



Audit, Governance and Standards Committee

Thu 2 Feb
2017
7.00 pm

Committee Room 2
Town Hall
Redditch

REDDITCH BOROUGH COUNCIL

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Audit, Governance and Standards

Committee

Thursday, 2nd February, 2017

7.00 pm

Committee Room 2, Town Hall

Agenda

Membership:

Cllrs:	David Thain (Chair) Jane Potter (Vice-Chair) Tom Baker-Price Natalie Brookes Michael Chalk	Andrew Fry Mark Shurmer 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 22nd September 2016. (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, together with any updates from the Feckenham Parish Council Representative(s), on any standards regime matters of relevance to the Committee. (Report attached) (Astwood Bank & Feckenham Ward)

Audit, Governance & Standards

Committee

Thursday, 2nd February, 2017

5. Grant Thornton - Progress Report and Update (Pages 15 - 32)	To update Members on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors, and on relevant sector issues, developments and publications. (Report attached)
6. Grant Thornton - Annual Audit Letter 2015/16 (Pages 33 - 54)	To present Members with Grant Thornton's Annual Audit Letter which summarises the key findings from the work carried out at the Council for the year ended 31st March 2016. (Report attached)
7. Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20 (Pages 55 - 80) Executive Director, Finance and Resources	To approve, for recommendation to Council, the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003. (Report attached) (No Direct Ward Relevance)
8. Compliance Team Update (Pages 81 - 84) Head of Customer Access and Financial Support	To update Members on the work of the Compliance Team following the transfer of benefits fraud to the Department for Work and Pensions Single Fraud Investigation Service in February 2016. (Report attached) (No Direct Ward Relevance)
9. Internal Audit - Progress Report (Pages 85 - 112)	To present a progress report of internal audit work for 2016/17. (Report attached) (No Direct Ward Relevance)

Audit, Governance & Standards

Committee

Thursday, 2nd February, 2017

<p>10. Internal Audit - Draft Audit Plan 2017/18 (Pages 113 - 122)</p>	<p>To present the Council's Provisional Internal Audit Operational Plan for 2017/18 and confirm the performance indicators for the Worcestershire Internal Audit Shared Service for 2017/18.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>11. April - September Financial Savings Monitoring Report 2016/17 (Pages 123 - 126) Executive Director, Finance and Resources</p>	<p>To report to the Committee the monitoring of savings for 2016/17 and the delivery of savings and additional income for the period April 2016 to September 2016.</p> <p>(Report attached)</p> <p>(No Direct Ward Relevance)</p>
<p>12. Committee Action List and Work Programme (Pages 127 - 132) 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>13. Calendar of Meetings 2017/18 Chief Executive</p>	<p>Members are asked to note the following meeting dates of the Committee for the 2017/18 Municipal Year:</p> <ul style="list-style-type: none"> • Thursday 6th July 2017; • Thursday 21st September 2017; • Thursday 1st February 2018; and • Thursday 26th April 2018. <p>All meetings are due to commence at 7.00pm.</p> <p><u>Statement of Accounts Briefing</u></p> <p>There will also be an Officer Briefing for all members of the Committee on the Statement of Accounts in early/mid September, prior to the Committee's formal consideration of the audited financial statements at the 21st September 2017 meeting. The date for the Officer Briefing has not yet been finalised but it is anticipated that this will take place on either 5th or 7th September.</p>

Audit, Governance & Standards

Committee

Thursday, 2nd February, 2017

14. 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, 22 September 2016

MINUTES

Present:

Councillor David Thain (Chair), Councillor Jane Potter (Vice-Chair) and Councillors Tom Baker-Price, Natalie Brookes, Michael Chalk, Andrew Fry and Mark Shurmer

Parish Councillors Alan Smith and Slade Arthur – Feckenham Parish Council Representative and Deputy Representative for Standards (non-voting co-opted members of the Committee) (during Minute No.'s 13 to 17)

Also Present:

Suzanne Joberns and Richard Percival – Grant Thornton (External Auditors)

Officers:

Andy Bromage, Kevin Dicks and Sam Morgan

Committee Services Officer:

Debbie Parker-Jones

13. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received from Borough Councillors Rachael Smith and Pat Witherspoon, Dave Jones (Independent Member for Audit and Governance) and Megan Harrison (Independent Person for Standards and unofficial Observer).

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES

The minutes of the meeting of the Audit, Governance and Standards Committee held on 7th July 2016 were submitted.

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Chair

Audit, Governance & Standards Committee

Thursday, 22 September 2016

RESOLVED that

the minutes of the meeting of the Audit, Governance and Standards Committee held on 7th July 2016 be confirmed as a correct record and signed by the Chair.

16. MONITORING OFFICER'S REPORT - STANDARDS REGIME

Members received a report from the Monitoring Officer outlining the current position in relation to standards regime matters.

