



Audit, Governance and Standards Committee

Thu 28 Jan
2016
7.00 pm

Committee Room 2
Town Hall
Redditch

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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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Audit, Governance and Standards Committee

Thursday, 28th January, 2016

7.00 pm

Committee Room 2, Town Hall

Agenda

Membership:

Cllrs:	David Thain (Chair) Jane Potter (Vice-Chair) Natalie Brookes Michael Chalk John Fisher	Andrew Fry Gareth Prosser Rachael Smith Pat Witherspoon
Independent Member:	Dave Jones (non-voting co-opted – for Audit and Governance)	
Feckenham Parish Council Representative:	Alan Smith (non-voting co-opted – for Standards)	

1. Apologies and named Substitutes	To receive the apologies for absence and details of any Councillor nominated to attend the meeting in place of a member of the Committee.
2. 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.
3. Minutes (Pages 1 - 10)	To confirm as a correct record the minutes of the meeting of the Audit, Governance and Standards Committee held on 24th September 2015. (Minutes attached)
4. Monitoring Officer's Report - Standards Regime (Pages 11 - 14) Head of Legal, Equalities and Democratic Services	To receive a report from the Monitoring Officer on any matters of relevance to the Committee. (Report attached) (No Direct Ward Relevance)

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<p>5. Feckenham Parish Council Representative's Report - Standards Regime</p>	<p>To receive a report from the Feckenham Parish Council Representative on any matters of relevance to the Committee.</p> <p>(Oral report)</p> <p>(Astwood Bank & Feckenham Ward)</p>
<p>6. Grant Thornton - Progress Update</p> <p>(Pages 15 - 36)</p>	<p>To update Members on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>7. Grant Thornton - Certification Work Report 2014/15</p> <p>(Pages 37 - 44)</p>	<p>To present Members with the Grant Certification Letter for 2014/15 from the Council's external auditors Grant Thornton.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>8. Grant Thornton - Annual Audit Letter 2014/15 and Action Plan</p> <p>(Pages 45 - 58)</p>	<p>To present to Members the Grant Thornton Annual Audit Letter which summarises the key findings arising from the work carried out at the Council for the year ended 31st March 2015.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>9. Single Fraud Investigation Service - Presentation</p> <p>Head of Customer Access and Financial Support</p>	<p>To receive a presentation on the Single Fraud Investigation Service.</p> <p>(Presentation)</p> <p>(No Direct Ward Relevance)</p>
<p>10. Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19</p> <p>(Pages 59 - 78)</p> <p>Executive Director, Finance and Resources</p>	<p>To approve the strategy statement for treasury management and investment.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>

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<p>11. Corporate Dashboard of Measures - Presentation</p> <p>Head of Business Transformation and Organisational Development</p>	<p>To receive a presentation on the Corporate Dashboard of Measures.</p> <p>(Presentation)</p> <p>(No Direct Ward Relevance)</p>
<p>12. Internal Audit - Progress Report</p> <p>(Pages 79 - 98)</p>	<p>To receive a progress report of internal audit work for 2015/16.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>13. Internal Audit - Draft Audit Plan 2016/17</p> <p>(Pages 99 - 110)</p>	<p>To present the Council's Draft Internal Audit Operational Plan for 2016/17 and confirm the key performance indicators for the Worcestershire Internal Audit Shared Service for 2016/17.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>14. Debt Recovery Update - Quarters 1 and 2 2015/16</p> <p>(Pages 111 - 114)</p> <p>Head of Customer Access and Financial Support</p>	<p>To advise Members on the collection and recovery processes of the Council's Income Team and outstanding debt levels.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>15. Committee Action List and Work Programme</p> <p>(Pages 115 - 120)</p> <p>Chief Executive</p>	<p>To consider the Audit, Governance and Standards Committee's Action List and Work Programme.</p> <p>(Action List and Work Programme attached)</p> <p>(No Direct Ward Relevance)</p>
<p>16. Portfolio Holder Update - Quarterly Budget Monitoring</p>	<p>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.</p> <p>(Oral report)</p> <p>(No Direct Ward Relevance)</p>

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17. Exclusion of the Public

Should it prove necessary, in the opinion of the Chief Executive, to exclude the public from the meeting at any point during the proceedings in relation to any item(s) of business on the grounds that either exempt and/or confidential information is likely to be divulged, the following resolution(s) will be moved:

"That under Section 100 I of the Local Government Act 1972, as amended, it/they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraphs of that part being (*...to be specified by the Chairman at the meeting*), and that it is in the public interest to do so.", and/or

"That under Section 100 A of the Local Government Act 1972, as amended, it/they involve the likely disclosure of confidential information which would be in breach of an obligation of confidence."

The paragraphs under Part 1 of Schedule 12A to the Act 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'.



Audit, Governance & Standards Committee

Thursday, 24 September
2015

MINUTES

Present:

Councillor David Thain (Chair), Councillor Jane Potter (Vice-Chair) and Councillors Natalie Brookes, Michael Chalk, John Fisher, Andrew Fry, Gareth Prosser, Rachael Smith and Pat Witherspoon

Dave Smith – Independent Member (non-voting co-opted member of the Committee)

Parish Councillors Alan Smith and Slade Arthur - Feckenham Parish Council

Also Present:

Zoe Thomas and Phil Jones (Grant Thornton External Auditors)

Officers:

Claire Felton, Sam Morgan and Andy Bromage

Democratic Services Officer:

Amanda Scarce

17. APOLOGIES AND NAMED SUBSTITUTES

Prior to commencement of the meeting the Chair took the opportunity to welcome the Members of Feckenham Parish Council to the meeting and requested it be recorded that best wishes were sent to the Executive Director, Finance and Resources, who was currently unwell.

Apologies for absence were received on behalf of Ms. Megan Harrison.

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Chair

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18. DECLARATIONS OF INTEREST

There were no declarations of interest.

19. MINUTES

The minutes of the meeting of the Audit, Governance and Standards Committee held on 2nd July 2015 were submitted.

RESOLVED that

the minutes of the meeting of the Audit, Governance and Standards Committee held on 2nd July 2015 be confirmed as a correct record and signed by the Chair.

20. MONITORING OFFICER'S REPORT - STANDARDS REGIME

The Monitoring Officer presented the report and in so doing highlighted the following:

- There had been no complaints received since the last meeting and the issue raised in the July report had been closed.
- A number of Member training sessions had taken place including chairing skills (which had been hosted at Bromsgrove) and Equalities and Safeguarding – positive feedback had been received for both sessions and Members were keen for a “mop up” session to be carried out.
- Pre-application training had also been arranged for those Councillors wishing to participate in this process.
- Briefings in respect of combined authorities had also been arranged in preparation for the full Council meeting due to be held on 8th October 2015.

The Monitoring Officer also welcomed the Parish Council representatives and explained the duty the Council had to support the Parish Council and the role of the representatives at the Audit, Governance and Standards Committee.

RESOLVED that the report of the Monitoring Officer be noted.

21. FECKENHAM PARISH COUNCIL REPRESENTATIVE'S REPORT - STANDARDS REGIME

Parish Councillor Alan Smith, Feckenham Parish Council Representative, thanked the Committee for the opportunity to attend the meeting and provided background information in respect

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of Feckenham Parish Council. He also took the opportunity to thank Council Officers for their support

Members commented that Feckenham Parish Council was an important part of the Borough and they were happy to build on the relationship now formed.

22. GRANT THORNTON - AUDIT FINDINGS REPORT 2014/15

Mr. Phil Jones, Engagement Lead, Grant Thornton, presented the Audit Findings report. Mr. Jones highlighted that the Audit was not as advanced as it would have been in previous years and there were a number of areas where work needed to be finalised, as detailed within the report. The Executive Summary of the report also highlighted the key messages arising from the audit; missing the statutory deadline, material changes within the accounts and the audit being protracted due to difficulties in obtaining working papers. It was acknowledged that it had been an exceptional year and that there were a number of factors which had contributed to the problems; this included the introduction of a new system and staffing issues.

The problems which had occurred had impacted on the audit findings and necessitated changes being made to the Audit Plan. Those changes included additional testing undertaken around operating expenses, more detailed analytical review work and changes to the risk assessment around welfare benefits. Those changes had meant that some procedures had to be repeated and the audit had therefore taken significantly longer than originally planned.

Members were most concerned about the problems which had arisen and the effect it had on the reputation of the Council and the current financial position. Mr. Phil Jones assured them that the Council was in fact in a better financial position than the previous year as it had added to its general fund balances and it had been pleasing to see that a three year financial plan had been put in place. However, those increases in the general fund were not planned when the budget had originally been set and therefore budget setting was something which needed to be addressed in the future.

Mr. Phil Jones informed Members that a recommendation had been made under section 11(3) of the Audit Commission Act 1998, which set out a number of recommendations which the Council need to put in place and covering a number of areas including:

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- Robust arrangements to ensure the production of the 2015/16 financial statements.
- The development of a comprehensive project plan for preparation of the accounts.
- Arrangements in place to ensure budget preparation processes were based on sound assumptions.
- Timely budget monitoring processes
- In addition to the formal recommendation there were a number of more detailed recommendations set out in an Action Plan.

Following presentation of the report, the Portfolio Holder for Corporate Management responded and acknowledged that, for a variety of reasons, there had been problems in Grant Thornton being able to audit the accounts. He took the opportunity to thank Officers for the work they had done in assisting Grant Thornton with the audit. The Portfolio Holder explained that he had already met with Officers to discuss what had happened and to ensure that a lesson learned exercise was carried out and discuss the draft action plan which was already being formulated by the Executive Director, Finance and Resources to ensure improvements were made to make the processes more robust. The Portfolio Holder explained to Members that he had regular meetings with the Executive Director, Finance and Resources and her team, together with Heads of Service when necessary. There were a number of financial challenges facing the Council and it was important that savings were made quickly and efficiently. Heads of Service continued to make good progress through the transformation process, but it was acknowledged that the budgetary process was an area which needed to be improved.

Officers and the Portfolio Holder responded to questions from Members in respect of the following areas:

- Whether Members had any statutory responsibility to ensure the controls and policies were robust and properly managed.
- The implications of a Section 11 Recommendation – Mr. Phil Jones explained that the aim of this was to set a timescale for the work within the Section 11 recommendation to be completed and to show that the Council was committed to making the necessary changes.
- There were a number of references to Bromsgrove within the report and Ms. Zoe Thomas, Manager, Grant Thornton, apologised for the error and assured Members that these would be rectified.
- The key performance indicators and how these were monitored and maintained.

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- Whether there were two separate systems being used in respect of Redditch Borough and Bromsgrove District Councils - Officers provided details of the problems which had occurred with the ledger system upgrade and the transfer of data, in order to bring the two systems together.
- The number of high priority items within the action plan and the number of unfinished areas with the Value for Money section of the report.
- The cost to the Council in respect of the additional work which had been carried out by Grant Thornton.
- The impact of the vacancies within the Finance team and the additional support that had been provided.

RESOLVED that

- 1) the Action Plan be placed on the Audit, Governance and Standards Committee's Work Programme; and**
- 2) the Audit Findings Report 2014/15 be noted.**

23. STATEMENT OF ACCOUNTS 2014/15

The Financial Services Manager presented the Statement of Accounts 2014/15 and drew Members' attention to the revised recommendations which had been tabled at the meeting, as a consequence of the issues discussed at Minute No 22.

Officers responded to the following points raised by Members in respect of this report:

- Drop in cashflow – Officers confirmed that this was not an issue as often there was a reduction in payments received for the final two months of the year.
- Inventories – this referred largely to the Crossgates depot and it was highlighted that the cost of fuel could fluctuate and the amount of stock being held in respect of repairs and maintenance could also impact on these figures.
- Compensation payments – it was confirmed that this was in respect of areas where the Council self-insured.
- NNDR Appeals – it was explained that following a recent successful appeal, which set a precedent, provisions had been made for potential claims in respect of NNDR Appeals from GP surgeries. This was something which affected all local authorities and could potentially be back dated to 2010.
- The lack of investments as at 31st March 2015 and short term borrowing.

