council does not prepare an annual report. Some of the reporting around efficiencies and service improvement is anecdotal and thus it is difficult to have an overview of current performance and improvements in efficiency and effectiveness.

Clearly the Council is challenging itself to improve the economy efficiency and effectiveness of its services. The Council does not currently have robust and transparent processes to be able to demonstrate the effectiveness of the measures it is taking.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

01. Executive summary
02. Audit of the accounts
03. Value for Money
04. Certification of grant claims and returns

We have certified two claims, and the largest claim, housing benefits will be certified by the 30 November deadline.

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two claims and returns for the financial year 2012/13. The work on the most significant claim relating to housing benefits is currently on-going.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

A certification report will be issued in December 2013 on completion of all our certification work.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit

Fees	Fees for other services		
	Service	Fees £	
76,380	None	76,380	76,380
17,250		17,250	tbc
Total fees		93,630	tbc

The audit fee for grant claims will be confirmed when we have completed the certification work

Reports issued

Report	Date issued
Audit Plan	March 2013
Audit Findings Report	September 2013
Certification report	To be issued December 2013
VfM – Financial Resilience Report	October 2013
Annual Audit Letter	October 2013



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AUDIT AND GOVERNANCE COMMITTEE 16TH JANUARY 2014

GRANT THORNTON PROGRESS REPORT – 2013/14

Relevant Portfolio Holder	Cllr John Fisher
Relevant Head of Service	Jayne Pickering
Non-Key Decision	

1. SUMMARY OF PROPOSALS

To report to Audit and Governance Committee the progress report from Grant Thornton for the financial year 2013/14.

2. RECOMMENDATIONS

- 2.1 That Audit and Governance Committee note the progress report and the emerging issues as presented by Grant Thornton

3. KEY ISSUES

- 3.1 The External Auditors, Grant Thornton, have a statutory responsibility to audit the Councils accounts to ensure they comply with legislation and relevant accounting codes of practice.
- 3.2 The report at Appendix 1 shows the areas that Grant Thornton will review in consideration of the accounts and financial management for 2013/14.
- 3.3 The report also sets out a number of emerging issues that form part of separate briefings and guidance from Grant Thornton. A number of questions have been raised in relation to the Council addressing these issues and it is proposed that a separate report to the next meeting of the Committee be presented to identify any actions may be required.

Legal Implications

- 3.4 The Council has a statutory obligation to comply with relevant legislation and codes of accounting practice. Grant Thornton will ensure that this is undertaken by the Council during the year.

Service/Operational Implications

- 3.5 The Internal Audit service provide review of all services in accordance with the agreed audit plan. This work is relied on by the External Auditors to deliver their assessment of the Councils financial management and accounting arrangements.

Customer / Equalities and Diversity Implications

- 3.6 None, as a direct result of this report.

AUDIT AND GOVERNANCE COMMITTEE 16TH JANUARY 2014

5. RISK MANAGEMENT

Compliance with the accounting codes of practice is managed through the risk register for Finance and Resources.

6. APPENDICES

Appendix 1 – Grant Thornton Progress Report.

AUTHORS OF REPORT

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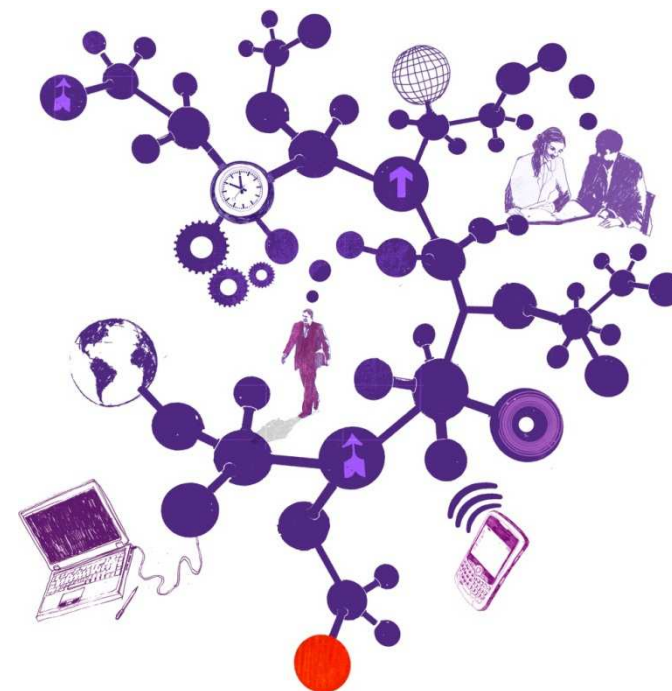
Audit Committee Update for Redditch Borough Council

Year ended 31 March 2014

16 January 2014

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council.

Your Executive Director, Finance and Resources has agreed to prepare an action plan that addresses the issues raised in these papers. This will be presented to the next Audit Committee for members consideration

Members of the Audit Board can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at December 2013

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	January 2014		The audit plan will be presented to the April audit committee. The report will include the findings from our interim visit We will also be bringing the 'informing the audit risk assessment' for your consideration.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	March 2014		
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion,	July 2014 fieldwork – opinion issued September 2014		

Progress at December 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises a review of the Council's arrangements against the following criteria: The organisation has proper arrangements in place for securing financial resilience. - The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness: - The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	March – July 2014		
Other activity undertaken - Audit committee workshop – presentation to members on the role of the audit committee. - Meeting with Leader and Portfolio holder for Finance - Meeting between Director of Finance and Grant Thornton performance improvement lead. To support the Council, the following documents have subsequently been provided: - Proposal for benchmarking review - Document for discussion on Trusts - Audit Commission VFM profiles for the Council	September 2013 December 2013 December 2013		

Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published '[Income from charging: Using data from the VFM Profiles, September 2013](#)'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published '[Business rates: using data from the VFM profiles October 2013](#)'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

Emerging issues and developments

Grant Thornton

Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

Voluntary Code of Practice on the Housing Revenue Account

In October, CIPFA and the Chartered Institute of Housing (CIH) issued the ['Voluntary Code for a Self-financed Housing Revenue Account'](#).

The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA.

This code is designed to be self-regulatory and compliance is not formally required.

Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.



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AUDIT & GOVERNANCE COMMITTEE

16TH JANUARY 2014

GRANT THORNTON – REVIEW OF FINANCIAL RESILIENCE

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Executive Director, Finance and Resources
Wards Affected	All

1. SUMMARY OF PROPOSALS

- 1.1 The attached report is from the Councils External Auditors, Grant Thornton and presents their review of the financial resilience of the Council.