No complaints against Members had been received since the previous meeting of the Committee in July 2016. The Member training information detailed in the report was noted, in particular the county-wide Grant Thornton Governance training event on 11th October 2016 which was being hosted by Redditch Borough Council.

It was noted that any standards-related updates from the Feckenham Parish Council Representatives would now be included within the Monitoring Officer's report. Feckenham Parish Councillor Alan Smith advised that the Parish Council currently had 2 vacancies.

RESOLVED that

the Monitoring Officer's report and Feckenham Parish Council Representative's update be noted.

17. GRANT THORNTON - AUDIT FINDINGS REPORT 2015/16

Members were presented with Grant Thornton's Audit Findings Report in relation to the final accounts for 2015/16. Report appendices 1 and 2 – Audit Findings Report and management's Letter of Representation – had been circulated under cover of Additional Papers in advance of the meeting.

Mr Percival provided a general overview of the report. As the Council's external auditors Grant Thornton were required to report whether, in their opinion, the financial statements gave a true and fair view of the financial position of the Council and its income and expenditure for the year, and whether they had been properly prepared in accordance with the Code of Practice on Local Authority Accounting. Grant Thornton also needed to satisfy themselves as to whether the Council had made proper

Audit, Governance & Standards Committee

Thursday, 22 September 2016

arrangements to secure economy, efficiency and effectiveness in its use of resources; the 'value for money' conclusion.

Whilst the audit was almost complete some procedures were currently in the process of being finalised, including clearance of audit queries and final review of audit work relating to consideration of investment properties and PPA (purchase price allocation) disclosure of Threadneedle House. Work was currently being undertaken on certification of the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. This was due to be finalised at the end of November and the outcome of this would therefore be reported via a later report to Committee.

Mr Percival stated that the Council was a long way ahead of where it had been this time last year with the 2014/15 accounts. However, whilst there had been improvements in the quality of the financial statements and supporting working papers, further improvements were still needed in this area, specifically:

- working papers to support entries in the accounts to be available at the start of the audit, which should clearly link to items in the financial statements; and
- audit queries needed to be resolved in an efficient and timely way to support delivery of the audit.

Significant governance issues relating to Grant Thornton's statutory recommendations had not been adequately explained in the draft version of the Council's Annual Governance Statement, and it had been agreed with Officers that amendments would be made to give more information regarding the responses to the recommendations. Control issues had also been identified as part of the testing process in relation to:

- complexity of the ledger coding structure;
- inaccuracies in payroll payments; and
- supporting evidence for charges.

No new issues had been identified which required Grant Thornton to apply their statutory powers and duties for 2015/16. At the end of the 2014/15 audit four recommendations had been issued under section 11 of the Audit Commission Act 1998. Whilst it was Grant Thornton's overall view that improvements had been made since they had issued their recommendations, further progress on these was needed. The key actions they expected the Council to take were to:

Audit, Governance & Standards Committee

Thursday, 22 September 2016

- improve the quality and timeliness of financial statements production and the supporting working papers and resolution of audit queries, to ensure the deadline for both accounts production and audit completion is achieved;
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically to include the impact of future spending plans on reserves and balances; and
- improve the clarity and consistency of in-year reporting of budget variances and forecasts of year-end outturn, including the actions to address adverse budget variances.

Whilst Grant Thornton would be giving an unmodified opinion on the financial statements, a qualified 'except for' value for money conclusion was being issued due to the need to implement improvements in budget monitoring and financial planning. It had been concluded that there were weaknesses in the Council's arrangements for:

- reliable and timely financial reporting that supported the delivery of the strategic purposes;
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions; and
- governance arrangements.

Mr Percival made clear that they were not saying that Officers did not have a grasp on the Council's financial position as it was felt the Council had good arrangements at an Officer level to manage the budgets, however the in-year reporting to Members was inconsistent and difficult to follow. Grant Thornton had therefore concluded that there were weaknesses in the Council's arrangements to demonstrate that it could produce reliable and timely financial reporting which supported the delivery of the strategic purposes.

Ms Joberns spoke on the audit findings against significant and other risks sections of the report, and on issues surrounding long term debtors and legal charges on properties, the testing of journals, recharges for income and expenditure and employee remuneration. Officers confirmed that actions were currently being undertaken to address some of the issues highlighted, which included a full review of long term debtors with legal charges on properties to ascertain the legal status of all such charges. In response to a Member's question as to whether the Member who had received the duplicate mileage payment had been asked to pay back the additional

Audit, Governance & Standards Committee

Thursday, 22 September 2016

payment, Officers stated that they would speak with the Democratic Services Manager in this regard.

Ms Joberns spoke on the outstanding valuation of investment properties element of the report and the required amendment which had been agreed with Officers to the previous year's accounts in this regard. Members approved management's course of action in relation to the unadjusted misstatements relating to long term debtors and valuations disclosure.