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RESOLVED that

- 1) the Accounting policies as detailed in note 1 of the Statement of Accounts for 2014/15 be approved;**
- 2) the Statement of Accounts for 2014/15 be approved; and**
- 3) that in order to enable formal sign off of the Statement of Accounts by the Auditors, Grant Thornton by 30th September 2015, authority be delegated to the Section 151 Officer following consultation with the Chairman of the Audit, Governance and Standards Committee and the Portfolio Holder for Corporate Management, and having taken into consideration any changes to the Audit Findings Report, to make any changes required and to approve the final version of the Statement of Accounts for 2014/15. This is to include the Letter of Representation from the Authority to the Auditors to confirm that the Council has complied with Statutory Accounting Principles and Legislation.**

24. INTERNAL AUDIT PROGRESS REPORT

Members considered the report presented by the Service Manager, Worcestershire Internal Audit Shared Service (WIASS). The report provided commentary on Internal Audit's performance for the period 1st April to 31st July 2015 against performance indicators agreed for the service and further information on aspects of service delivery, including identifying audits for the current year and a number of audits which had progressed to the draft report stage.

At the Committee's previous meeting information had been requested in respect of the Anti-fraud and Corruption Survey and Governance Statement Assurance Checklist Statements and this had been provided in the report. This incorporated information that needed to be included within the Statement together with details of areas that had been considered.

The Service Manager WIASS highlighted that the delivery dates against the Internal Audit Plan would be revised in order to take account of the Action Plan which would be put in place following the findings in the Grant Thornton Statement of Accounts, as previously discussed. However, the Revenue and Benefits audit would continue, with the remainder being deferred in order for implementation of elements of the Action Plan to be put in place. It was anticipated that these would now be included within the Quarter 4 Report.

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The report also included details of planned “follow ups” in respect of Audit reports which had been logged and which covered areas needing to be followed up. Full details of audits recently completed were also included within this report. It was highlighted that whilst high priority had been given to the Worcestershire Regulatory Services audit, this had already been addressed with a robust action plan being put in place to address the issues, supported by all S151 Officers from the relevant authorities to ensure the necessary actions were implemented over the next few months.

Following presentation of the report Members discussed a number of areas in more detail:

- Concerns were raised in respect of a number of recommendation's which remained outstanding from audits carried out in the previous financial year. Members were assured that these recommendations would continue to be monitored and satisfactory explanations had been provided as to the reasons for the delays.
- Appointments to Outside Bodies – Members acknowledged that there should be a format in place to ensure that the attendance of those Members appointed to Outside Bodies was monitored and that they were carrying out their duties and providing appropriate updates to Council. Officers confirmed that this was an issue which was being addressed with a view to a formal process being put in place.
- ICT change control – Members questioned the lack of a formal process and it was confirmed that full details would be brought before the Committee at its next meeting, but assured Members that they would expect a clear action plan to be put in place before “signing off” audit and the follow up process would also ensure that any concerns were addressed.
- Confirmation of the implementation dates for follow up of items and any formal actions taken, should those dates not be met. Particular reference was made to the VAT returns item and it was confirmed that training of a new technician was underway in order for this to be implemented as soon as possible.
- Reconciliations – Members questioned whether it would be useful for them to have sight of the plan which was prepared to enable staff to complete the reconciliations within the relevant timescale. Officers confirmed that the schedule was still being prepared.

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RESOLVED that

the Internal Audit Progress report of the Service Manager of the Worcestershire Internal Audit Shared Service be approved.

25. INDEPENDENT MEMBER PERFORMANCE REPORT

Mr. Dave Jones, Independent Member for Audit and Governance (non-voting co-opted member of the Committee) left the room during consideration of this item.

The Financial Services Manager presented the report to Members and in so doing highlighted how the role had evolved and provided an overview of the key responsibilities and role of the Independent Member. Mr. Jones played an active part within the Committee and the Financial Services Manager informed Members that she had met with Mr. Jones prior to the meeting and discussed the Statement of Accounts in detail. It was confirmed the appointment was for a four year period, with a limit of serving a maximum of two consecutive terms.

It was agreed that it was not necessary to change the current role and Members requested that it be minuted that Mr. Jones was a valuable addition to the Committee and approached his role with both common sense and an impartial view.

RESOLVED that

the Independent Member Performance Report be noted.

26. CORPORATE GOVERNANCE INCLUDING RISK

The Chair informed Members that due to the absence of the Executive Director, Finance and Resources he had agreed to defer consideration of this item for a future meeting of the Committee.

27. PORTFOLIO HOLDER UPDATE - QUARTERLY BUDGET MONITORING

The Portfolio Holder for Corporate Management informed Members that the quarterly budget was aligned to the Council's strategic purposes as opposed to departments. The first quarter report showed revenue costs and it was anticipated that the second quarter would include a section in respect of capital expenditure. Currently there was an overall £25k over spend against £3.9m expected, which it was anticipated would be realised later in the year.

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28. COMMITTEE ACTION LIST AND WORK PROGRAMME

Action List

Officers drew Members' attention to item 2 of the action list and the Chair's confirmation that he was happy to continue as Lead Fraud Member. It was also noted that a second lead fraud and risk Member would not be appointed. It was therefore agreed that this item be removed from the Action List.

In respect of item 3 and data protection it was confirmed that all staff received the relevant training and it was not necessary for it to be included within departmental risk registers. Members were therefore happy for this item to be removed from the Action List.

Work Programme

As discussed earlier in the meeting, Members agreed that the Committee should be given the opportunity to consider progress in respect of the Action Plan currently being formulated by the Executive Director, Finance and Resources following the Grant Thornton report. As such Members agreed this should be added as a standard item to future meetings of the Committee.

RESOLVED that

subject to the comments detailed in the preamble above, the Committee's Action List and Work Programme be noted with the necessary updates being made to those documents.

The Meeting commenced at 7.00 pm
and closed at 8.48 pm

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STANDARDS COMMITTEE**

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MONITORING OFFICER'S REPORT – STANDARDS REGIME

Relevant Portfolio Holder	Councillor John Fisher, Portfolio Holder for Corporate Management
Portfolio Holder consulted	Yes
Relevant Head of Service	Claire Felton, Head of Legal, Equalities and Democratic Services and Monitoring Officer
Wards affected	All Wards
Ward Councillor consulted	N/A
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 This report sets out the position in relation to key standards regime matters which are of relevance to the Audit, Governance and Standards Committee since the last meeting of the Committee on 24th September 2015.
- 1.2 It is proposed that a report of this nature be presented to each meeting of the Committee to ensure that Members are kept updated as to any relevant standards matters.
- 1.3 Any further updates arising after publication of this report will be reported on orally by Officers at the meeting.

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that

the report of the Monitoring Officer, together with any additional updates provided by Officers at the meeting, be noted and commented upon as appropriate.

3. KEY ISSUES**Financial Implications**

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

Legal Implications

- 3.2 The Localism Act became law on 15th November 2011. Chapter 7 of Part 1 of the Localism Act 2011 ('the Act') introduced a new standards regime effective from 1st July 2012. The Act places a requirement on authorities to promote and maintain high standards of conduct by Members and co-opted

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(with voting rights) Members of an authority. The Act also requires the authority to have in place arrangements under which allegations that either a district or parish councillor has breached his or her Code of Conduct can be investigated, together with arrangements under which decisions on such allegations can be made. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 were laid before Parliament on 8th June 2012 and also came into force on 1st July 2012.

Service / Operational Implications

Member Complaints

- 3.3 At the time of drafting this report no complaints had been received by the Monitoring Officer since the last meeting of the Committee in September 2015.

Member Training

- 3.4 Since the last meeting of the Committee the following training for Councillors has taken place:
- Equalities and Safeguarding – 9 Members attended;
 - Planning pre-application - 6 Members attended; and
 - one councillor attended Chairing skills training which was hosted by Bromsgrove District Council.
- 3.5 Officers are working with the Member Support Steering Group to confirm arrangements for induction and training opportunities following the Borough Council elections in May.

Customer / Equalities and Diversity Implications

- 3.6 There are no direct implications arising out of this report. Any process for managing standards of behaviour for elected and co-opted councillors must be accessible to the public. Details of the process for Member complaints are available from the Monitoring Officer on request.

4. RISK MANAGEMENT

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

- Risk of challenge to Council decisions; and
- Risk of complaints about elected Members.

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5. APPENDICES

None

6. BACKGROUND PAPERS

Chapter 7 of the Localism Act 2011.

Confidential complaint papers.

Various reports to, and minutes of, Council and Committee meetings, as detailed in the report.

AUTHOR OF REPORT

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AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

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GRANT THORNTON UPDATE – JANUARY 2016

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

1. SUMMARY OF PROPOSALS

To update Members on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors, and emerging national issues and developments and that are relevant to the Council and may impact in the future.

2. RECOMMENDATIONS

The Committee is asked to note the updates at Appendix 1 to the report.

3. KEY ISSUES

Financial Implications

- 3.1 There are no financial implications

Legal Implications

- 3.2 The Council has a statutory responsibility to comply with financial regulations.

Service / Operational Implications

- 3.3 The report attached at Appendix 1 updates Members on the progress on work undertaken by Grant Thornton since the last Committee meeting. The majority of the progress update refers to work that is reported in other items included in this agenda and sets out the plans that Audit have in place to address concerns previously raised and how the Audit will be progressed for 2015/16. In addition the appendix includes updates on the Emerging Issues and Developments that are relevant to the Council and may impact in the future.
- 3.4 These include
- Making Devolution Work
 - Business Location Index
 - Audit Committee Effectiveness
 - Local Plans Delivery
 - Efficiency of Council Tax Collection

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- Supporting Members in Governance

3.5 There are no issues that are not being addressed by officers to ensure the Council meets its statutory financial obligations.

Customer / Equalities and Diversity Implications

3.6 There are no implications arising out of this report.

4. RISK MANAGEMENT

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 – January 2016 Grant Thornton Report

6. BACKGROUND PAPERS

7. KEY

N/a

AUTHOR OF REPORT

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Redditch Borough Council

Audit, Governance and Standards

Committee Update

Year ended 31 March 2016

January 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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.