2. RECOMMENDATIONS

Members are requested to consider the review of Financial Resilience and note the actions to be undertaken by the Council.

3. KEY ISSUES

- 3.1. The work undertaken by Grant Thornton in their Value for Money (VfM) conclusion includes a review to determine if the Council has proper arrangements in place for securing financial resilience. The review is attached at Appendix 1 and considers the following aspects of financial resilience with a judgement made in relation to each element:

Area	Judgement
Key indicators of financial performance	Arrangements meet or exceed adequate standards
Approach to strategic financial planning	Arrangements meet or exceed adequate standards
Approach to financial governance	Potential risks and/or weaknesses.
Approach to financial control.	Arrangements meet or exceed adequate standards

- 3.2 The approach is to review each element of the financial framework and to assess the improvements that could be made to improve financial resilience. The main concerns highlighted within the report are the level of cuts being made to the Councils funding and the relatively low level of balances that are currently in place. The External Auditors do however appreciate that the Council has made considerable changes in recent years, with the aim to focus on delivering Council priorities whilst seeking to minimise underlying costs.

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE****16TH JANUARY 2014**

3.3 The key issues identified in relation to the elements reviewed are:

Area	Issue
Key indicators of financial performance Amber Status	When considering Redditch's financial indicators they show a position relatively weaker than other authorities in the nearest neighbour group. However not all of the Council's in the group have housing and the associated debt and therefore this has had some impact on the position of Redditch compared with its neighbours.
Approach to strategic financial planning Amber Status	The Council has recently reviewed its Strategic Priorities and Grant Thornton would expect that there will be clearer links between that plan and the budgets to be set for 2014/15. The Medium Term Financial Plan indicates a considerable gap for the 2014/15 financial year. Work on identifying achievable tangible savings should start as a matter of priority. General fund balances are insufficient should savings not be achieved.
Approach to financial governance Amber Status	Formal reporting to members should be more transparent and timely in view of the financial challenges ahead. In year financial reports do provide explanations of variance to expected, but provides limited description of action planning.
Approach to financial control. Green Status	Improvements can be made to both savings planning and budget and in-year reporting as outlined above. Financial controls within the council are relatively strong and there is a good finance department and effective internal audit arrangements.

3.4 Officers are working to identify the savings required to meet the current shortfall projected for 2014/15. In addition training is to be developed to ensure that Members are aware of the financial detail and the impact of variances in the financial reports. The financial reports to Members are to be refined to ensure that a greater level of information and action planning is included to mitigate financial pressures in the future.

3.5 The actions agreed to be undertaken by the management team as specified with the External Auditors include:

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE****16TH JANUARY 2014**

Area	Action
Key indicators of financial performance	• Members should consider whether the current minimum level of general fund balances is adequate and whether this balance and earmarked reserves should be reviewed • The Council should have a clear plan for the appropriate level of HRA earmarked balances
Approach to strategic financial planning	The Council should ensure that there is clear mapping between the new corporate priorities and the 2014/15 budget • The level of savings to be made are considerable and work on identifying these should start imminently • The HRA business plan should be reviewed and early work undertaken on componentisation as this may have a large impact when depreciation rather than MRA is reflected in the revenue account
Approach to financial governance	• There should be better transparency in financial reports to provide the trail from budget to outturn analysis. • The Council should consider the appointment of a lay member to the Audit Committee to help broaden the experience of the Committee • Ensure that the Internal Audit plan is flexible to consider any new risks and the plan is completed to support production of the Annual Governance Statement
Approach to financial control.	• The Council should clarify which savings schemes are incorporated into Budget cost reduction plans, develop detailed action plans for each scheme and strengthen the monitoring of savings delivery in-year.

Financial Implications

- 3.5 The Council has significant financial pressures to face in the future. By ensuring a sound and robust financial framework is in place these pressures can be managed and addressed in a considered and planned manner.

Legal Implications

- 3.6 The robust financial management of the organisation enables the Council to meet its legal responsibilities in relation to statutory compliance with accounting policies and procedures.

Service / Operational Implications

- 3.7 The financial framework ensures that managers can deliver services with appropriate financial budgets and regular and accurate financial monitoring prevents any unknown variances to budget.

REDDITCH BOROUGH COUNCIL

AUDIT & GOVERNANCE COMMITTEE

16TH JANUARY 2014

Customer / Equalities and Diversity Implications

3.8. No direct implications.

4. RISK MANAGEMENT

The financial framework and associated risks are included in the corporate risk register and are managed by the Executive Director of Finance and Resources on a regular basis.

5. APPENDICES

Appendix 1 – Grant Thornton Review of Financial Resilience

AUTHORS OF REPORT

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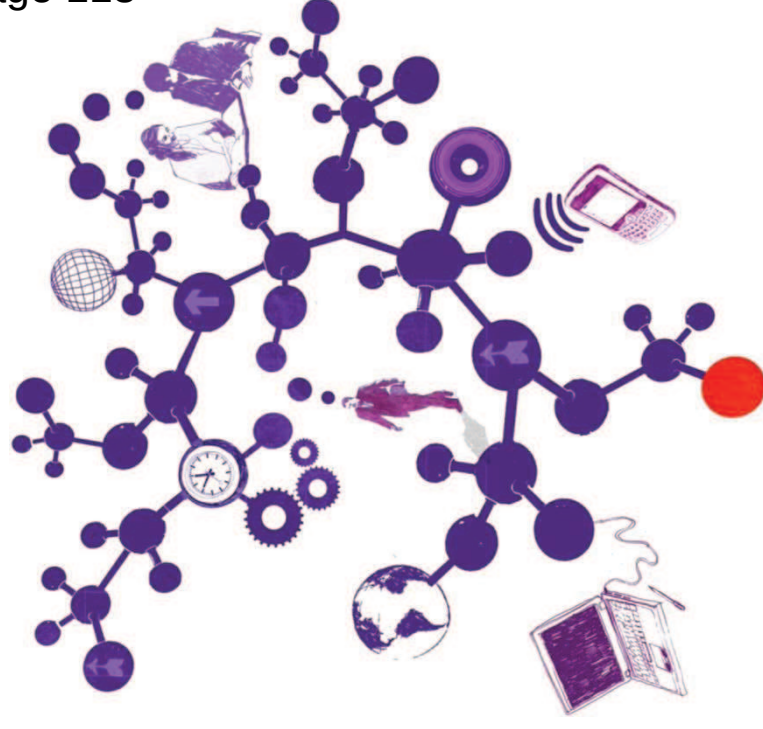
Review of the Council's Arrangements for Securing Financial Resilience for Redditch Borough Council

Year ended 31 March 2013

25 October 2013

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Appendix - Key indicators of financial performance

Executive Summary

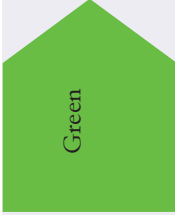
Further detail on each of these areas is provided in the sections of the report that follow.