Grant Thornton's Action Plan at Appendix A to the report was noted. Mr Percival stated that the external auditors would work with Officers on the recommendations to ensure that a plan to address these was put in place. Officers advised that they would be working through implementation dates shortly, details of which it was anticipated would be made known to Members via the Budget Scrutiny Working Group by the end of October.

Mr Percival highlighted the reduced fees for the 2015/16 accounts and brought to Members' attention the representation letter appended to the report, which the Committee was asked to approve.

Members requested that their thanks to the Council's Finance Team for their work on the 2015/16 accounts be formally recorded. Whilst it was noted that there were still improvements to be made in some of the accounting processes, Members congratulated staff on the significant improvements which had been made since the closedown of the 2014/15 accounts.

RESOLVED that

- 1) the Audit Findings Report 2015/16, as circulated under cover of Additional Papers, be noted; and**
- 2) the draft Letter of Representation, as circulated under cover of Additional Papers, be approved.**

18. STATEMENT OF ACCOUNTS 2015/16

The Committee was asked to approve the Council's Statement of Accounts for 2015/16. A copy of the Statement of Accounts had been circulated under cover of Additional Papers in advance of the meeting and Officers tabled four replacement pages to this at the meeting, relating to Additional Papers pages 64, 65, 95 and 96.

Audit, Governance & Standards

Committee

Thursday, 22 September 2016

Officers explained the Investment Property revisions to the Balance Sheet at page 64, as referred to under the previous agenda item, which included restated amounts for 2014/15. Adjustments to the Cash Flow Statement at page 65 were also highlighted.

RESOLVED that

subject to the adjustments detailed in the replacement pages circulated by Officers at the meeting, as detailed in the preamble above, the 2015/16 Statement of Accounts be approved.

19. INTERNAL AUDIT - PROGRESS REPORT

The Committee considered the Internal Audit Progress Report, which presented Members with progress on internal audit work for 2016/17 and the residual 2015/16 audit work.

The Head of Internal Audit Shared Service presented the report and highlighted the outcomes of the Allotments and Consultancy and Agency audits, both of which had resulted in Limited Assurances. Both areas were implementing changes as a result of the findings and Internal Audit Officers were working with service managers on improvements to ensure that Audit's recommendations were implemented. The Allotments Team in particular were ahead of schedule and would be implementing the majority of their changes by the end of September.

Delivery against the Internal Audit Plan for 2016/17 as at 31st July 2016 was noted. There had been some natural turnover of staff within Internal Audit towards the end of the 2015/16 financial year. Three new replacement members of staff had been appointed, which constituted 50% of the Internal Audit Team.

Members noted the ongoing issues concerning the monitoring and reconciliation of income relating to Worcestershire Regulatory Service (WRS) activities, with there being no centralised control to ensure the financial information held by the shared service accurately represented the actual transactions that were taking place within each authority. In response to a Member's question, Officers advised that the Council was receiving the appropriate level of income from WRS however work was required to enhance the internal controls for this.

RESOLVED that

the report be noted.

Audit, Governance & Standards

Committee

Thursday, 22 September 2016

20. RE-APPOINTMENT OF LEAD FRAUD AND RISK MEMBERS ON THE COMMITTEE

The Committee was asked to consider whether it wished to re-appoint to the roles of Lead Fraud Member and Lead Risk Member on the Committee; positions which were currently held by Borough Councillor David Thain and Mr Dave Jones, Independent Member for Audit and Governance, respectively. If agreeing to continue with these roles, Members were also asked to determine how long they wished to appoint to the positions for given that no local elections would be taking place in 2017.

Officers advised that as Mr Jones had tendered his apologies in advance of the meeting, Mr Jones had been asked whether he would be willing to continue as Lead Risk Member should the Committee determine that it wished to continue with this role. Mr Jones, whom it was noted had been very proactive in the role, had confirmed that he would be happy to continue with this.

Notwithstanding the changes which had taken place in relation to housing benefit fraud investigations following the transfer of this work to the Single Fraud Investigation Service in February 2016, Members felt that it was important for both Lead Member roles to continue and that these should be appointed to for a further year.

It was noted that Officers would be bringing the first of a new style 'Fraud Compliance Update' report to the Committee's next meeting in February 2017. The report would set out details of the work carried out by the Fraud Investigation Team over the previous year, together with the outcomes and findings in this regard.

RESOLVED that

- 1) Councillor David Thain continue as the Committee's Lead Fraud Member for a further 12 months; and**
- 2) Mr Dave Jones continue as the Committee's Lead Risk Member for a further 12 months.**

21. S11 RECOMMENDATIONS UPDATE

Members were presented with the latest update on progress against the external auditors Section 11 recommendations, which had first been reported to Committee on 28th January 2016.

Audit, Governance & Standards

Committee

Thursday, 22 September 2016

Whilst unqualified opinions had been given on the accounts for 2014/15, the S11 recommendations covered Grant Thornton's concerns in relation to financial accounting and budget monitoring which needed to be addressed for the 2015/16 closedown and financial management of budgets for 2016/17.