Progress at January 2016

Work	Planned date	Complete?	Comments
Completion of 2014/15 audit work			
opinion on 2014/15 accounts	September 2015	Y	<p>The opinion on the 2014/15 accounts was issued on 16 December 2015, some time after the statutory deadline. The annual audit letter presented to the January audit committee provides further detail on the reasons for the delay. An updated AFR was presented to the chair of the audit committee prior to the accounts being approved by him, under the delegated arrangements agreed at the September audit committee.</p> <p>Statutory S11 recommendations were issued reflecting our concerns. The council is required to publish the response to our recommendations. Progress should be reported routinely to the committee and also to the chair of the audit committee between committee meetings.</p>
value for money conclusion	September 2015	Y	<p>The value for money conclusion was issued on 16 December. The opinion was qualified due to the council not having adequate arrangements in place to demonstrate financial resilience.</p>

Progress at January 2016

Work	Planned date	Complete?	Comments
Completion of 2014/15 audit work			
Housing benefits subsidy claim audit	November 2015	Y	<p>We have recently certified the Council's housing subsidy claim. This was certified on 18 December, after the departmental deadline of 30 November. More detail is contained in the separate Certification Report also presented to the January Committee.</p> <p>The audit approach requires additional testing to be undertaken where errors are identified in the initial sample. A number of errors were identified in the initial sample and in the subsequent additional testing. The impact of these errors has been extrapolated and reported to the Department of Work and Pensions in the qualification letter. It is likely that the department may request further information from you as a result of the qualification letter and possibly require further external audit work. It is also possible that some subsidy will be withheld as a result of the qualification letter. Due to the amount of additional audit work, we will be requesting additional fees.</p>

Progress at January 2016

2015-16 Work	Planned date	Complete?	Comments
2015-16 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 Council's 2015-16 financial statements.	April 2015	Y	<p>The fee letter for 2015/16 was issued in April 2015. The scale fee for the year is set at £57,960, which compares to the scale audit fee of £77,280 for 2014/15. The reduction in scale fees has been enabled by the procurement exercises run by the Audit Commission across both local government and health sectors.</p> <p>We anticipate a grant fee of £10,529 for audit of your housing subsidy claim.</p> <p>The fee assumes that the accounts will be prepared on time, supported by good standard working papers and staff available as agreed. If the agreed standards are not met we will discuss with you a variation to the audit fee.</p> <p>The Director of Finance has in place an action plan to address our concerns raised from our audit in 2014/15. We will consider progress against those plans as part of our interim audit work in Spring 2016.</p>
Section 11 Recommendations As referred to on the previous page, we issued Section 11 recommendations due to our significant concerns. We will consider the Council's response to our recommendations and progress on implementation of the action plan	On-going	N	<p>Officers will be reporting throughout the year progress against these recommendations. We will also consider progress as part of our on-going reporting to the committee.</p>

Progress at January 2016

Work	Planned date	Complete?	Comments
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • 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. • Review of progress against S15 recommendations 	January and February 2016	N	We plan to undertake our interim audit in January and February 2016. We are also planning to undertake a second interim where we will aim to bring forward some of our final accounts testing. The findings from the interim work will be included in our audit plan which will be reported to the April 2016 committee. The report will include detail of risks that we will address as part of final accounts visit and detailed value for money work.
2015-16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July and August 2016	No	We plan to start our final accounts audit in July 2016, completing the field work in August 2016, and bringing our Audit Findings Report to the September Audit, Governance and standards committee in September. The accounts will be audited and approved by Committee by the statutory deadline. The report will also contain our Value for Money conclusion.

Progress at January 2016

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: <i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p>	January to August 2016	No	<p>The guidance and supporting information includes:</p> <ul style="list-style-type: none"> • the legal and professional framework; • definitions of what constitute 'proper arrangements'; • guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified; • evaluation criteria to be applied; • reporting requirements; • CCG specific guidance. <p>The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>Now that the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our Audit Plan.</p> <p>Our work will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p>

Progress at January 2016

Work	Planned date	Complete?	Comments
Other activity undertaken Housing benefits subsidy claim audit We attended the September Hereford and Worcester Treasurers group presenting our devolution report. We will be attending the February meeting of that group. In September we ran an event in Wychavon Council where all councillors in the county were invited covering governance issues. We have issued to the Executive Director of Finance our 'Place Analytics' assessment.	November 2015	Y	We have recently certified the Council's housing subsidy claim. As in previous year's this claim was qualified, but was certified by the deadline.

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

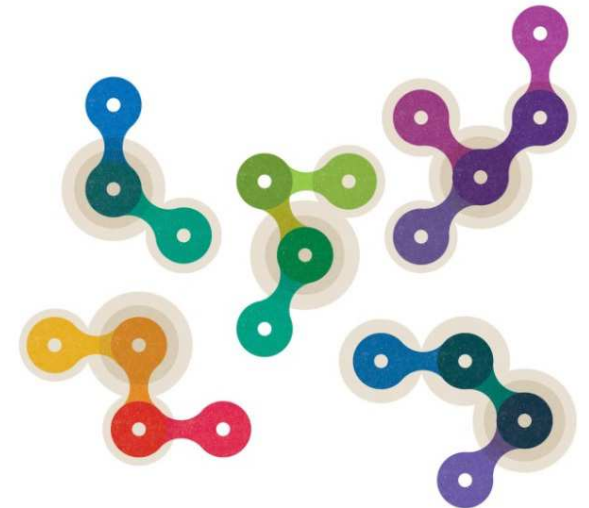
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

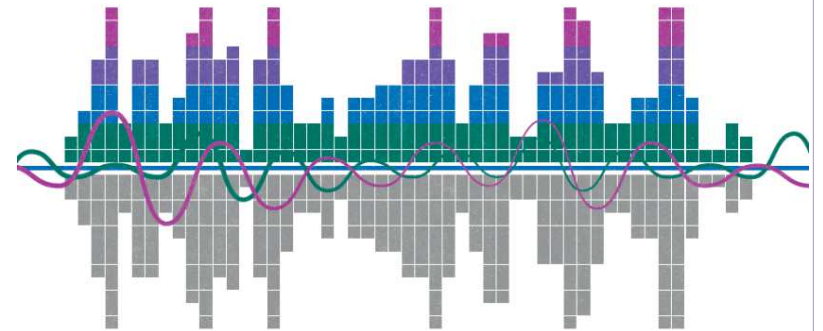
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

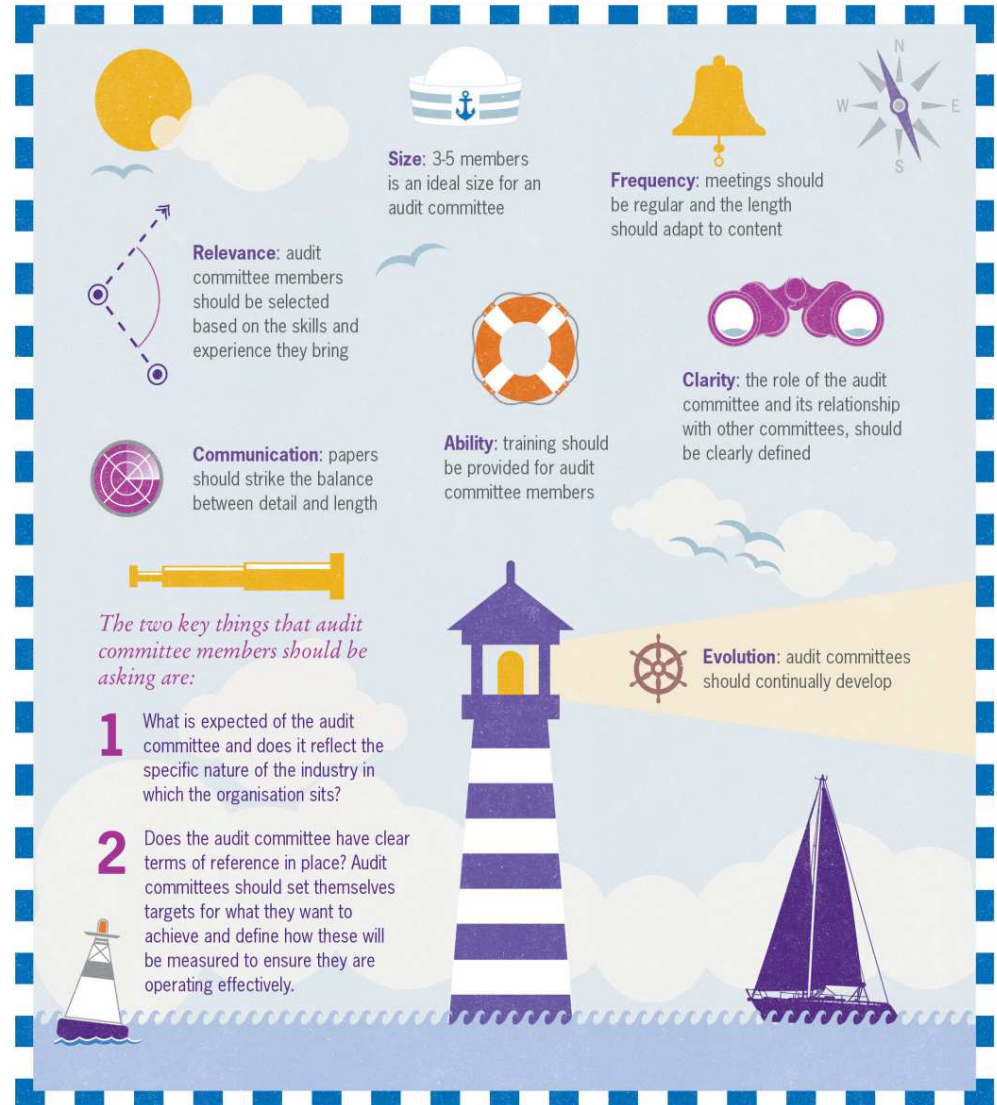
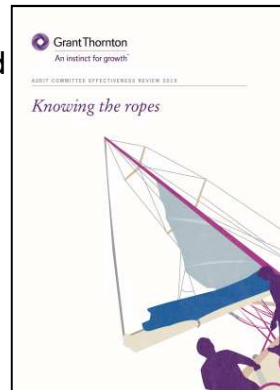
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Reforging local government:

Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closed on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





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**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

28th January 2016

GRANT THORNTON – CERTIFICATION WORK REPORT 2014/15

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

1. SUMMARY OF PROPOSALS

To present Members with the Grant Certification Letter for 2014/15 from the Council's External Auditors Grant Thornton.

2. RECOMMENDATIONS

The Committee is asked to note the Grant Certification Letter for 2014/15.

3. KEY ISSUES

Financial Implications

- 3.1 There is an additional cost that will be met from existing budgets within Finance to fund the extra work undertaken by Grant Thornton in relation to the Housing Benefit Subsidy Claim 2014/15.

Legal Implications

- 3.2 Grant Thornton have a statutory responsibility to certify the claims submitted by the Council. The Council has a legally binding contract with Grant Thornton to provide the External Audit service for at least the next 3 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. This includes certification of grant claims.
- 3.4 The auditors have certified the Housing Benefit Claim for 2014/15 relating to over £25m of expenditure. Their results on their certification work is detailed in Appendix 1. The claim was qualified due to a number of issues and recommendations made for improvements.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

28th January 2016

- 3.5 The key messages from the Audits and to be addressed in the action plan include;
- Weaknesses in benefit processing identified as part of case testing
 - Improvements to subsidy claim preparation
 - Arrangements to streamline the audit
- 3.6 Officers have developed a comprehensive improvement plan which includes:
- Changes to the IT software to improve reporting and monitoring work
 - Training for the team and individuals to address errors which include; services, rent charges, earnings, childcare costs, tax credits and overpayment classification.
 - Changes to processes to minimise risks in relation to highly complex cases such as dispersed units or bed and breakfasts.
 - Changes to processes to increase checks in relation to overpayments and payment runs.
 - Improved diary notes on the system to enable greater understanding if decisions made.
 - Review of all cases where child care costs may have been incorrectly calculated, and use this review to develop new processes.
 - To ensure review of high risk cases.
- 3.7 This is supported by a quality checking regime and increased resources to support the subsidy audit. Officers will be working with DWP consultants who can provide free support and advice to support the work to improve the quality of processing.

Customer / Equalities and Diversity Implications

- 3.8 There are no implications arising out of this report.

4. RISK MANAGEMENT

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 – Grant Thornton Certification Letter 2014/15

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

28th January 2016

AUTHOR OF REPORT

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Tel: 01527-881207



Grant Thornton

An instinct for growth™

Jayne Pickering
Executive Director of Finance and Resources
Redditch Borough Council
Council House
Redditch
Worcs

12 January 2015

Dear Jayne

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Certification work for Redditch Borough Council for year ended 31 March 2015

We are required to certify certain claims and returns submitted by Redditch Borough Council ('the Council'). This certification typically takes place 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.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

The total amount Certified for HB COUNT is £25m. In addition to the housing benefit subsidy claim we have also certified the 'Pooling of Capital Receipts' return for the financial year 2014/15, with a total value of £0.65 million. Further details are set out in Appendix A.