Through the Council's shared services agenda, the Council has removed a number of posts from the management structure with the aim to both improve efficiency and to reduce recurring costs. Through the Transformation agenda, the Council has sought to refocus its priorities and improve the way the council provides services.

In addition to these reviews, the Council has set out-turn savings targets and used vacancy management, one-off receipts and other methods to balance the budgets and manage the out-turn, with some use of earmarked and general fund balances.

However the level of balances is comparatively low at £1m particularly in view of the current savings 'gaps' reflected in the medium-term financial plan. The minimum advised level of £750k would be very low. Based on the Audit Commission assessment criteria, the Council is financially resilient in the near future, however the scale of the financial challenge faced by the council over the next two years is considerable.

We have used a red/amber/green (RAG) rating with the following definitions.

 Green	Arrangements meet or exceed adequate standards. Adequate arrangements identified and key characteristics of good practice appear to be in place.
 Amber	Potential risks and/or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
 Red	High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

In Redditch between 2009 and 2015 the impact of the reduction in government grant reflects a 41% cut in funding cumulatively. Localising of business rates also transfers risk from central government to local government, leaving the council exposed to further risk should local businesses fold or rates re-valued. Pooling with the Greater Birmingham and Solihull pool seeks to mitigate this risk.

In addition cuts in central government grants, there has been a fall in income from fees and charges and other costs such as utility bills have increased. The Council has also had a freeze in council tax over the last two years.

This pressure on income clearly means that the Council has needed to make some fundamental changes to the way that it operates to reduce costs. The medium term financial plan highlights a need to make a further £1.8m of savings by 2014/15, which is equivalent to 20% of the base costs of services. The Council will have to make some further difficult decisions if underlying costs are to be reduced sufficiently and the financial position and delivery of these savings managed.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	Redditch's financial indicators show a position relatively weaker than other authorities in the nearest neighbour group. Not all of the Council's in the group have housing and the associated debt and therefore this has had some impact on the position of Redditch compared with its neighbours.	 Green
Strategic Financial Planning	The Council has recently reviewed its Strategic Priorities and we would expect that there will be clearer links between that plan and the budgets to be set for 2014/15. The MTFP indicates a considerable gap for the 2014/15 financial year. Work on identifying achievable tangible savings should start as a matter of priority. General fund balances are insufficient should savings not be achieved.	 Amber
Financial Governance	Formal reporting to members should be more transparent and timely in view of the financial challenges ahead. In year financial reports do provide explanations of variance to expected, but provides limited description of action planning.	 Amber
Financial Control	Improvements can be made to both savings planning and budget and in-year reporting as outlined above. Financial controls within the council are relatively strong and there is a good finance department and effective internal audit arrangements.	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	- Members should consider whether the current minimum level of general fund balances is adequate and whether this balance and earmarked reserves should be reviewed - Rent arrears have been managed effectively in the last 2 years but are likely to be more difficult to manage with the impact of welfare reforms - The Council should have a clear plan for the appropriate level of HRA earmarked balances			
Strategic Financial Planning	- The Council should ensure that there is clear mapping between the new corporate priorities and the 2014/15 budget - The level of savings to be made are considerable and work on identifying these should start imminently - The HRA business plan should be reviewed and early work undertaken on componentisation as this may have a large impact when depreciation rather than MRA is reflected in the revenue account			
Financial Governance	- There should be better transparency in financial reports to provide the trail from budget to outturn analysis. - The Council should consider the appointment of a lay member to the Audit Committee to help broaden the experience of the Committee - Ensure that the IA plan is flexible to consider any new risks and the plan is completed to support production of the AGS			
Financial Control	The Council should clarify which savings schemes are incorporated into Budget cost reduction plans, develop detailed action plans for each scheme and strengthen the monitoring of savings delivery in-year.			

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Rossendale Borough Council
Tamworth Borough Council
Carlisle City Council
Worcester City Council
Cannock Chase District Council
Gravesham Borough Council
Chesterfield Borough Council
Burnley Borough Council
Stevenage Borough Council
Bassetlaw District Council
Gloucester City Council
Kettering Borough Council
Redditch Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	The working capital ratio provides an indication of whether the Council has enough current assets to cover its immediate liabilities. For the nearest neighbours group this ranged from 0.59 to 12.8. Redditch has the lowest working capital ratio in the family group. The position on housing rent arrears is relatively positive. During the year 2012/13 gross rent arrears as a proportion of gross rent income has decreased from 5.0% to 4.4%, with gross arrears remaining fairly consistent over the 2 years. There will be increasing pressure on the council to manage its rent arrears as welfare reforms are likely to add increasing pressure on rent As at the balance sheet date, the overall level of debts has fallen year on year. Around 60% of the Council's non housing related income comes from central government grants, of which over 80% is from housing benefits grants. The proportion of income raised from council tax and local fees and charges has risen slightly year on year.	 Amber
Borrowing	There are 2 borrowing indicators: • Long term debt to revenue ratio • Long term debt to assets ratio Redditch is relatively high for both these indicators which in part reflects the fact that not all the councils in the family group have a housing stock and the related borrowing. The trend graph shows that Redditch's indebtedness was not out of line with the others prior to the self-financing borrowing requirement. The Council considers its prudential borrowing and indicators annually in line with the code.	 Green
Workforce	Council sickness levels are not out of line with the industry norm and have fluctuated over the last 3 years. Performance varies by department. This is an indicator monitored by the Council.	 Green

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	Revenue: The Council had a small overspend from budget overall, reducing general fund balances by £73k. The Council received income of over £400k from the curtailment of the lease arrangement with Barclays bank which supported that outturn. There was also an overspend in 2011/12. The HRA underspent by £1m this year because interest rates were lower than expected on the housing debt. There was some considerable slippage in the capital programme reflecting caution around the impact of the move to self financing	Amber
Reserve Balances	The Council has lower than the norm usable reserves to GRE ratio. There are no indicators on HRA balances but these are relatively healthy at £9m, £3m being added this financial year. The level of earmarked HRA balances should be considered in the light of the capital programme and any review of the HRA business case model.	Amber