The Council had now successfully completed all of the recommendations relating to the closedown of the final accounts and the 2015/16 Statement of Accounts had been signed off by the statutory deadline on 30th June 2016. There were two further recommendations relating to financial management of budgets which were ongoing, as detailed in the appendix to the report.

Officers proposed that the cross-party working group which had been established by the Committee in January 2016 to monitor the Section 11 Recommendations Action Plan in future form part of the Budget Scrutiny Working Group, which Members agreed to.

RESOLVED that

- 1) the report be noted; and**
- 2) the cross-party working group established by the Audit, Governance and Standards Committee in January 2016 to monitor the Section 11 Recommendations Action Plan in future form part of the Budget Scrutiny Working Group.**

22. CORPORATE GOVERNANCE AND RISK

Members were asked, as part of the Corporate Governance and Risk report, to consider a 6 monthly review of the Corporate Risk Register.

The Corporate Risk Register had been developed by the management team to address issues of a strategic nature which were seen as areas that had potential to impact on the delivery of the Council's Strategic Purposes. The Register, which had been approved by the Committee in April, was appended to the report. Updates to this to September had been included against each Corporate Risk and there were no issues to report in relation to actions that had not been progressed.

RESOLVED that

the position following the 6 monthly review of the Corporate Risk Register be noted.

Audit, Governance & Standards

Committee

Thursday, 22 September 2016

23. APRIL - JUNE FINANCIAL SAVINGS MONITORING REPORT 2016/17

Members received the first of a new style report which had been established to monitor savings for 2016/17, and which included the delivery of savings and additional income for the period April to June 2016.

The report provided a statement to show the savings against the Council's Strategic Purposes and the delivery of savings for the financial year. The report was separate to the main financial monitoring report that was presented to the Executive Committee as it focused on the delivery of savings rather than the overall financial position of the Council. For 2016/17 the report also presented other savings and additional income that had been generated across the Council.

Grant Thornton, the Council's external auditors, had recommended that the delivery of savings be monitored more closely to ensure the Council was meeting savings in the way that was expected when the budget had been set. Appendix 1 to the report confirmed that for April to June 2016 savings to budgets had been delivered, together with additional savings/income that had not been included in the original budget projections. Officers highlighted that the £139k savings generated from a service review of Environmental Services was in addition to the £190k of savings identified in the 2015/16 budget round for 2016/17 onwards as a result of the service review.

RESOLVED that

the financial position for savings for the period April 2016 to June 2016, as presented in the report, be noted.

24. COMMITTEE ACTION LIST AND WORK PROGRAMME

Officers advised that there were not many updates to the Action List at this stage as a number of these involved Mr Dave Jones, the Independent Member for Audit and Governance, who wished to update the Committee at the next meeting in February 2017.

Officers confirmed that Action Reference 5 was now complete as an Action Plan had been included in the Annual Governance Statement. It was agreed that this item could therefore be removed from the Action List.

Audit, Governance & Standards Committee

Thursday, 22 September 2016

The Committee's Work Programme was noted without amendment.

RESOLVED that

**the Committee's Action List and Work Programme be noted
and the amendments and updates highlighted be agreed.**

The Meeting commenced at 7.00 pm
and closed at 8.15 pm

.....
Chair

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

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 22nd September 2016.
- 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 with any relevant standards matters.
- 1.3 Any further updates arising after publication of this report, including any standards issues raised by the Feckenham Parish Council Representatives, will be reported orally by the Monitoring Officer (MO) / Representatives at the meeting.

2. RECOMMENDATIONS

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

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 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 (with voting rights) Members of an authority. The Act also requires the authority to have in

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

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 Since the last meeting of the Committee in September 2016 two complaints have been received. Both complaints were made against Borough Councillors by members of the public.
- 3.4 One complaint related to Member involvement in a neighbour dispute. The MO managed the complaint locally and it was established that the complainant had been acting on information that wasn't factually correct. The MO advised the complainant in detail and the matter was resolved locally.
- 3.5 The second complaint related to a Member's twitter account. The MO spoke to the subject Member's Group Leader in this regard, who arranged for the issue to be resolved. The MO was satisfied that the matter had been resolved locally and the complainant was duly advised of the outcome.

Member Training

- 3.6 The Grant Thornton Governance training session detailed in the last MO's report took place at Redditch Borough Council on 11th October 2016. A number of councillors attended the session, including councillors from Worcester City Council, Wychavon District Council and Worcestershire County Council. The training looked at what Governance meant in practice, together with principles/examples of both good and poor governance.
- 3.7 A short course on finance for councillors was held on 3rd November 2016 and was attended by 11 councillors. The purpose of this event was to raise Members' awareness and help build confidence when considering budget information and making financial decisions. It covered the following aspects:
- To outline the scale of reductions in government spending on local government and the reasons for this;
 - To explain where the money comes from to fund the Council and what it is spent on;

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**2nd February 2017

- To explore the Council's current and future financial position;
- To explain the Council's quarterly budget monitoring reports; and
- To consider how those budget monitoring reports might be improved.