The housing subsidy audit was protracted and a large number of errors were found in both the claim and the cases tested as part of the audit. Where errors indicate an overpayment of subsidy then the errors, and the extrapolated impact of the errors, are included in the qualification letter issued to the Department for Work and Pensions. Some of the errors also indicated underpayment of benefit to claimants, however these are not reported to the department as there is no over-claim of subsidy. We issued our letter to the Department on 18 December.

We are planning to meet with your officers in the near future to agree a detailed action plan. This will cover:

- weaknesses in benefits processing identified as part of case testing
- improvements to subsidy claim preparation
- arrangements to streamline the audit.

As we are already most of the way through the financial year, it is likely that some of the weaknesses will be present in the 2015/16 benefits and subsidy claim.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission

Chartered Accountants

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regime (such as the national non-domestic rates return and pooling housing capital receipts return) have been removed and the indicative fee adjusted accordingly. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £13,720 and reflects the fee for the housing subsidy claim only.

The subsidy claim is split into three areas:

- Rent allowances £10,915,106
- Rent rebates (non HRA) £166,716
- Rent rebates £13,513,704

We undertake testing on an initial sample of 20 cases for each subsidy area. This involves agreeing back to prime documents and confirming the basis and calculation of housing benefits awarded. An additional sample of 40 cases (prorate for non-HRA) are then selected and tested for each type of error found in the initial testing. This resulted in nine lots of 40+ testing. We also undertook three lots of 40+ testing for errors found on the previous year claim, as no assurance could be provided that the underlying issues had been addressed for 2014/15.

Clearly there was significantly more audit work required than in the base year of 2012/13 where no 40+ testing was required. Both the initial testing and the 40+ testing was undertaken by Council staff. Our re-performance work highlighted problems with the testing undertaken including cases 'passed' that were 'fails' and vice versa. This increased our risk assessment and meant we had to extend our testing undertaking considerably more re-performance work than we planned to be satisfied on the accuracy of the work.

These factors and other problems have resulted in both council officers and the audit team having to undertake a considerable amount of work for us to be able to certify the claim. This is going to result in a significant variation to the audit fee. This has yet to be agreed with you and Public Sector Appointments Ltd. See appendix 1 for further detail.

In addition, certification of grant claims outside of the Audit Commission regime, for which assurance is still required, has been commissioned directly by the Council. The fee charged for the Pooling of Housing Capital Receipts return totals £2,200.

Yours sincerely

Phil Jones
Engagement lead
For Grant Thornton UK LLP

Details of claims and returns certified for 2014/15

Claim or return	Value(£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	24,992,699	No	n/a	Yes	A significant number of errors were identified and difficulties experienced completing the audit. An exceptionally detailed and long qualification letter was issued to the DWP on 18 December.
Pooling of Housing Capital receipts	695,881	Yes	tbc	No	Unqualified opinion. The claim is submitted for audit electronically. Although the audit is complete, a national problem with the software has meant that the amendment to the claim has not yet been made nor have we been able to certify the audit as complete.

Fees for 2014/15 certification work:

Audit Commission:

Claim or return	2012/13 fee (£)	2014/15 indicative fee (£)	2014/15 proposed fee (£)	Variance (2012/13 to 2014/15) (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£15,569	£13,720	tbc	tbc	<p>The indicative fee for the Housing Benefits Subsidy is based on the 2012/13 fee, reduced by 12.5% to reflect the removal of council tax benefit subsidy.</p> <p>No 40+ testing was undertaken in the base year 2012/13 and we are expecting to agree a substantially increased fee due to the volume of extra work undertaken.</p>

Other:

Claim or return	2014/15 actual fee (£)	
Pooling of Housing Capital Receipts	£2,200	Fee charged is based on the time spent on the return.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28th January 2016

GRANT THORNTON ANNUAL AUDIT LETTER 2014/15 AND ACTION PLAN

Relevant Portfolio Holder	Cllr. John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Wards Affected	All Wards
Non-Key Decision	

1. SUMMARY OF PROPOSALS

To present to Members the Grant Thornton Annual Audit Letter which summarises the key findings arising from the work carried out at the Council for the year ended 31 March 2015.

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that

- 1) the Annual Audit Letter at Appendix 1 to the report be noted; and**
- 2) the s11 Action Plan at Appendix 2 to the report be approved.**

3. KEY ISSUES

Financial Implications

- 3.1 The Grant Thornton fee for the 2014/15 audit is £77k. Additional work by Grant Thornton has resulted in an extra cost, to be agreed with the Public Sector Audit Appointments (PSAA).

Legal Implications

- 3.2 The Council has a statutory responsibility to comply with financial regulations.

Service/Operational Implications

- 3.3 The Annual Audit Letter 2014/15 from Grant Thornton details their findings and recommendations as a result of the work undertaken as part of the final accounts for 2014/15. This includes; Financial Statements, Value for Money Judgement and Grant Claims.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28th January 2016

- 3.4 Unqualified opinions were given for the accounts and the Value for Money Judgement. The Audit of the benefit claims is on-going as this is undertaken in line with DWP requirements.
- 3.5 The Council is required by s11 Audit Commission Act 1998 to report the recommendations contained in the Annual Audit letter at a formal council meeting, to ensure that the Council takes appropriate action to address the significant issues identified.
- 3.6 Appendix 2 shows the recommended approach of Finance Officers. The decision by Members as to the action required must be notified to Grant Thornton and published in a local newspaper as per s12(2) of the Audit Commission Act.
- 3.7 Officers will continue to work with both Internal and External Audit to ensure the recommendations are implemented as reported.

Customer / Equalities and Diversity Implications

- 3.8 There are no implications arising out of this report.

4. RISK MANAGEMENT

As part of all audit work, 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 from Grant Thornton
Appendix 2 - s11 Action Plan

AUTHOR OF REPORT

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The Annual Audit Letter for Redditch Borough Council

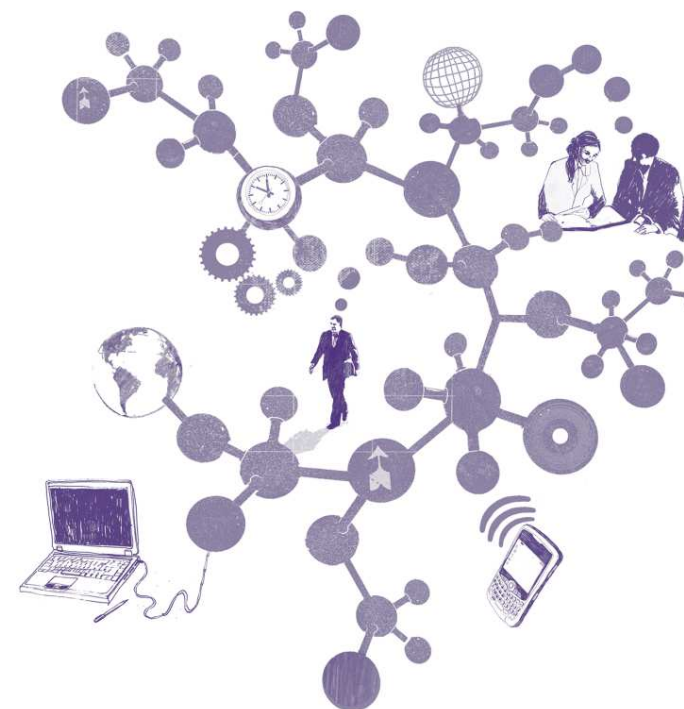
Year ended 31 March 2015

December 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Redditch Borough Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. 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 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 September, to the Audit and Governance Committee. Due to the delay in completion of the audit, we issued a revised Audit Findings Report on 16 December to officers and to the Chair of the Audit Committee. The key messages reported were:

- we issued an unqualified opinion although after the statutory deadline of 30 September
- we issued a qualified value for money conclusion, and
- we issued a series of Section 11 recommendations.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 16 December 2015, after the deadline set by the Department for Communities and Local Government. This has been reported to Public Sector Appointments in line with their requirements.

Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. The opinion on the accounts makes reference to the issue of S11 recommendations. Those recommendations are repeated in Appendix A.

The accounts were presented for audit after the statutory deadline of 30 June. The accounts were not of good quality and material adjustments were made as a result of the audit. The arrangements in place to both produce the accounts and to support the audit were poor and significant improvements need to be made for 2015/16.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued a qualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>In seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience we found that the Council had weaknesses in its budget setting arrangements. The Code criteria against which we have qualified is the Council's overall strategic planning arrangements.</p> <p>Our work did highlight weakness in other areas and these are reported in more detail in the Audit Findings Report. Our findings give us concern about the general management and planning arrangements of the Council's finance team. We have made detailed recommendations both within the appendix to the Audit Findings Report and in our formal Section 11 recommendations.</p> <p>The Council has adequate levels of reserves and has a forward financial plan which are the key reasons why we have assessed the Council as financially resilient in the medium-term. Since issuing our opinion, officers have considered the impact on the forward financial plan of the Government's Four Year Financial settlement announced in December 2015. The settlement brings forward the anticipated reductions in revenue support grant for the Council and will need to be reflected in the revised medium-term financial plan which will be prepared and agreed over the next few weeks.</p> <p>Within our Audit findings report we raise a number of matters in relation to the Council's arrangements under the VfM assessment criteria. A number of these concerns have been raised in previous years' audit reports. The fact that there has been little progress in addressing our concerns was a factor in our decision to issue formal Section 11 Recommendations this year. There is a statutory requirement for the Council to publish its response to these statutory recommendations.</p>
Certification of housing benefit grant claim	<p>We have completed the audit of the housing benefit subsidy claim. This audit was problematic and more errors were identified from our testing than we expected. The opinion on the claim was qualified, which is consistent with the previous years. This will result in a variation to the audit fee.</p>
Audit fee	<p>Our fee for 2014/15 set out in the audit plan was £77,280 excluding VAT. A fee variation will be requested due to the additional work involved in completing our audit. We will agree that additional fee with the Executive Director (Finance and Resources) and Public Sector Appointments (PSAA).</p>

Appendix A: Recommendations made under section 11 (3) of the Audit Commission Act 1998

We have made some detailed recommendations in our audit findings report on the accounts production process and value for money arrangements, and these are not all repeated here. The table below repeats the S11 recommendations, to which we are expecting a formal response.