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Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	The approach to the Medium Term Financial Plan (MTFP) is similar at Bromsgrove and Redditch. Within the MTFP the Council has made assumptions about funding levels, both in relation to the main central government grants but also to other grants such as the council tax freeze grant. Assumptions are made as expected around inflation costs, utility bills and staff pay. Detail behind the budget includes assessment of unavoidable costs (including estimates for reduction in income) and areas where there are planned reductions in costs. The budget is 'balanced' as it is assumed that the target level of savings will be delivered in-year, although detailed savings plans for all areas were not identified at the start of the year. General fund balances are also relied upon to a limited extent to manage the out-turn. The high level assumptions are outlined in the budget setting report and the detailed assumptions are contained in the supporting MTFP spread sheet. The assumptions made in the 2013/14 plan, that impact on the 2014/15 and beyond are rolled forward to identify the funding gaps in future years. The MTFP is reviewed and updated annually as part of the budget setting process.	 amber
Adequacy of planning assumptions	The planning assumptions are reasonable overall. National indicators supplemented by local knowledge and historic inform the major forecasting assumptions. benchmarking is not widely used as this has not been found to be helpful in the past. The Council has not recently published corporate strategic documents such as asset management, or workforce plans, although assumptions about its property and staff turnover are built into the annual budget. The Council has intended to review its strategic purposes for some time. A new corporate plan was issued in July 2013 but this is clearly not yet keyed into the budget setting process so there is a disconnection between budget and published Council plan. In 2012 the HRA became self-financing, which meant the Council took on £98m of new debt. There is an HRA business plan produced by consultants that profiles the HRA for the next 30 years. This will need to be kept under review as already factors such as the change in interest rates has impacted. Componentisation of the housing stock and the related changes to depreciation (rather than use of the MRA as a proxy) could have a significant impact and need to be planned for. As referred to earlier, the Council has yet to fully identify all the savings required in the MTFP, that is £1.8m to be found by 2014/15 and further savings in the years beyond. The Council has around £3m of earmarked reserves and £1m of general fund, with a minimum set at £750k. The Council will need to take some difficult decisions in order to cut costs and increase revenue in order to achieve savings of this level. Earmarked balances should be robustly reviewed and further consideration given to the minimum level of balances, in view of the financial risk the Council is facing.	 red

Medium Term Financial Strategy

Scope of the MTFP and links to annual planning	Reference to this is also made above. The Council has new strategic purposes which have been informed by the experience gained from the transformation reviews. Existing current strategic purposes are of limited value in terms of clearly defining budget priorities. From a review of budget setting papers however it is clear that a process has been adopted to allocate additional resources and determine cuts in relation to the outcome of service reviews. Work on the performance framework to support the new purposes is also on-going. It is reasonable to expect that the 2014/15 budget round should have a clearer mapping between priorities and budget decisions.	Amber
Review processes	The medium term financial plan is reviewed annually as part of the budget setting process. It is reported to Members routinely throughout the year highlighting changes in budget assumptions and the forward impact of these.	Amber
Responsiveness of the Plan	The Council managed its outturn in 2012-13 with a small overspend. The original budget contains savings, some of which are allocated at the beginning of the year while other are included in corporate pot, some of which are allocated to services as savings are identified during the year, thus impacting on the 'revised budget' along with other revisions. The plan is therefore responsive to new information as described. However the reporting of the performance is quite delayed – e.g. September reporting for Q1 and thus the information is relatively out of date when considered by members and is difficult to track due to the updating as described and the supporting narrative.	Amber

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Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	Executive members are likely to be aware of the relevant financial matters both through budget reporting but also from their portfolio responsibilities. The Council is relatively small and key Members are engaged. Thus Executive members are likely to be aware of the key matters in the current and future years that will impact on council finances. As referred to earlier in this report, reporting to Members is undertaken quarterly and is relatively delayed, although we understand informal reporting takes place to support this formal process. There is a risk that the wider Membership may not be fully aware of the financial risks if formal reporting to Members is not timely, accurate and clear about financial risks and action planning to mitigate those risks. The 2012/13 budget setting report refers to the need to make savings, however the budget report only details some of the savings to be identified. The 2013/14 budget setting report is clearer with more detail on the value of savings needed. Formal financial reports should be timely and provide sufficient detail to enable Members to have a full understanding of the financial risks for there to be proper governance arrangements. There should be a clear trail in reports from budget setting, in year reporting through to outturn. Some reporting is through the shared services board (joint with Redditch) but the matters from these meetings are reported back and the papers are available to all members and so this is relatively transparent. However there should be clarity around the governance arrangements where this is undertaken under delegated arrangements by another organisation. It is important that members of the Audit Committee understand where they are obtaining their assurance from when operational arrangements are more complicated. The Chair and Vice Chair of the Audit Committee are keen for the committee to be effective. There has been some consideration of the appointment of a lay member and we have seen in other Councils that this can bring some considerable benefits in terms of expertise and experience and helps to improve the effectiveness of the committee. This possibility is currently being explored at Redditch. Internal audit has experienced some slippage in the programme. Ideally the internal audit programme should be complete by the time the CIA issues his annual opinion, in order to inform the Annual Governance statement. There are not currently any major legal challenges to the Council. It has yet to implement job evaluation. Experience in other councils is that this could result in single status claims (Birmingham City Council's costs are well publicised). It is not possible to predict yet what the impact will be on the Council. The Council has some earmarked reserves to provide resilience around this.	Amber

Understanding and engagement

Area of Focus	Summary observations	Assessment
Executive and Member Engagement	Directors, including the S151, along with members of the Executive appear to all be important players in the Council's decision making arrangements. Officers appear to be relatively well informed both through non financial reporting and through up to date on-line financial information. Key members are appropriately supported by officers. Both key members and the Chief Executive have appropriate status to provide effective challenge and to provide leadership. All are involved in discussions around the budget setting and around corporate priorities – and the wider membership clearly has a role in approving the overall budget. Minutes demonstrate that there is challenge by members in the budget setting process Budget holders are involved in the budget setting process and are responsible for delivering these along with delivering outturn savings. The Audit Committee is an independent governance functions. There is limited information to enable us to for a view how much influence the Committee has with the Executive over governance matters and this is could be made more difficult due to the political split.	Green
Overview for controls over key cost categories	The Council reports progress against budget quarterly. This is currently reported in service area and the costs of support services are omitted in order to assist interpretation. An overview is provided and then individual service areas are reported. Narrative is included highlighting where there are variances. As much of the budget it delegated, accountants who prepare these reports provide forecast outturn estimates based on discussions with budget holders. Effective control over key cost categories should include the following: • Budgets– review of base budgets to ensure outturn position is reflected in current year budget • Effective savings monitoring and review– some savings are built into base budgets, some are incorporated as the year progresses (as they are identified) some are managed corporately and some arise by the expectation that budget holders will produce outturn savings. A lack of formal review of what savings were achieved against those planned can lead to poor assumptions as to which are recurring savings (assumptions have been built into the next year budget around these) or one-offs • Good communication and challenge between budget holders. • Reliable reported information or assessment of risks to enable effective challenge by members • Effective management of budget holders expectations that any underspends will automatically be taken from the following year budget.	amber