Feedback about the course has been very positive.

- 3.8 Plans for future training include Personal Health and Safety for Councillors and Social Media.

Customer / Equalities and Diversity Implications

- 3.9 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 Member complaints process are available on the Council's website and 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.

5. APPENDICES

None

6. BACKGROUND PAPERS

Chapter 7 of the Localism Act 2011.

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

Confidential complaint correspondence.

AUTHOR OF REPORT

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AUDIT, GOVERNANCE AND STANDARDS COMMITTEE 2nd FEBRUARY 2017

GRANT THORNTON UPDATE – FEBRUARY 2017

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

- 1.1 To update members on Grant Thornton progress on the Audit and on general issues and developments that may impact on the Council in the future.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note updates as included on Appendix 1.**

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. There are no concerns raised by the auditors in their initial work. In addition the appendix includes updates and links to National Issues and Grant Thornton Publications in relation to issues that are relevant to Local Government at the current time.

- 3.4 These include

- Delivering Good Governance
- National Audit Office Reports
- LGA issues and developments
- Apprentice Levy

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE 2nd FEBRUARY 2017

- Brexit

3.5 Officers are continuing to work with the auditors to ensure the Council meets its statutory financial obligations.

Customer / Equalities and Diversity Implications

3.7 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – February 2017 Grant Thornton Report

AUTHOR OF REPORT

Name: Jayne Pickering
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Audit, Governance & Standards Committee Redditch Borough Council Progress Report and Update Year ended 31 March 2017