No.	recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council should put in place robust arrangements for:</p> <ul style="list-style-type: none">the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards. In order to achieve this the Council should:<ul style="list-style-type: none">ensure sufficient resources and specialist skills are available to support the accounts productionintroduce appropriate project management skills to the production of the financial statements	High	<p>A qualified accountant within the team is developing a full and comprehensive timetable which will be informed by the statutory deadlines to ensure that the finance team are aware of all roles and responsibilities to undertake the production of the 2015/16 financial statements. This timetable will be supported by County Council officers in ensuring the deadlines are timely.</p> <p>Regular training for the team has already commenced following identification of the needs for the team. Officers from the County Council are supporting technical training together with external courses on final accounts production being made available to the team. Once the systems improvements have been actioned an assessment will be made of the vacant accountant posts to enable the correct resource to be made available within the team.</p> <p>The timetable and management of the production of the financial statements will be subject to a weekly review by the Director of Finance and Resources together with a monthly update to the Audit and Governance Committee.</p> <p>Responsible officer: Jayne Pickering</p> <p>Due date: by 30 June 2016, although progress against key milestones reported to each Audit and Governance Committee.</p> <p>The Audit and Governance Committee should provide assurance to Cabinet on progress after every Audit Board meeting.</p>

Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
2.	<p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <ul style="list-style-type: none"> the financial statements are compiled directly from the ledger the entries in the accounts are supported by good quality working papers which are available at the start of the audit the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources) provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information; the production of the financial statements is monitored through regular reporting to Directors and the Audit and Governance Committee. 	High	<p>As mentioned above, a qualified accountant within the team is developing a full and comprehensive timetable.</p> <p>Alongside this work the following will be prepared:</p> <ul style="list-style-type: none"> full set of template working papers (agreed with External Audit) full set of reconciliation schedules to be approved monthly by the Director of Finance preparation of the CIPFA Toolkit with all relevant prior year figures populated ensure that the work the “system accounts recovery team “ are undertaking supports the direct preparation of the financial statements from the ledger periods within the timetable to be allocated to ensure quality checking <p>Training and monitoring is mentioned in the action point above</p> <p>Support will be sourced from the County Council to ensure the information to be provided to the Auditors is of a quality standard</p> <p>Responsible officer: Jayne Pickering</p> <p>Due date: 31 December 2015 for project plan. Progress on this and the other recommendations to be reported to each Audit and Governance Committee.</p>

Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
3.	The Council should put in place robust arrangements to ensure that the budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates.	High	<ul style="list-style-type: none">• New processes have been put in place to ensure that Heads of Service propose any additional funding / income and savings with clear evidence and data as to the justification for the change to budget• All vacancies to be agreed by the Directors / Chief Exec and Portfolio Holders• Assessment of 2014/15 actual position to be used to inform any potential changes to the budget for 2016/17 <p>Responsible office: Jayne Pickering</p> <p>Due date: 31 December 2015</p>

Appendix A: : Recommendations made under section 11 (3) of the Audit Commission Act 1998 (continued)

No.	recommendation	Priority	Management response/ responsible office/ due date
4.	The Council should ensure that budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.	High	<p>Heads of Service are to report to both CMT and Portfolio Holders their projected out-turn and the rationale as to why the projections may be different to the current position. A new system of on-line financial planning will be available in 2016 which will enable managers to review their financial position in a more timely way and therefore make more informed projections as to the year end.</p> <p>Responsible officer: Jayne Pickering</p> <p>Due: December 2015</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Main Audit	77,280	77,280
Additional fee	n/a	tbc
Housing benefit grant certification fee	13,720	tbc
Total audit fees	91,000	tbc

We are proposing a further fee to reflect the additional costs associated with the opinion audit, which included additional days to that planned and the additional involvement of senior staff to deal with the particular issues we faced.

The original fee was agreed based on the assumption that particular quality standards were met in relation to the quality of the accounts, working papers and access to staff. As already discussed with the Executive Director (Finance and Resources) and the Audit and Governance Committee, these standards were not met. The fee will be agreed with Council officers and then be submitted for approval by Public Sector Audit Appointments.

Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September and December 2015
Annual Audit Letter	January 2016



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s11 Action Plan

Recommendation	Action	Owner	Deadline
<p>1 The Council should put in place robust arrangements for the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards . In order to achieve this, the Council should:</p> <p>- ensure sufficient resources and specialist skills are available to support the accounts production</p> <p>- introduce appropriate project management skills to the production of the financial statements</p>	External support (via procurement tender) will be appointed.	Financial Services Manager	18/01/2016
	A detailed Final Accounts closedown and production timetable will be compiled, monitored by weekly s151 officer meetings. Slippage to be escalated, explained and immediate actions implemented to rectify.	Technical Accountant	25/01/2016
	An assessment of the level of external support required will be carried out and communicated to provider.	Financial Services Manager/Technical Accountant	29/01/2016
	Visits to be arranged for key closedown staff to observe processes at other local authorities, with the aim of sharing best practice.	Financial Services Manager and Technical Accountants	21/12/2015
	Training needs to be identified.	All Finance	04/01/2016
	Appropriate training to be provided which will include the mentoring of Technical Accountants and other key financial staff by external provider.	Financial Services Manager/Technical Accountant	29/01/2016
<p>2</p> <p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <p>- the financial statements are compiled directly from the ledger</p> <p>- the entries in the accounts are supported by good quality working papers which are available at the start of the audit</p>	Full set of template working papers to be compiled.	Technical Accountants	22/02/2016
	Meeting with external auditors to be arranged, with the aim being to agree working paper templates.	Financial Services Manager	22/02/2016
	CIPFA Toolkit prior year figures to be populated as soon as available. Early training to be arranged with CIPFA consultant to ensure any errors are eliminated.	Technical Accountant	29/02/2016

<p>- the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director (Finance and Resources)</p> <p>- additional training, where necessary, is provided to ensure all staff involved in the accounts production process have the necessary skills and information;</p> <p>- the production of the financial statements has been monitored through regular reporting to Directors and the Audit, Governance & Standards Committee.</p>	Reconciliation schedule to be completed with clear deadlines for each reconciliation, signed off and reviewed by the Exec Director of Finance on a monthly basis.	Technical Accountant	31/12/2015
	A review of the ledger system will be carried out to ensure that information required is available to download direct to the Statement of Accounts where practical.	Technical Accountants	29/02/2016
<p>The Council should put in place robust arrangements to ensure that:</p> <p>- budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates.</p>	Pressures/Savings/Bids forms on staff Orb intranet currently being updated by Heads of Service and budget holders. A detailed summary to determine gap will be prepared for Members.	Senior Business Support Accounting Technician	14/12/2015
	Budget-holders in discussions to determine potential changes to 2016/17 budget (on assessment of 2014/15 out-turn).	Business Support Accounting Technician	14/12/2015
<p>4 Budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances and to report progress on delivery of saving plans.</p>	New Financial Planning module to be implemented, giving managers more control and flexibility of their budgets.	Senior Business Support Accounting Technician	30/06/2016
	Quarterly monitoring statements are sent out to budget-holders within 5 working days of period end. Projections and explanations are required within a week of draft Committee reporting. Compilation of Monitoring reports for Members.	Business Support Accounting Technicians and budget-holders	ongoing
	Large variances to budget to be addressed with Head of Service prior to Committee with details of cause and plans to mitigate any overspends	Senior Business Support Accountant	ongoing
		Exec Director of Finance	ongoing

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**FIGURES TO FOLLOW ONCE BUDGET FIGURES
FINALISED**

**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT
STRATEGY 2016/17 TO 2018/19**

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	
Relevant Head of Service	Jayne Pickering
Wards Affected	All
Ward Councillor Consulted	None specific
Non-Key Decision	

1. SUMMARY OF PROPOSALS

Members are asked to approve the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003.

2. RECOMMENDATIONS

The Committee is asked to RECOMMEND that

- 1) the Strategy and Prudential Indicators at Appendix 1 to the report be approved; and
- 2) the updated Treasury Management Policy at Appendix 2 to the report be approved.

3. KEY ISSUES

Financial Implications

- 3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

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3.2 CIPFA has defined Treasury Management as:

“the management of the organisation’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council’s approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

3.4 In addition, the Local Government Act 2003 requires the Council to ‘have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable’.

3.5 The revised CLG guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.7 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

Legal Implications

3.8 This is a statutory report under the Local Government Act 2003.

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Service/Operational Issues

3.9 None as a direct result of this report.

Customer/ Equalities and Diversity

3.10 None as a direct result of this report.

4. RISK MANAGEMENT

Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Quarterly reporting to Overview and Scrutiny Committee and Executive of financial position on investments
- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

5. APPENDICES

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2016/17 and Prudential Indicators 2016/17 - 2018/19

Appendix 2 – Treasury Management Policy Statement

AUTHOR OF REPORT

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Appendix 1

Treasury Management Strategy Statement And Investment Strategy 2016/17

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) before the start of each financial year. The TMSS also includes the Annual Investment Strategy (AIS) which is a requirement of CLG Investment Guidance.
- 1.2 The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2015/16
 - Annual Investment Strategy for 2015/16
 - Prudential Indicators for 2015/16, 2016/17 and 2017/18
 - MRP Statement.
- 1.3 Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4 In accordance with the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of the Council on 17th March 2010.
- 1.5 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Background

- 2.1 The Bank of England's Monetary Policy Committee (MPC) held the bank base rates at 0.5%, for the 82nd consecutive meeting in December 2015. This is a record low, having remained at this level since March 2009.

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- 2.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 2.3 The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis and Forecast

	31.3.16 Estimate £'000	31.3.17 Estimate £'000	31.3.18 Estimate £'000	31.3.19 Estimate £'000
General Fund CFR				
HRA CFR				
HRA CFR Settlement				
Total Capital Financing Requirement				
Less external borrowing				
Internal borrowing				
Less: Usable reserves				
Add: Working capital				
Investments				

3. Interest Rate Forecast

- 3.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached. Arlingclose projects the first 0.25% increase in bank base rate in third quarter of 2016 rising by 0.5% a year thereafter, finally settling between 2 and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns

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over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

- 4.1 The Authority currently has £109.9m of borrowing and **no investments**.
- 4.2 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.
- 4.3 The Authority adopts a flexible approach to its borrowing. The following issues will be considered prior to undertaking any external borrowing:
- Affordability;
 - Maturity profile of existing debt;
 - Interest rate and refinancing risk;
 - Borrowing source.
- The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.
- 4.4 Given the significant cuts to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability. With short-term interest rates currently much lower than long term rates, it is considered more cost effective in the short-term to use internal resources and borrow short-term loans.

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5. Sources of Investment

The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties

Counterparty		Cash limit	Time limit
Banks, Building Societies and other organisations and securities whose lowest published credit rating from Fitch Ratings is:	F1+	£2.5m	1 year
	F1	each	1 year
	F2	£0.5m each	3 months
The Authority's current account bank Lloyds plc if it fails to meet the above criteria (reviewed daily)		£2.5m	Next day
UK Central Government (irrespective of credit rating) Public Works Loan Board		unlimited	1 year
UK Local Authorities (irrespective of credit rating)		unlimited	1 year
Other UK public bodies such as Universities		£2.5m each	1 year
"AAA" rated Money market funds		£2.5m each	1 year

The Authority uses long-term credit ratings from the three main rating agencies: Fitch Ratings, Moody's Investment Services and Standard & Poor's Financial Services to assess the risk of investment default. Where an entity has its credit rating downgraded (so that it fails to meet the approved investment criteria) no further investments will be made, any existing investments with such an entity that can be recalled will be, and full consideration will be given to the recall of all other existing investments with the affected counterparty.

6. Investment Strategy

- 6.1 The Authority currently has £xm invested. In the past 12 months, invested funds have ranged from a total of £0 to £8 million and similar levels are expected to be maintained in the forthcoming year. This represents income received in advance of expenditure plus balances and reserves held.

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- 6.2 In accordance with Investment Guidance issued by the CLG and CIPFA Code best practice, this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.
- 6.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority's investment strategy is framed.
- 6.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.
- 6.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 3: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x

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Corporate Bonds	✓	✓
Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

6.6 The Authority will select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (requirements as per Table 2 shown above)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

6.7 **Authority's Banker** – The Authority's current accounts are held with Lloyds plc which is currently rated at the F1 rating in table 2. Should the credit ratings fall below F2-, the Authority may continue to deposit surplus cash with Lloyds plc providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than F3- (the lowest investment grade rating).

7. Investment Decision-Making

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- 7.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
- 7.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. The maximum investment level with each counterparty is set to ensure prudent diversification is achieved.
- 7.3 Money market funds (MMFs) may be utilised but good treasury management practice will prevail. The Authority will restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8. Policy on the use of Financial Derivatives

- 8.1 Local authorities have previously made use of financial derivatives embedded into loans and investments to reduce interest rate risk and to increase income or reduce costs. Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (such as swaps, forwards, futures and options). These will only be used where they can be clearly demonstrated to reduce the overall level of risk exposed to the Authority.
- 8.2 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria and their value will count against the counterparty credit limit.

9. Policy on Apportioning Interest to the HRA

On 1st April 2012, the existing long-term loans were notionally moved into the HRA pool. In the future, any new long-term loans will be assigned in their entirety to the relevant pool, whether it be General Fund or HRA and interest and costs charged/credited to the respective revenue account.