Understanding and engagement

Area of Focus	Summary observations	Assessment
Budget reporting: revenue and capital	The actual reports process is described above and is an adequate process - although could be more timely, sophisticated and transparent. For example Q1 reporting is undertaken in September, half way through the year, and does not provide a profiled forecast outturn position. September reporting includes some narrative on savings however it does not include an overall risk assessment of individual schemes, action planning or details of any substitution schemes. This type of reporting is good practice. With the change in corporate priorities in 2013/14, it is likely that the Council will want to review how it manages its finances, both in terms of allocating resources in priority areas but also monitoring and managing its spending. Changes arising from Transformation mean that services are increasingly operating and being managed horizontally rather than in the traditional manner. This too further complicates budgeting and monitoring and financial responsibility.	Amber
Adequacy of other Committee/Cabinet Reporting	See Comments above – there is scope to improve the adequacy of reporting – both in terms of the accuracy but also the timeliness, detail and sophistication around forecasting and analysis of risks. Action plans do not routinely accompany budget reports	Amber

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Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	At Q1 the budget was stated as £20m, at Q2 it was £22.5m with a forecast outturn of £22.6 and at Q3 the budget was £22.2m and a forecast outturn of £21.6. There has been no reporting of the outturn on the same basis and thus it is difficult to assess outturn relative to what has been reported in the year, although the council planned to use £658 of balances and used £498 of balances. There was considerable slippage in the capital programme, in particular around the HRA but elsewhere also, this may have had revenue consequences. The Council has not been able to provide a robust analysis of savings achieved in the year or detail of savings achieved from shared services, transformation or other savings and much of the reporting in the public arena is around estimated savings or is incomplete; that is, it does not reflect redundancy costs or use of reserves. Part of the reason for the favourable outturn this year was because of a on-off receipt for the Barclays lease on Threadneedle house. It is important that there is a clear understanding of the outturn to both inform the next year budget setting process and to get a clear understanding of the effectiveness of policy decisions. Financial reports to Members are in our view reporting documents rather than documents that are used to manage the financial position. This is effectively done at a budget holder level and with the Executive through more informal reports. However while formal reporting to TCWG is not transparent, the Council has managed its out-turn this year with a relatively low underspend.	 Amber
Performance against Savings Plans	As described earlier the Council goes through a process to identify savings and there is some evidence that priorities and outcome of service reviews are reflected in these decisions. There is some reliance on vacancy management, general efficiency savings and one off sources of income. As outlined above there is no analysis of performance against savings plans although there is some narrative included in the 2013/14 Q1 reporting and an acknowledgement of a need to do this is stated in the 2012/13 AGR. This is not really regarded as important information for members as savings are embedded into budgets as they are identified and are thus managed through the bottom line of departments budgets.	 Amber
Key Financial Accounting Systems	Internal Audit programme covers all the key financial systems. The Chief Internal Auditor opinion reflects that all financial systems are operating as expected with no significant weakness in control. The Internal audit plan reflects 'critical friend' reviews of areas subject to Transformation.	 Green

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	The Council is moving towards a shared finance department. This is in part constrained by the operation of two financial ledgers and because staff are located in two different locations – there are plans to address these two issues over the next 2 years. It is evident that staff are increasingly sharing roles which has the benefits of building in resilience and pooling expertise. The staff structure has been reviewed periodically over the last 2 years and a senior manager review is on-going. Clearly a further review would be appropriate when staff are on site together, with the objective of reducing unit costs over time. A combined team provides scope to provide some specialism but there should also be good succession planning – to ensure that current expertise in critical areas is not lost as there is turnover of staff. There is currently reliance on 1 or 2 key individuals, and there is further scope for some increased delegation and reallocation of responsibilities. Clearly the current financial pressures means that finance is a critical support function for the council, and the amount of work involved in changes such as implementing a ledger successfully and changing budgetary monitoring arrangements (e.g. to reflect new corporate priorities) should not be underestimated.	Green
Internal audit arrangements	Internal audit is provided by a shared service based at Worcester City Council. The approach is risk based and officers operate within the remit of the CIPFA code of practice. The team appears to have appropriate skills and experience and the quality and scope of reviews is appropriate. The team has had insufficient staffing resources which has resulted in slippage in their annual plan, although these problems were not as marked in 2011/12. The team did not complete all of its work by the time the CIA opinion was issued although most of the substantive work was complete. As with all services, there is budgetary pressure associated with the service and thus the scope to increase internal audit coverage is limited. The plan has included some 'critical friend' review of transformation which is appropriate. The Audit committee needs to be assured that the plan is flexed appropriately to reflect increased risk associated with staff turnover at the Council and changes in controls.	Green

Financial control (cont)

Area of focus	Summary observations	Assessment
External audit arrangements	In 2011/12 the opinion on the accounts was unqualified and the accounts, although material amendment was made to the accounts post audit. The 2012/13 accounts were also unqualified. The scope of external audit work also includes providing a VFM conclusion. This was again unqualified. The ISA 260 report made a number of observations and recommendations around the Council's budget setting arrangements and management of savings plans. The AGS does refer to the recommendations made by external audit and refers to progress being made in addressing these matters.	 Green
Assurance framework/ risk management	The Council manages the risks that the Council is facing through the work of the senior management team and the Executive and the reports provided to them. The Council does not yet have an embedded formal risk management culture, although there are some services where it is clearly taken very seriously – e.g. customer services. At a corporate level, a corporate risk register is not used as management tool but appears to be regarded more as a means of demonstrating governance to external agencies. The risk register, updated to reflect the review of consultants and to reflect the new corporate priorities is to be considered by members in September.	 Amber

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Key Indicators of Financial Performance