January 2017

Richard Percival

Engagement Lead

T 0121 232 5434

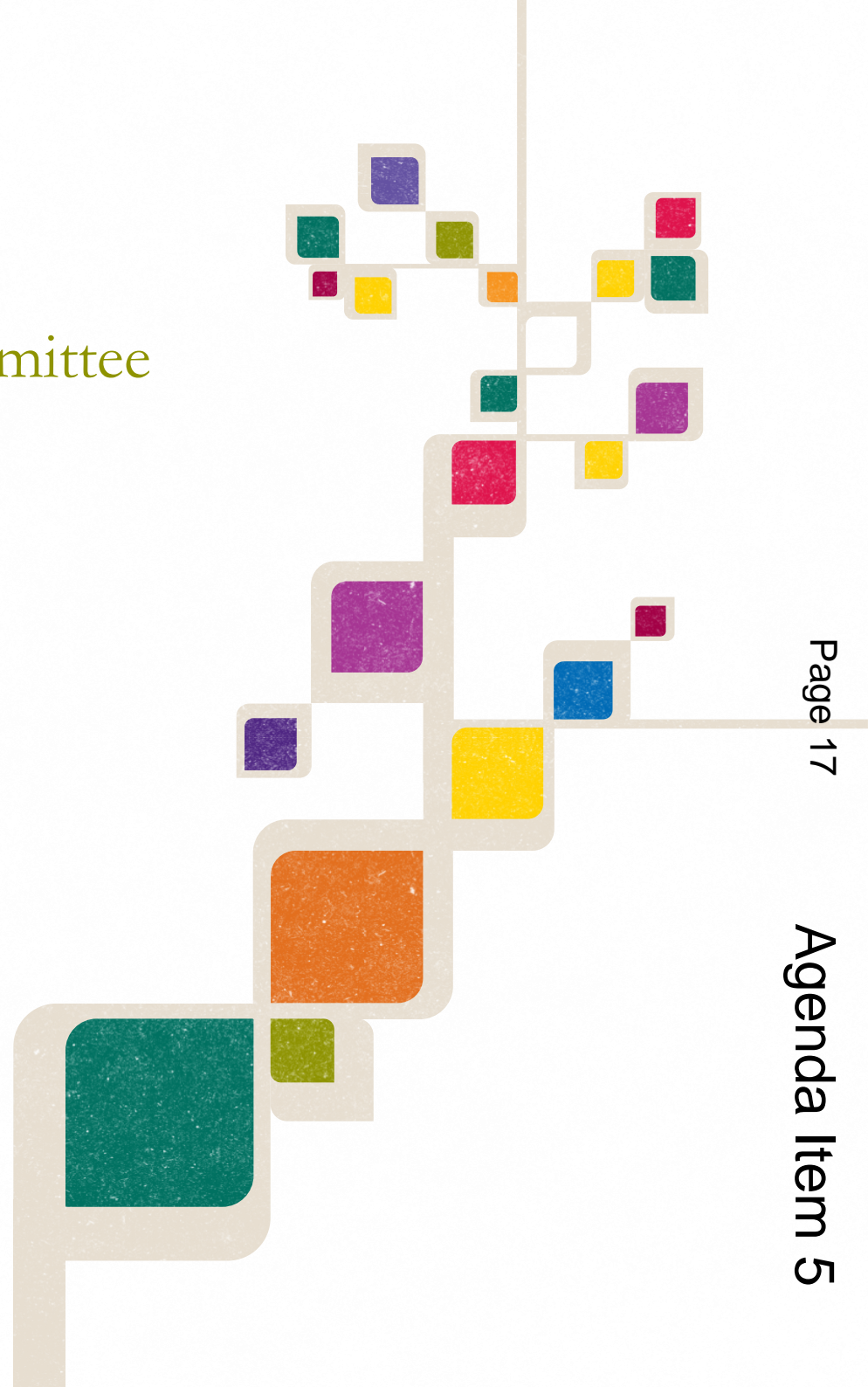
E richard.d.percival@uk.gt.com

Neil Preece

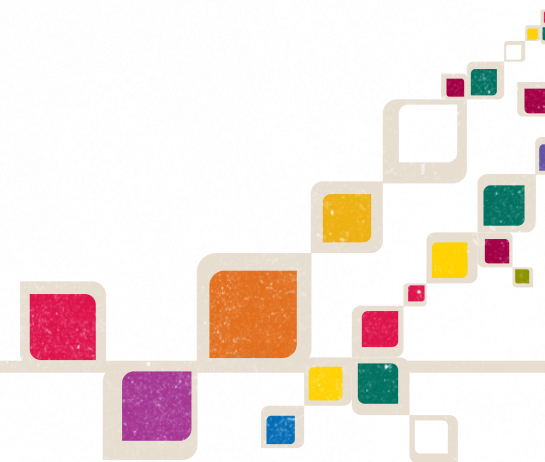
Manager

T 0121 232 5292

E neil.a.preece@uk.gt.com



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.



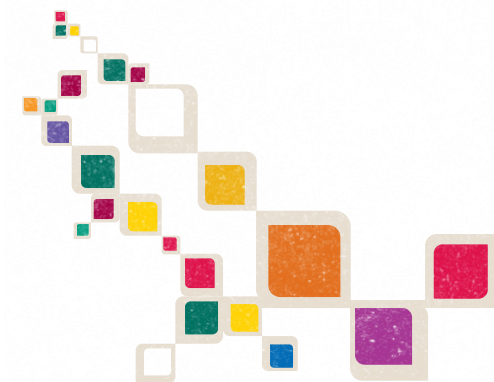
Introduction

This paper provides the Audit, Governance & Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

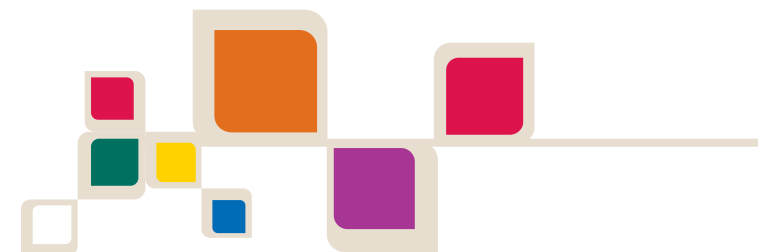
Members of the Audit, Governance & Standards Committee can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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 Engagement Manager.

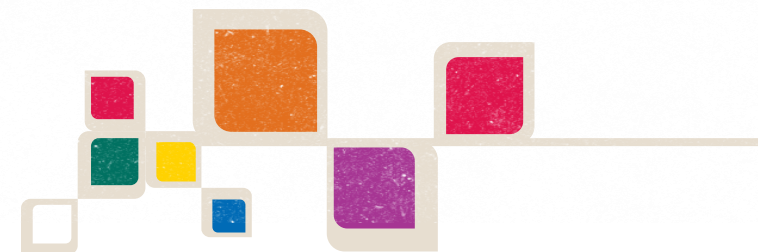


Progress at January 2017



2016/17 work	Planned Date	Complete?	Comments
Fee Letter We were required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	Yes	We issued our fee letter on 4 April 2016. This included the scale fee of £57,960 set by PSAA. This is the same fee as 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 the Council's 2016-17 financial statements.	April 2017	No	We will present our Audit Plan to the Audit, Governance & Standards Committee meeting on 27 April. This will explain the scope of our audit, the risks we have identified and our planned response to those risks.
Interim accounts audit Our interim fieldwork visit plan includes: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	March 2017	No	We are carrying joint interim visits covering both the Redditch BC and Bromsgrove DC audits deploying one audit team. We have carried out some initial planning work in January, and will complete our interim audit work in March. We have agreed the dates of our visits with Officers.
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 	July / August 2017	No	<p>Although we saw improvements in accounts production last year further improvements are needed to ensure that the accounts audit can be delivered by 31 July in 2018. We are working with officers to support these improvements, in particular ensuring that the standard and delivery of working papers is further improved.</p> <p>We will undertake our audit work from mid July to mid August, and have agreed the dates of our visit with Officers.</p>