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The General Fund uses surplus HRA funds as a means of internal borrowing. Interest is calculated using the Authority's average rate on investments and transferred to the HRA from the General Fund.

10. 2015/16 MRP Statement

Annual Minimum Revenue Provision Statement 2015/16 (MRP)

- 10.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.
- 10.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 10.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.
- 10.4 MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (*Option 3 in England and Wales*).
- 10.5 No MRP will be charged in respect of assets held within the Housing Revenue Account.
- 10.6 Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.
- 10.7 Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set as follows:

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	31.03.2016 Estimated CFR £'000	17/18 Estimated MRP £'000
General Fund assets		
Assets in the Housing Revenue Account		Nil
HRA subsidy reform payment	98,929	Nil
Total Housing Revenue Account		Nil
Total		

11. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

- 11.1 The Executive Director of Finance and Corporate Resources will report to Executive on treasury management activity / performance and Performance Indicators as follows:
- Quarterly against the Strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
 - The Executive will be responsible for the scrutiny of treasury management activity and practices.

12. Other Items

- 12.1 CIPFA's Code of Practice requires the Executive Director of Finance and Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Responsibility for scrutiny of the Treasury Management function will rest with the Executive. The Executive Director of Finance and Corporate Resources will ensure that adequate training is provided for all relevant Members during the financial year.
- 12.2 The Authority has appointed Arlingclose Limited as treasury management advisers; receiving specific advice on investment, debt and capital finance issues.

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Prudential Indicators 2016/17 – 2018/19

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure that the capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Executive Director of Finance and Corporate Resources reports that the authority had no difficulty meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. Capital expenditure will be financed or funded as follows:

Capital Expenditure and Financing	2015/16 Revised £m	2016/17 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund				
HRA				
Total Expenditure				
Capital Receipts				

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Government Grants				
Reserves				
Revenue				
Borrowing				
Total Financing				

4. Capital Financing Requirement:

4.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	15/16 Revised £'000	31.03.16 Estimate £'000	31.03.17 Estimate £'000	31.03.18 Estimate £'000
General Fund				
HRA				
HRA settlement				
Total CFR				

5. Actual External Debt:

5.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£'000
Borrowing	122,000
Other Long-term Liabilities	-
Total	122,000

6. Authorised Limit and Operational Boundary for External Debt

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- 6.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 6.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.
- 6.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 6.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing				
Other Long-term Liabilities				
Total				

- 6.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
- 6.6 The Executive Director of Finance and Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option

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appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Executive.

Operational Boundary for External Debt	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing				
Other Long-term Liabilities				
Total				

7. Adoption of the CIPFA Treasury Management Code

7.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 th May 2005.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

8 Credit Risk:

- 8.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.
- 8.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.
- 8.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);

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- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

8.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

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Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates Executive to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

- 2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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- 2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”
- 2.4 The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk.
- 2.5 The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

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**THE INTERNAL AUDIT PROGRESS 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

To present the progress report of internal audit work with regard to the 2015/16 audit work.

2. RECOMMENDATIONS

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 the Accounts and Audit Regulations 2015 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.

This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2015 to 31st December 2015 against the performance indicators agreed for the service and further information on other aspects of the service delivery.

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AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (24th SEPTEMBER 2015):

Member's Allowances

The outcome of this review found generally there is a sound system of control in place over the annual review and approval of the Members Scheme operating in Redditch and also the subsequent implementation of Members Allowances. Members Allowances were found to be compliant with the Scheme and Members are remunerated at the appropriate rate and in respect of eligible duties only.

The review found the following areas of the system were working well:

- Planning and execution of the annual review cycle
- Communication and guidance to Members on their Allowances Scheme, as part of a programme of Members induction.
- Compliance with the Members Allowances Scheme and its eligibility rules
- Payment of Members Allowances Basic and Special Responsibility Allowances in accordance with the Members Scheme.
- Processing of Travel Allowances, with modest expenditure evidenced and checks consistently applied.

The review found the following areas of the system where controls could be strengthened:

- Inclusion of Broadband Allowances within the scope of the main Scheme of Allowances to provide greater transparency.
- Greater transparency over payments for data and mobile phone charges associated with Members use of iPads and mobile phones.
- Improved control of changes in allowances data as a basis for Payroll input

There were two 'medium' and no 'high' priority recommendations reported.

Audit Type: Full System audit

Final Report Issued: 2nd October 2015

Assurance: Significant

Leisure – consumables, equipment and goods for resale

The audit reviewed and critically appraised the systems and processes in place in the following areas:

- Policies and procedures in place for procuring consumables, equipment and goods for resale;
- Procurement arrangements including where applicable, collaborative procurement exercises across all sites to ensure the council is obtaining value for money and fit for purpose products;

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- Current arrangements in place for undertaking the smaller daily maintenance jobs including cost review where applicable;
- Stock control procedures in place for consumables, equipment and goods for resale including stock takes/reconciliations; ascertain whether a consistent approach is applied across all sites and if not would this be beneficial;
- Stores and supplies monitoring and arrangements in place to ensure that stock levels match/meet business demand throughout various times of the year and do not tie up unnecessary resources;
- Management reviews undertaken of goods for resale across all sites to ensure there is true customer demand and business need; an effective authorisation process is in place prior to replenishing stock and buying 'new lines';
- Process for agreeing the sale price of goods for resale; including consideration to supply and demand when setting 'mark up' where appropriate.

A comprehensive action plan has been agreed with management in regard to procurement, stock control and budgetary control.

Audit Type: Critical Review
Final Report Issued: 4th January 2016
Assurance: N/a

Treasury Management

The review found there is a generally sound system of internal control in place but our testing has identified isolated weaknesses in the design of controls and inconsistent application of controls in a small number of areas.

The review found the following areas of the system were working well:

- Investments and borrowing are being made in line with the agreed Treasury Management Strategy.
- Investments and borrowings are being made appropriately to suitable institutions which comply to the agreed list of criteria.
- Interest is being received and paid on a timely basis.
- All monies not immediately required are being invested prudently
- All investments are being electronically authorised correctly.

The review found the following areas of the system where controls could be strengthened:

- The reconciliation process is not being appropriately performed or authorised by a senior officer
- The audit trail for all transactions is not always complete.
- There is incorrect coding by Cashiers relating to the Treasury Management ledger codes.

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There were two 'medium' and no 'high priority' recommendations reported.

Audit Type: Full System audit

Final Report Issued: 4th December 2015

Assurance: Significant

Gas Servicing and Maintenance Contract

An investigation was concluded in regard to the contract delivery with several recommendations being reported. Subsequent actions are continuing and Members are being informed of developments.

Summary of assurance levels:

2015/16	
Member's Allowances	Significant
Leisure	Critical Review
Treasury Management	Significant

2015/16 AUDIT WORK WHICH IS ONGOING

Although work on the following audits is continuing draft reports have been issued. As soon as a management response is received and the audits finalised notification of their outcome will be brought before committee for consideration. Audits include:

Stores intervention
Safeguarding
Section 106s
CCTV

Audit work is also continuing but drawing to a close in respect of the following audits:

Leisure – banking
Reconciliation process
Council Tax
Non Domestic Rates (NNDR)
Benefits
Website Security
Performance Management Framework
ICT

Corporate Governance

The outcomes of these audits will be reported in summary to the next available Committee after finalisation.

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3.4 AUDIT DAYS

The table in Appendix 1 shows the progress made towards delivering the 2015/16 Internal Audit Plan and achieving the targets set for the year. As at 31st December 2015 a total of 319 days had been delivered against an overall target of 400 days for 2015/16. The target days to the end of the quarter 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 23rd April 2015 for 2015/16 and include an additional two indicators and management indicators.

Appendix 3 shows the tracking of completed audits.

Appendix 4 shows the 'high' and 'medium' priority recommendations for finalised which 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
- 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

The Worcestershire Internal Audit Shared Service (WIASS) is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards.

We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's

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operations. Where possible we will seek to place reliance on such work thus reducing the internal audit coverage as required.

WIASS confirms it acts independently in its role and provision of internal audit.

Customer / Equalities and Diversity Implications

3.6 There are no implications arising out of this report.

4. RISK MANAGEMENT

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 2015/16
Appendix 2 ~ Key performance indicators 2015/16
Appendix 3 ~ Tracking analysis of previous audits
Appendix 4 ~ 'High' and 'Medium' priority recommendations

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2015/16
1st April 2015 to 31st December 2015

Audit Area	DAYS USED TO 31/12/15	Forecasted days to the 31 st March 2016	2015/16 PLAN DAYS
Core Financial Systems (see note 1)	38	94	94
Corporate Audits(see note 2)	64	60	60
Other Systems Audits	190	192	192
TOTAL	292	346	346
Audit Management Meetings	15	20	20
Corporate Meetings / Reading	4	9	9
Annual Plans and Reports	5	12	12
Audit Committee support	3	13	13
Other chargeable	0	0	0
TOTAL	27	54	54
GRAND TOTAL	319	400	400

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 throughout the quarters

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APPENDIX 2

Key Performance Indicators (KPIs) for 01st April 2015 to 31st December 2015

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2015/16 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Redditch Borough Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Year End Position	2014/15 Year End Position	2015/16 Position (as at December 2015)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	12	21	3	None to report to date	Quarterly
2	No. of 'moderate' or below assurances	Downward	10	12	9	None to report to date	Quarterly
3	No. of customers who assess the service as excellent	Upward	2	5 (8 returns; 5 excellent & 3 good)	4 (7 returns; 4 excellent & 3 good)	1 (2 returns; 1 excellent & 1 good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 29 Delivered = 29	Target = 29 Delivered = 29	Target = 24 Delivered = 24	Target = 16 (minimum) Delivered = 3 (4 are at draft stage)	Quarterly
5	Percentage of plan delivered	100% of the agreed annual plan	N/A	N/A	N/A	80%	Quarterly
6	Service Productivity	Positive direction year on year (Annual target 74%)	N/A	N/A	N/A	73%	Quarterly

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

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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 that is planned going forward in regard to the more recent audits providing assurance that a programme of follow up is operating.

To provide the Audit, Governance & Standards Committee with assurance we are following a comprehensive 'follow up' programme to ensure recommendations and risks have been addressed from previous audits. Commentary has been provided on audits as part of the normal reporting process. Previous audit year updates in regard to 'follow ups' will be provided every six months to avoid duplication of information. Any exceptions will be reported to the Committee immediately.

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 Team Leader.

Follow up in connection with the core financials is undertaken as part of the routine audits that were performed during quarter 3/4.