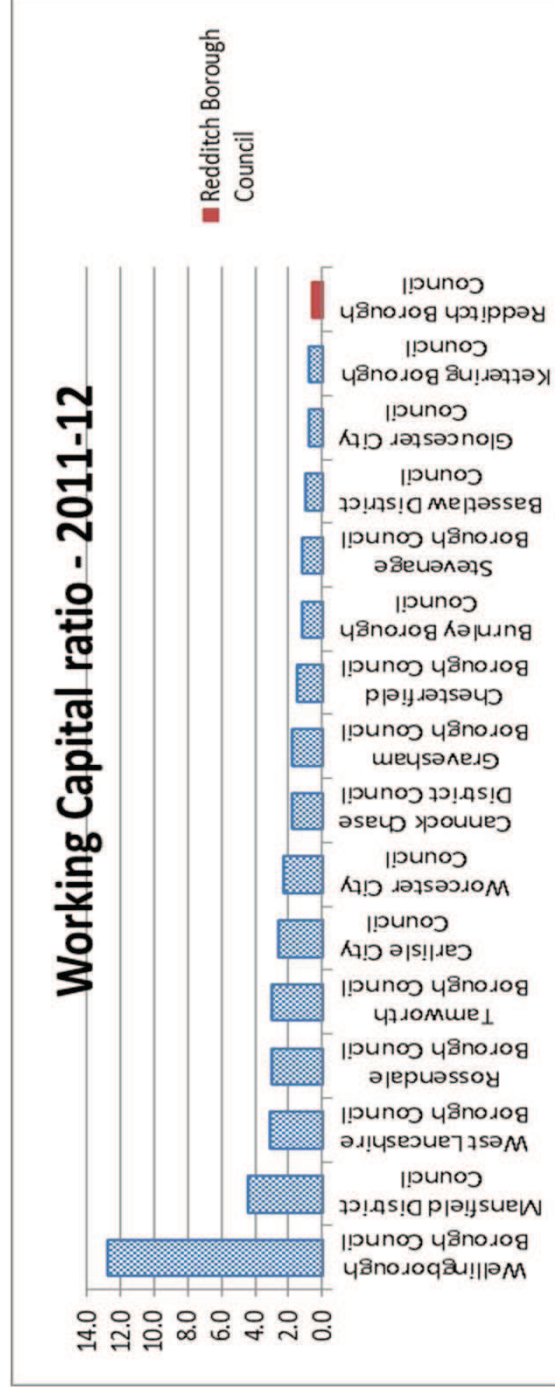
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Redditch's working capital ratio has reduced from 1.15 in 2007 to 0.59 in 2012. This indicates that the council's liquidity is decreasing to well below the preferred range.



Key Indicators of Financial Performance

Useable Reserves - Benchmarked

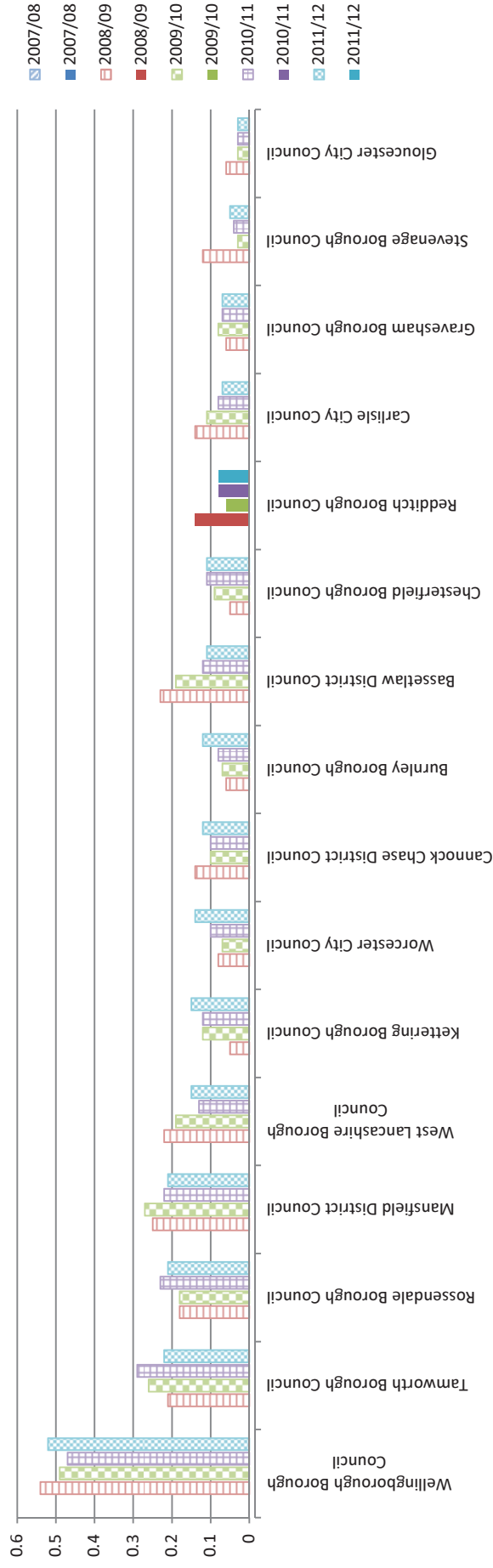
Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

Between 2007 and 2012 RBC has reduced the value of its useable reserves, from 0.14 to 0.08. The majority of other councils have reduced their useable reserves over the period. Further analysis is set out on the following slides.

Useable Reserves to Gross Revenue Expenditure ratio - trend [in order of 2011-12]