Progress at January 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	January to March	No	<p>We issued a qualified VfM Conclusion in 2015/16 due to weaknesses in financial reporting and financial planning. We also concluded that there was a failure in governance arrangements.</p> <p>Our 2016/17 VfM work will focus on the improvements made in financial reporting and planning. We will also consider the effectiveness of performance management.</p> <p>We will complete our VfM Conclusion work by 31 March.</p>
<p>Other areas of work</p> <p>Meetings with Members, Officers and others.</p>	Ongoing	N/A	<p>We continue to have regular meetings with the Chief Executive and Director of Finance and Performance.</p>

Technical Matters



Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Sector issues and developments



National Audit Office reports

Below is a selection of reports issued during 2016 which may be of interest to Audit, Governance & Standards Committee members. Please see the website for all reports issued by the NAO.



Overview: Local government

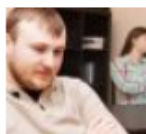
This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Local Government Association

Below is a selection of reports issued recently which may be of interest to Audit, Governance & Standards committee members. These are available on the website:

<http://www.local.gov.uk/publications>



Provisional LG Finance Settlement for 2017/18

12 January 2017

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>

A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business.

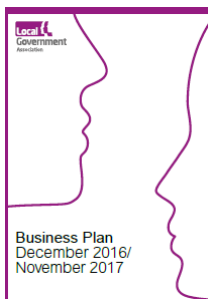


Building our homes, communities and future: The LGA housing commission final report

22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.





Business Plan December 2016/November 2017

30 December 2016

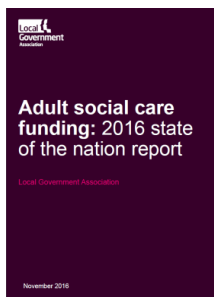
Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



Stronger together: shared management in local government

29 November 2016

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned.



Adult social care funding: 2016 state of the nation report

2 November 2016

Adult social care is an absolutely vital public service that supports some of our most vulnerable people and promotes the wellbeing and independence of many more.

Grant Thornton



Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors. Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Grant Thornton update

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Planning can help organisations reduce the impact of Brexit

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States.

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

The UK wants a 'bespoke deal'. Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

The Chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Grant Thornton update

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate>

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.



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REDDITCH BOROUGH COUNCIL**AUDIT STANDARDS & GOVERNANCE
COMMITTEE**2nd FEBRUARY 2017**GRANT THORNTON ANNUAL AUDIT LETTER 2015/16 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

- 1.1 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 2016.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note the Audit Letter as included on Appendix 1.**

3. KEY ISSUES**Financial Implications**

- 3.1 The Grant Thornton fee for the 2014/15 audit is £68k. Any proposed additional work by Grant Thornton that results in an extra cost, has to be agreed with the Public Sector Audit Appointments (PSAA) and the Council.

Legal Implications

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

Service/Operational Implications

- 3.3 The Annual Audit Letter 2015/16 from Grant Thornton details their findings and recommendations as a result of the work undertaken as part of the final accounts for 2015/16. This includes; Financial Statements and Value for Money Judgement.
- 3.4 Unqualified opinions were given for the accounts, however, as members are aware a qualified opinion was given on the Value for Money Judgement. This was due to the Auditors assessment that there

AUDIT STANDARDS & GOVERNANCE COMMITTEE

2nd FEBRUARY 2017

were still improvements to be made around budget development and financial monitoring reporting. The actions that have been put in place for 2016/17, as detailed in the appendix to the Audit Letter aim to address the issues raised.

- 3.5 Officers will continue to work with both Internal and External Audit to ensure the recommendations are implemented as reported.