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Land Charges	18th July 2014	Head of Legal, Democratic and Equality Services	Moderate	2 "high" priority recommendations in relation to fees and charges and income reconciliation	Due to preparation of final accounts and training required on main ledger this has been delayed. 06/07/2015	Followed up 22nd September 2015. Still awaiting training but this is not considered to be a material risk to the Council	
Data Security, Publication and Disposal	9th September 2014	Head of Transformation and Organisation Development/ Executive director (Finance and Resources	Moderate	1 "medium" priority recommendation re local government transparency code	Currently being undertaken as part of a further audit in this area		
DFGs and HRA grants	12th November 2014	Housing Strategy Manager	Significant	1 "medium" priority recommendations re the need to ensure documents are stored correctly	Followed up in September 2015. Implementation of the 1 medium priority recommendation is still in progress, whereby an electronic HIA filing system has been integrated, and paper files are being transferred to a single location for managing more effectively, completion expected end of October 2015 as part of the move to the new Parkside office.	Dec 15	

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Rent Arrears	27th October 2014	Head of Housing Services	Significant	1 "medium" priority to ensure procedure manual is updated to reflect change in procedures.	Followed up in June 15. The 1 medium recommendation is on-going, due to significant developments in working arrangements within the service. These are expected to be completed early 2016, with procedural guidance updated to cover the new working arrangements by March 16.	Mar-16	
Procurement	18th November 2014	Financial Services Manager	Significant	3 "medium" priority recommendations made in relation to ensuring value for money is obtained, contracts are relate at the appropriate times and that there is a clear procurement protocol in relation to procurement rules.	Followed up in June/ July 15. 1 medium priority recommendation concerning the updating of the contracts register has been implemented. 2 medium priority recommendations concerning the updating of the procurement guidance and the provision of training to staff on good procurement practice have not yet been implemented. Expected implementation of recommendations will be December 15.	Jan-16	
Reddicard concessions	11th February 2015	Leisure Services Manager	Moderate	2 "medium" priority recommendations made to ensure there is effective stock control of all concession cards and that independent checks are carried out when fees are updated at the start of each financial year.	Followed up. Awaiting Management confirmation Dec 2015		

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Asset Management	20th November 2014	Head of Customer Access and Financial support	Significant	1 "medium" priority re terms of reference for Joint Asset Management Group	Followed up in October 2015. The 1 'medium' priority recommendation relating to the terms of reference has been implemented. No further follow ups are required.		
Housing Repairs and Maintenance	22nd January 2015	Head of Housing Services	Moderate	4 "medium" priority recommendations to ensure that sufficient stock control, outstanding jobs are monitored, contractor performance is reviewed and retention is held back where applicable.	This has been followed up within a special request 2015/16 review. No further follow -ups of this report will therefore be required.		
Forge Mill	6th February 2015	Leisure Services Manager	Moderate	7 "medium" priority recommendations made re the need to ensure that stock is controlled, inventories are up to date, there are sufficient controls and separation of duties around receipting of income and access to safes are restricted.	Follow up undertaken 6 th August. 3 Recommendations implemented, 3 recommendations in progress in relation to stock reconciliation, inventory and fees& charges. One recommendation is not currently actioned; this is in relation to separation of duties in cashing up process. A second follow up to be undertaken in 3 months	November 2015 - *Forge Mill closes end of November due to seasonal trading* therefore will be followed up when it reopens for business	
Cash Receipting	29th January 2015	Head of Customer Access and Financial support	Moderate	1 "high" and 1 "medium" priority recommendations re the need to ensure a PCIDSS certificate is obtained and that the suspense account is reviewed and cleared.	Followed up. Awaiting management information Dec 2015.		

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<u>Audit</u>	<u>Date</u> <u>Final</u> <u>Audit Report</u> <u>Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Payroll	15th May 2015	Financial Services Manager and Human resources & Organisational Development Manager	Significant	2 "medium" priority recommendations were made in relation to leaver's forms authorisation and submission to the payroll section.	Will be followed up as part of the 2015/16 Payroll Audit		
Corporate Governance - to appointments outside Bodies	16th July 2015	Head of legal Equalities and Democratic Services and Democratic Services Manager	Significant	1 "medium" priority recommendation re reporting of Members Appointment to Outside Bodies via the Members Annual Report.	Dec-15		
Risk Management	30th June 2015	Executive Director (Finance and Resources)	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Follow-up of 2013/14 and 2014/15 audit being undertaken fourth quarter 2015/16		
Budget Setting	30th June 2015	Executive Director (Finance and Resources)	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Dec-15		
Main Ledger	1st July 2015	Financial Services Manager	Moderate	3 "medium" priority recommendations were made in relation to VAT returns, Reconciliations and Feeder Systems	Will be followed up as part of the 2015/16 Main ledger Audit		
ICT	16th July 2015	Head of Transformation and Organisational Development, ICT Transformation Manager, ICT Operations Manager	Critical Review	Action Plans were agreed and progress feedback will be sought in line with agreed implementation dates.	Dec-15		

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up</u>	<u>2nd</u>	<u>3rd</u>
Members Allowances	2nd October 2015	Head of Legal Equalities and Democratic Services and Democratic Services Manager	Significant	2 "medium" priority recommendations were made in relation to Broadband/Data Allowances and Change control process for Members Data	Apr-16		
Treasury Mngt	4th December 2015	Financial Services Manager	Significant	2 'medium' & 1 'low' priority recommendations were made in regard to coding errors, formal regular reconciliation and forms filled in for transactions	To be followed up with core financials Q2/3 2016/17		

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APPENDIX 4

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>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.</p> <p>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.</p>
Moderate Assurance	<p>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.</p> <p>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.</p>
Limited Assurance	<p>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.</p> <p>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.</p>
No Assurance	<p>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.</p> <p>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.</p>

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Priority	Definition
High	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.</p>
Medium	<p>Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives.</p> <p>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.</p>
Low	<p>Control weakness that has a low impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation is desirable as it will improve overall control within the system.</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Member's Allowances 2015/16					
Assurance: Significant					
Summary: The audit was a risk-based audit of the system of Members Allowances operated by the Council.					
1	Medium	Broadband/ Data Allowances Expenditure on Broadband Allowances, Data Allowances and Mobile Phone Allowances and the allocation of phones and iPads for members all sit outside of the Scheme of Members Allowances and are therefore less transparent than Allowances paid through the main Scheme.	Potential for weak financial control of this area of Members' activity leading to reputational damage in the event of excessive expenditure.	To include Broadband Allowances within the scope of the Members' Schemes and publish information on payments for data and mobile phone charges associated with Members use of iPads, Blackberry and other mobile phones.	Agree that bringing broadband payments into the scheme from the IT provision policy will increase their transparency. Council reviews the allowances scheme each year and proposals to include this will be made at the same time as Council considers the IRP report with recommendations for next year's scheme (2016-17 with effect from 1 st April) If it is proposed to merge the broadband allowance with the basic allowance to simplify payment this will need to be considered by the IRP and their recommendations, if any, taken into account. Information on payments made each financial year is already published, and includes data above that required by law to be published. This information will be extended to include the details about iPads and telephones etc. as recommended. Responsible Manager: Democratic Services Manager Implementation date: April 2016
2	Medium	Change control process for Members Data In 100% of cases sampled, Members received allowances appropriate to their	Potential for start and end dates of Members appointments to be	To implement a more formal change request process for starters/movers/leavers. This would	Legal and Democratic Services will explore with Managers identified below, the potential to notify payroll of changes to allowances whilst

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		office, at the correct rate. The process for tracking changes to member appointments and notifying Payroll of the Allowances due to members is ad hoc and not always authorised.	overlooked with Members' remaining on the Payroll and in receipt of allowances they are no longer eligible/due. Consequent financial loss.	ensure change is captured accurately and on a timely basis and authorised in Legal and Democratic Services for Payroll input This could form part of a flow management process incorporating other Human Resources and IT Procurement activity linked to new or departing members.	ensuring efficient inputting of data (i.e. no duplication or requirements to complete multiple forms) Responsible Manager: Democratic Services Manager, Financial Services Manager and IT Services Manager, ICT Transformation Manager Implementation date: By April 2016
Audit: Treasury Management					
Assurance: Significant					
Summary: The audit was a risk based systems audit of Treasury Management as operated by Redditch Borough Council.					
1	Medium	<u>Coding errors</u> Audit testing highlighted errors by the Cashier staff in allocating codes in regards to Treasury Management. The audit testing found that out of a sample of 8 borrowings, 7 of the payments of interest were allocated to interest received rather than interest paid. This impacts the Finance team as it adds time to reconciliations and filling in journals to correct the coding.	Potential misallocation of funds which could lead to over / under spend on budgets. Increased use of Finance staff's time, leading to waste of Council's resources.	Finance to work with Cashiers to undertake procedures to ensure coding issues are resolved.	Responsible Manager: Financial Services Manager Implementation date: 19/11/15 Advice issued to Cashiers. Should further monitoring detect any more miscodings, this shall be escalated accordingly.
2	Medium	<u>Formal regular reconciliation</u> Formal reconciliations are not taking place and are not being undertaken by a separate officer. When reconciliations do occur, which tends to be on a monthly basis, they are solely being undertaken by the Treasury Management Officer and not being signed off by another officer.	Financial loss and Reputational damage to the council if regular reconciliations are not being performed.	Monthly reconciliations to continue to take place. On a quarterly basis an independent reviewer to review the reconciliations. Consideration for this is to be evidenced in a password protected cell on the reconciliation spreadsheet	Responsible Manager: Financial Services Manager Implementation date: ongoing Agreed. The TMO is best equipped to carry out reconciliation. Reconciliations are to be reviewed quarterly by the Technical Accountant, signed and dated. Any issues for

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
				with the name of the reviewer and date of the review.	concern will be pursued.
end					

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THE 2016/17 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 Draft Internal Audit Operational Plan for 2016/17;
- to confirm the key performance indicators for the Worcestershire Internal Audit Shared Service for 2016/17

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 the Accounts and Audit Regulations 2015 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

Internal Audit Aims and Objectives

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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 2016/17, 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 considered the corporate strategic purposes, risk priorities per discussions with the s151 Officer and the results of an independent risk assessment of the audit universe by Internal Audit. Dialogue is continuing with and Heads of Service in regard to the audit plan and the risk exposure in their areas. The internal audit plan for 2016/17 has been considered by the council's section 151 officer and has been formulated with the aim to ensure Redditch Borough Council meets its strategic purposes. The draft plan is brought before the Committee for consideration and comment with approval of the proposed plan to take place in April 2016.

With the increasing amount of closer working arrangements with Redditch Borough Council and Bromsgrove District Council this benefits this brings with joint working has been reflected in the plan with closely aligned plans and reduced/shared budgets to deliver the work. By taking this approach it will ensure that both Councils benefit from the efficiencies that can be derived from an even better coordinated approach of audit delivery in regard to joint systems and shared services. By bringing a provisional plan of work to Members it allows time

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for a positive input into the audit work programme for 2016/17 and provides an opportunity to make suggestions as to where they feel audit resources should be deployed under the direction of the s151 Officer. As with all plans it may be subject to review and change as the year progresses in consultation with the s151 Officer.

Resource Allocation

To reflect the changing environment in regard to joint working and shared services the internal audit plan for 2016/17 has been based upon a resource allocation of 400 chargeable days, a resource allocation which has been agreed with the council's s151 officer. The coverage remains unchanged from 2015/16 figures due to the difficulties encountered in certain areas e.g. Finance and Housing. There would have been a proposal to reduce the days if the issues had not been encountered. 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 Internal Audit Plan for 2016/17 is set out at **Appendix 1**.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2016/17 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 key performance indicators which have been developed for the service and management. These have been agreed with the council's s151 officer and are included at **Appendix 2**.

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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.