Key Indicators of Financial Performance

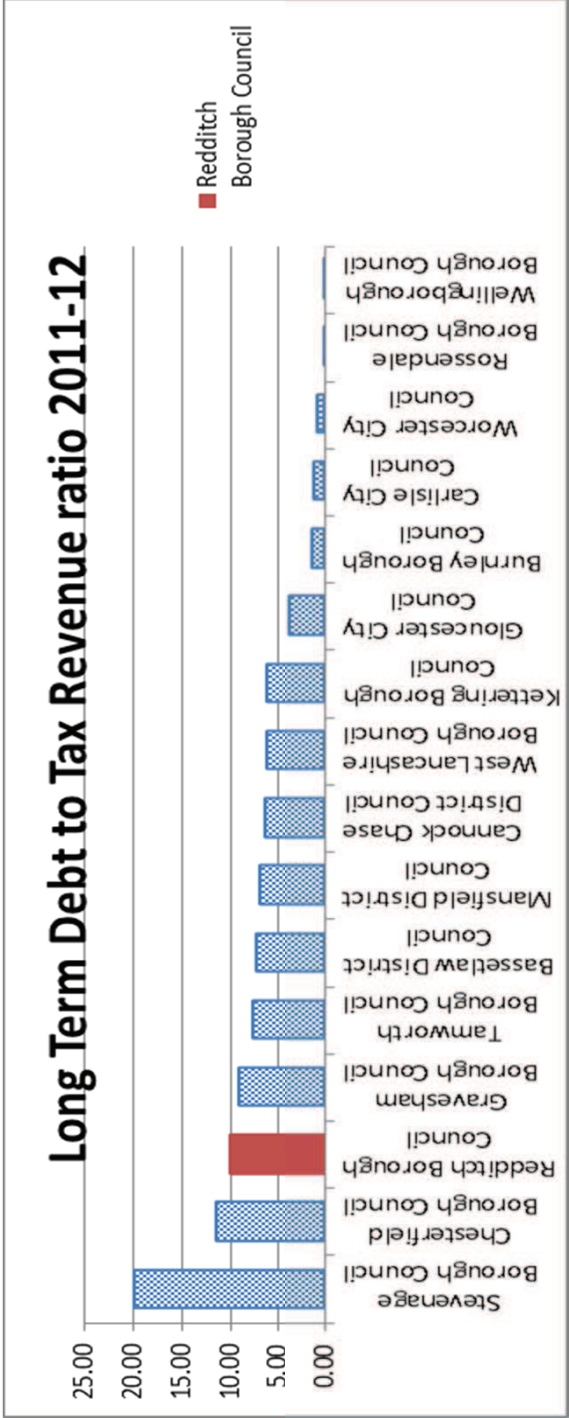
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Redditch's ratio of 9.92 indicates that it has long term borrowing which exceeds tax revenue by almost ten times. Redditch is third in comparison to the benchmark group. Prior to 2011 the council had a ratio of 0.43 and the increase is due to the £98m of debt related to self financing of the housing stock. The majority of the borrowing is long term for this reason. Repayment of the debt is reflected in the HRA business case model.



Key Indicators of Financial Performance

Long-term borrowing to Long-term assets - Benchmarked

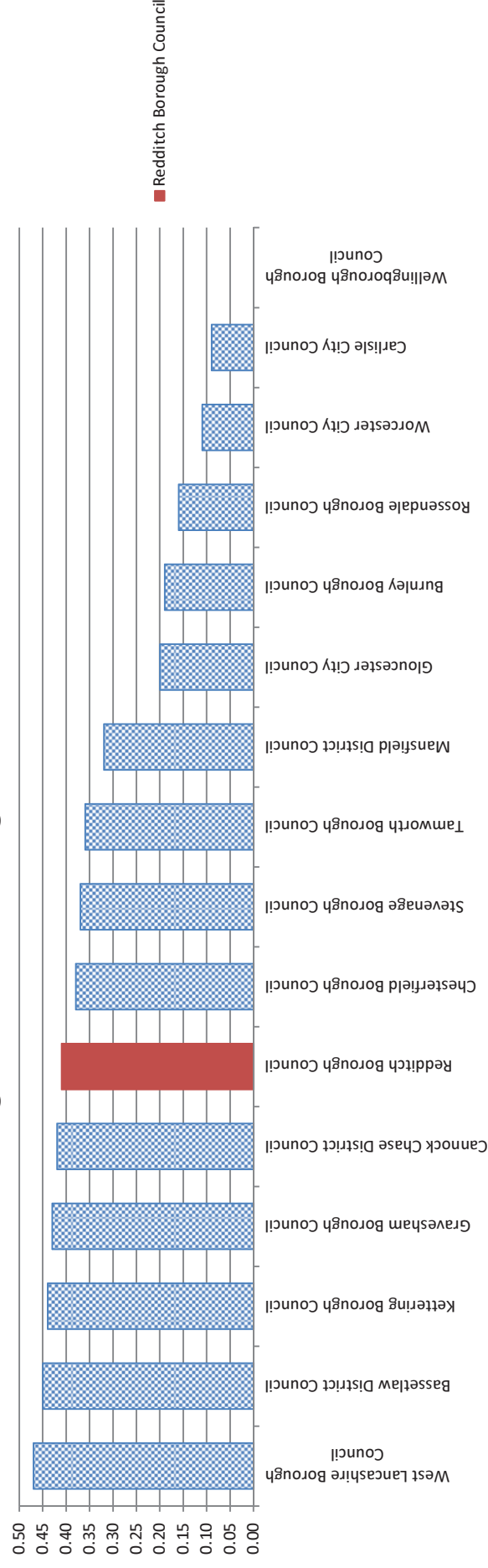
Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

Redditch's most recent ratio of 0.41 shows that the Council's long term borrowing represents between one third and a half of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Redditch is broadly in line with the other council's with a housing stock.

Long Term Debt to Long Term Assets ratio 2011-12



Key Indicators of Financial Performance

Sickness Absence Levels

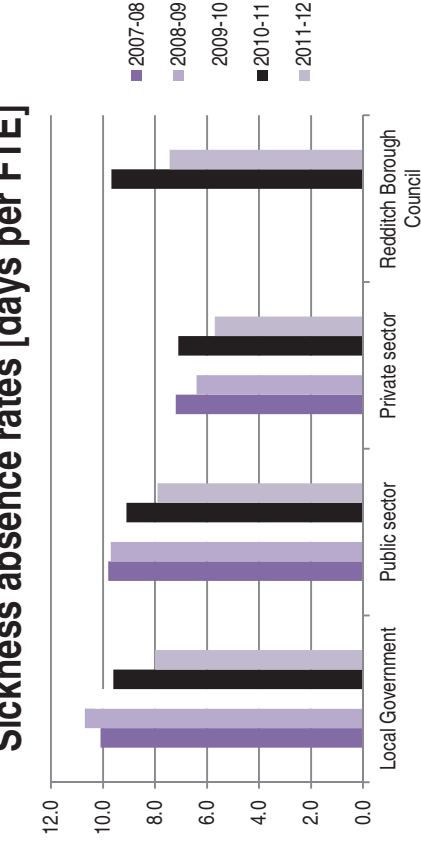
Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