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 2016/17

Appendix 2 ~ Key performance indicators 2016/17

6. BACKGROUND PAPERS

None

7. KEY

N/a

AUTHOR OF REPORT

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APPENDIX 1

DETAILED PROVISIONAL PLAN FOR 2016/2017 AUDIT PROGRAMME

Audit Area	Source	Planned Days 2015/16	Planned Days 2016/17	Difference = + or -	Justification
CHARGEABLE AND PRODUCTIVE					
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	17	2	increased due to circumstances with key staff turnover
Creditors	Risk assessment score 31	10	8	0	decreased due to joint working
Cash Collection	Risk assessment score 30	0	10	10	Increased as per cyclical review
Debtors	Risk assessment score 29	10	7	0	decreased due to joint working
Treasury Management	Risk assessment score 28	7	7	0	
Main Ledger inc Budgetary Control & Bank Reconciliation	Risk assessment score 28	13	16	3	increased due to circumstances and settling down of new system
TOTAL		94	104	10	
Corporate					
Risk Management	Risk assessment score 26	7	5	-2	decreased due to joint working
Fraud, Special Investigations incl. NFI	n/a	15	19	4	increased due to additional demands on 2015/16 budget
Advisory and Consultancy / Contingency	n/a	12	14	2	increased due to additional demands on 2015/16 budget
Previous Year Work completion	n/a	8	10	2	due to the investigations indications are

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					there will be some reports which will require final sign off after year end
Statement of Internal Control	n/a	3	3	0	
Follow Up on recommendations	n/a	15	15	0	
TOTAL		60	66	6	
Other Systems Audits					
2016/17					
Service Area: Planning and Regeneration	Risk assessment Score 30	25	20	-5	Decreased as planned work is more regulated
Planning enforcement					
Development Control					
Service Area: Housing	Risk assessment Score 29	28	35	7	Increased due to recent circumstances but to include broader coverage
Post contract appraisals (cross cutting)					
Rent Verification Statements					
Service Area: Community Services	Risk assessment Score 27	14	14	0	
Grants to Voluntary Bodies					
Community Transport incl. Shopmobility					
Service Area: Environmental	Risk assessment Score 34	20	22	2	Increase to include broader coverage in regard to procurement
Cemetery and Crematorium					
Stores incl. procurement processes(cross cutting)					
Service Area: Leisure and Culture	Risk assessment Score 31	30	24	-6	Decreased as significant amount of work completed in this area over past three years
Community Centres					
Allotments					

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Service Area: (Corporate) Including Legal and Democratic	Risk assessment Score 31	40	20	-20	Decreased as links to corporate work and coverage during 2015/16 comprehensive
Charity Fund Accounts					
Procurement see Environmental					
Service Area: IT	Risk assessment Score 31	27	16	-11	Decreased as significant amount of work completed in this area over past three years and joint working
Transformation assistance					
Freedom of Information requests					
Service Area: Customer Services	Risk assessment Score 34	0	12	12	Increased as per cyclical review
One Stop Shops/reception Services					
Sub Total (Service Areas)		184	163	-21	
Bus Operators Grant		8	8	0	
Insurance		0	5	5	
TOTAL		192	176	-16	
CHARGEABLE AND NON PRODUCTIVE					
Audit Management Meetings	n/a	20	20	0	
Corporate Meetings / Reading	n/a	9	9	0	
Annual Plans and Reports	n/a	12	12	0	
Audit Committee support	n/a	13	13	0	
TOTAL		54	54	0	
TOTAL AUDIT DAYS 2016/2017		400	400	0	No overall change

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Explanatory Notes:

*Risk assessment scores are indicators derived from an internal audit assessment based on local knowledge and risk assessment using various factors including materiality, impact of failure, system risk, resource risk, fraud risk and external risk.

#A number of corporate audit budgets have been reallocated to service areas so that the audit budgets can be used more flexibly and include elements including transformation, health and safety and shared service working taking into consideration the risk exposure for the service.

Customer access and support will be considered overall as part of the service audits.

Summary of Days per Overall Audit Group for 2016/17.

Planned Days for 2016/17	2015/16	2016/17
Core Financial Systems	94	104
Corporate Work	60	66
Other Systems Audits	192	176
Sub Total	346	346
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	400	400

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Appendix 2

KEY PERFORMANCE INDICATORS 2016/17

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2016/17 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Redditch Borough Council.

	KPI	Trend requirement	2015/16 Year End Position	2016/17 Position (as at DD/MM/YY)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	XX		Quarterly
2	No. of moderate or below assurances	Downward	XX		Quarterly

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3	No. of customers who assess the service as 'excellent'	Upward	XX		Quarterly
4	No. of audits achieved during the year	Per target	Target = (minimum) Delivered =	Target = 17 (minimum) Delivered =	Quarterly
5	Percentage of Plan Delivery	100% of the agreed annual plan	XX %	XX %	Quarterly
6	Service Productivity	Positive direction year on year (Annual target 74%)	XX %	XX %	Quarterly

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

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DEBT RECOVERY UPDATE - QUARTERS 1 AND 2 2015/16

Relevant Portfolio Holder	Cllr John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Amanda Singleton, 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 Committee is asked to RESOLVE that

the contents of the report be noted.

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 2015/16 at the end of the second quarter totals £403,288.52. This relates to 453 individual cases.
- 3.5 This compares with previous years as follows:
 - 2013/14 - 395 individual outstanding debts, totalling £336,723.
 - 2014/15 - 381 individual outstanding debts, totalling £332,911.

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- 3.6 The increase in outstanding debt is due predominantly to reduced recovery action during the period.
- 3.7 In March 2015 the Council migrated to a new financial services system. The work in relation to this has created a huge amount of additional work and put considerable strain on the resources available in respect of invoicing and recovery of debt. Formal tenancy arrears are the hardest debt to recover and considerable staff hours are deployed to recover a relatively small amount of cash. The priority has been to ensure that customer accounts are correct and that payments have been correctly posted before any recovery action recommenced.
- 3.8 Recovery action has now restarted and any outstanding debts will be pursued as normal.
- 3.9 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.
- 3.10 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 were, until April 2015, numerous different recovery timescales and reminder notices dependant on the debt type. The process in respect of invoicing and recovery has been improved and streamlined in the last 10 months with the majority of debts payable within 28 days and with standardised recovery paths in place for all debts.
- 3.11 The total outstanding general debt as at 30th September 2015 was £1,209,374. This compares with £1,153,916 at the same point last year. It is important to remember that this includes all invoices raised and not yet paid in full, but not necessarily overdue. Many people will pay by instalments over the year, whether quarterly, monthly or weekly. Therefore this figure is only indicative.
- 3.12 Given the low levels of recovery action to date during this financial year this indicates that the vast majority of customers are paying the money owed to the Council.
- 3.13 It is hoped that greater detail will be possible in the reporting of debts outstanding against credit terms in future. However, it has not yet been possible to extrapolate this data in a useable format from the new system, and the work necessary to provide it is considerable.
- 3.14 As evidenced on the following table the vast majority of money owed is paid within the expected terms and that the number of outstanding invoices is low.

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Year	Total Debt outstanding (General Debt)	Number of outstanding invoices	New invoices raised	Number Live Accounts	Number Invoices Raised
2010/2011	£1,671,180	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
2013/2014	£1,186,094	2,612	£6,512,010	29,747	26,446
2014/2015	£924,158	2,962	£6,174,202	28,775	26,500 approx*

* Exact figure cannot be provided due to the migration of debts during March 2015. This resulted in some debts being raised in both systems and manual adjustments being made to ensure that customers did not get billed twice.

Legal Implications

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

Service / Operational Implications

- 3.16 As previously mentioned the recovery process taken up to April 2015 varied depending on the debt in question. This was due to variable credit terms and recovery periods. Significant changes have been implemented along with the new computer software to streamline the process and bring all terms in line, wherever possible.
- 3.17 However, we aim to take a customer focused approach to the recovery of debt. We always balance the need to recover monies owed with an understanding of the customer's total indebtedness to avoid putting in place unrealistic or unmanageable payment plans and taking account of the individual customer's circumstances.
- 3.18 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. The migration process has identified some very old debts which it may now be appropriate to consider for write off and these will be considered in line with the Council's write off policy and reported to Executive in June 2016.

Customer / Equalities and Diversity Implications

- 3.19 It is important for the Council's reputation to evidence to customers that every effort is made to recover debts to the Council.
- 3.20 The process for the recovery of debts is equitable and proportionate.

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- 3.21 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 customers are 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.

4. RISK MANAGEMENT

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

None

6. BACKGROUND PAPERS

None

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AUDIT, GOVERNANCE & STANDARDS COMMITTEE ACTION LIST – 28TH JANUARY 2016 MEETING

Ref	Action/Issue	Origin	Lead Officer(s)/ Member(s)	Priority/ timescale	Officer Response/Action Status
1	Corporate dashboard of measures Officers to report on the corporate dashboard of measures.	Minute No.'s 37 of 22.01.15, 53 of 23.04.15 and 7 of 02.07.15 meetings.	Deb Poole & Rebecca Dunne	28.01.16 meeting	Officers will be giving a presentation on the dashboard at the 28.01.16 meeting. See separate agenda item on this.

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WORK PROGRAMME**21st April 2016****Standards**

- Monitoring Officer's Report
- Feckenham Parish Council Report

Governance

- External Audit – Progress Report
- External Audit – Audit Findings Action Plan
- External Audit – Audit Plan 2015/16
- External Audit – Audit Fee Letter 2016/17
- External Audit – Auditing Standards 2015/16 (Communication with the Audit and Governance Committee and Executive)
- Internal Audit – Progress Report
- Internal Audit – Final Annual Audit Plan 2016/17
- Accounting Standards (Statement of Accounting Policies)

Monitoring

- Corporate Governance including Risk
- Benefits Investigations Annual Report
- Portfolio Holder Update (Quarterly Budget Monitoring)
- S151 Officer Savings Report
- Committee Action List and Work Programme
- Annual Review of the Operation of the Committee (Chair's oral report) and Annual Review of the Committee's Procedure Rules (Minute No. 4 of 28th June 2012 meeting refers)
- Calendar of Meetings 2016/17

July 2016 (meeting date not yet set)**Standards**

- Monitoring Officer's Report (including memberships of Hearing Sub-Committees)
- Feckenham Parish Council Report
- General Dispositions Report (to the first meeting of the Committee following any local elections)

Governance

- Annual Governance Statement 2015/16
- External Audit – Progress Report (including oral update on Value for Money Conclusion)
- External Audit – Audit Findings Action Plan
- Internal Audit – Annual Report 2015/16 (including review of effectiveness of Internal Audit – no separate Progress Report to this meeting)

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Monitoring

- Corporate Governance including Risk
- Debt Recovery Update Report (Quarters 3 and 4)
- Portfolio Holder Update (Quarterly Budget Monitoring)
- S151 Officer Savings Report
- Committee Action List and Work Programme

[Note: Copies of the draft Annual Accounts and Annual Governance Statement will be sent to all members of the Committee at the same time these are issued to the External Auditors. A briefing on the Statement of Accounts will also take place for all members of the Committee in early/mid-September 2016, prior to the Committee's formal consideration of the Statement at the meeting in late September.]

September 2016 (meeting date not yet set)**Standards**

- Monitoring Officer's Report
- Feckenham Parish Council Report

Governance

- External Audit – Audit Findings Report 2015/16
- Audited Statement of Accounts 2014/15 (including final Annual Governance Statement)
- External Audit – Audit Findings Action Plan
- Internal Audit – Progress Report

Monitoring

- Corporate Governance including Risk
- Portfolio Holder Update (Quarterly Budget Monitoring)
- S151 Officer Savings Report
- Committee Action List and Work Programme

28th January 2016**Standards**

- Monitoring Officer's Report
- Feckenham Parish Council Report

Governance

- External Audit – Progress Report
- External Audit – Audit Findings Action Plan
- External Audit – Grant Claims Certification Work Report
- External Audit – Annual Audit Letter
- Single Fraud Investigation Service presentation
- Treasury Management Strategy, Prudential Indicators and Minimum Revenue Policy Provision 2017/18
- Corporate Dashboard of Measures

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- Internal Audit – Progress Report
- Internal Audit – Draft Annual Audit Plan 2017/18

Monitoring

- Corporate Governance including Risk
- Debt Recovery Update Report (Quarters 1 and 2)
- Portfolio Holder Update (Quarterly Budget Monitoring)
- S151 Officer Savings Report
- Committee Action List and Work Programme

Meeting date to be determined

- ~~*Review of the operation of the Protocol on Member-Officer relations (following consideration by the Constitution Review Working Party).*~~
- ~~*Review of the operation of the Protocol on Member-Member relations (following consideration by the Constitution Review Working Party).*~~

Officers propose that the above Protocol reports be removed from the Work Programme as there are no imminent plans to review these. Officers will notify the Committee in advance should a review appear likely. Any review would first go the Constitution Review Working Party, of which no meeting is currently programmed.

January or April 2018 meeting

- Review of Independent Member Appointment (prior to expiry of current 4-year term of office in July 2018 - Minute No. 22 of 25th September 2014 meeting refers).