Findings

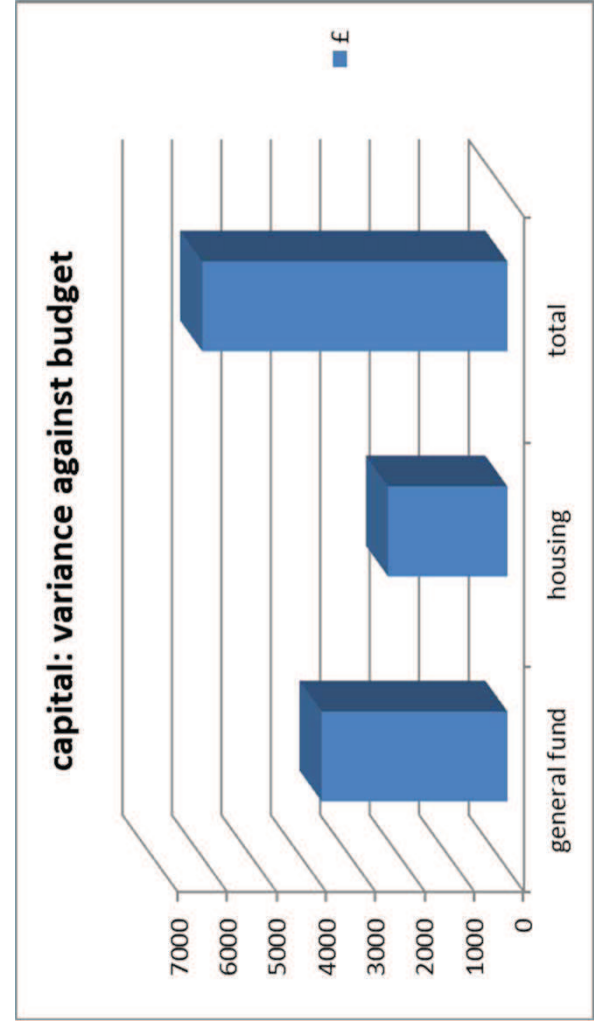
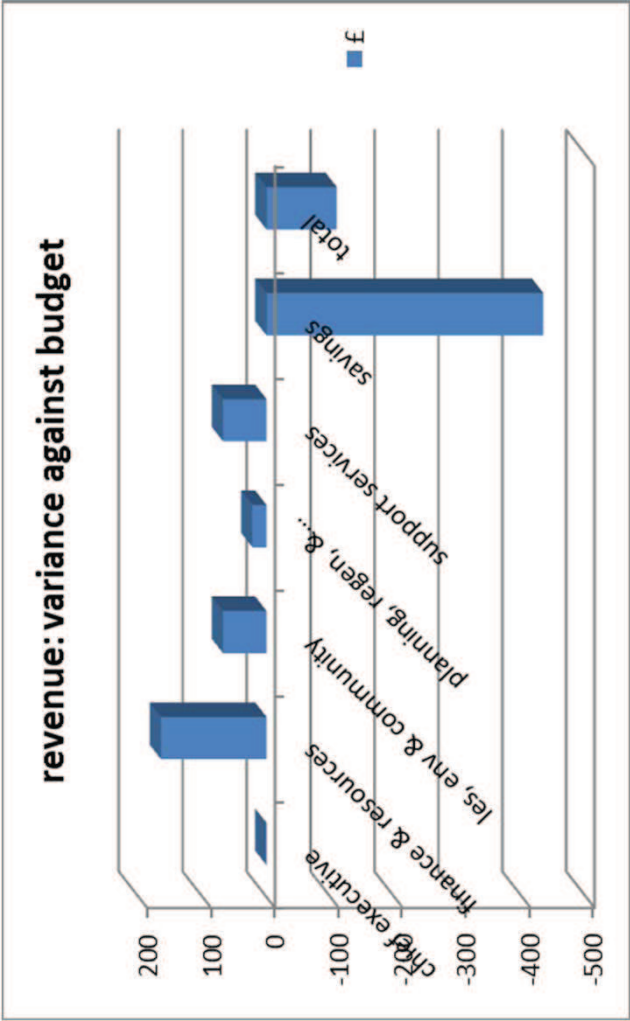


Sickness data is routinely collated by the Council and in monitored.

Redditch's sickness absence levels have increased to 8.4 in 2012/13 which is against the trend of generally decreasing levels of sickness seen in the public sector over the past 5 years, although performance is better than the local target of 8.75.

Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget



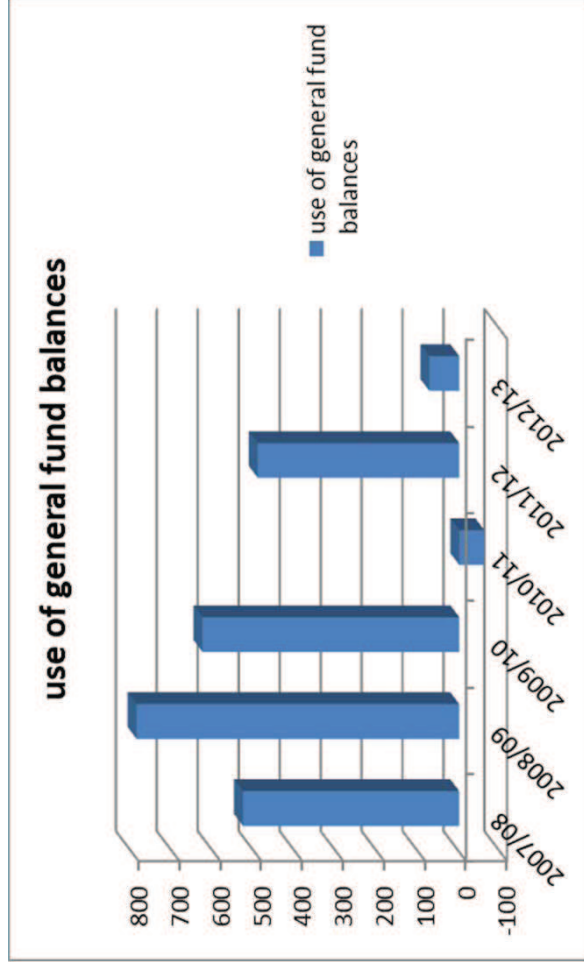
Source: RBC
foreword to the
accounts

Revenue budget: At the time of setting the budget the council had over £400k of unidentified savings. Other savings are embedded within budgets. Part o the unidentified savings were achieved through a one of receipt and thus the council had small outturn overspend of £74k against budget, that was funded by general fund balances. In the previous 2 years

capital programme: there was significant slippage in both the housing and general fund capital budgets. general fund was due to the deferral of the purchase of waste collection vehicles due to a service review and housing was due to general slippage, partly due to caution around the new operating environment arising from self financing

Key Indicators of Financial Performance

use of balances to support spending



Source: published accounts

Use of general fund balances: over the last 6 years the council has used general fund balances to support spending in all but 1 year, although the reliance has decreased from its peak in 2008/09. General fund balances are currently at the lowest level they have been at £1m, although the level of earmarked reserves has increased steadily over this period.



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