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

- 4.1 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

AUTHOR OF REPORT

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Tel: (01527) 881207

The Annual Audit Letter for Redditch Borough Council

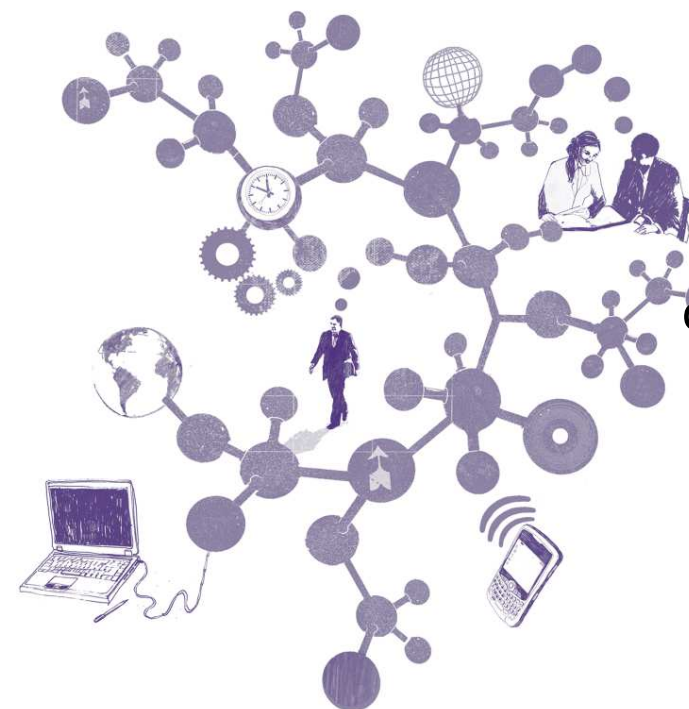
Year ended 31 March 2016

October 2016

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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Other statutory powers and duties	10
4. Value for Money conclusion	13
5. Working with the Council	16
Appendices	
A Reports issued and fees	
B Action Plan	

Executive summary

Purpose of this letter

Our Annual Audit Letter (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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2016.

Other Statutory Powers

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16. We have however considered the Council's response to the statutory recommendations we issued in 2014/15.

At the end of our 2014/15 audit we issued statutory recommendations requiring the Council to improve its:

- arrangements for the production of its financial statements;
- arrangements for the preparation of its budget; and
- its budget monitoring processes.

Although we have not issued statutory recommendations this year, we have qualified our value for money conclusion on matters relating to progress in implementing these recommendations.

The key actions we expect the Council to take to address our recommendations are:

- improve financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.
- ensure that the financial statements are adequately supported with working papers and audit queries are responded to promptly
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically making clear the impact of proposals on the level of reserves and balances
- improve the clarity and consistency of in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and being taken to address budget variances are reported are clearly quantified.

Value for Money

We issued a qualified 'except for' value for money conclusion on 28 September 2016. We concluded that there are weaknesses in the Council's arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions

We also concluded that there is a failure in governance arrangements as these issues are due our 2014/15 statutory recommendations not being fully implemented.

Certificate

We certified that we had completed the audit of the accounts of Redditch Borough Council in accordance with the requirements of the Code on 19 October 2016, on completion of the Council's Whole of Government Accounts submission.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff, in particular the Director of Finance and Resources and her team.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £971,000 which is 1.5 per cent of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors remuneration. We did not set a separate materiality threshold, but undertook more extensive testing on these areas.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Redditch Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We identified one issue in relation to long term debtors. The Councils has a number of long term debtors where they have a legal charge on a property totalling £659k We selected a sample of 9 for testing and found:</p> <ul style="list-style-type: none">• 3 loans (£23k) where no supporting evidence of the charge could be located• 1 loan where the carrying amount (£18k) as different to the supporting evidence (£24.5k) <p>We included a recommendation that the Council review its record keeping in this area</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our work has included</p> <ul style="list-style-type: none">• review of entity controls• testing of journal entries• review of accounting estimates, judgements and decisions made by management• review of unusual significant transactions. <p>Our audit work did not identify any issues in respect of journals. However our testing of journals did take a considerable time. This is because the Council struggled to produce reports with the required information. This is in part due to the overly complex ledger structure and we have included a recommendation on this.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
Accounting for recharged income and expenditure During the 2014/15 financial statement audit we identified material amendments to the CIES and Segmental Reporting note in relation to the Councils treatment of recharged. We have concluded that there is a potential risk of material misstatement in the 2015/16 accounts if similar errors are made.	<p>We have</p> <ul style="list-style-type: none">• had early discussion with finance team on their proposed treatment of recharges• undertaken detailed review of the recharges included in the financial statements including the controls in place to ensure that they are materially correct and comply with the accounting treatment required by the CIPFA Accounting Code. <p>We undertook an early review of the finance team's proposal for segmental reporting (financial statements note 27). On receipt of the financial statement we found that the note had been amended and a clear audit trail was not kept of the changes. Further changes were made to the note as a result of our audit.</p>
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>We have completed the following:</p> <ul style="list-style-type: none">• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.• Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements.• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work did not identify any issues in respect of the valuation and disclosure of the pension fund net liability.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
Production of the 2015/16 financial statements Due to the issues identified in the audit of the 2014/15 financial statements we issued statutory recommendations to strengthen the production process for 2015/16.	<p>We have</p> <ul style="list-style-type: none">• examined the accounts closedown process and the controls in place to ensure materially accurate accounts are produced• had regular and early discussions with the finance team on the key accounting issues such as the IFRS 13 requirements for valuation of assets and the classification of investment properties <p>The draft accounts were submitted by the 30th June 2016 deadline.</p> <p>The quality and timeliness of the working papers supporting the accounts was better than the previous year. There are, however, areas that continue to be problematic specifically</p> <p>a full set of working papers was not available at the start of the audit and when provided did not always clearly link to the relevant amounts in the financial statements.</p> <p>audit queries were not resolved in an efficient and timely way to support the delivery of the audit.</p> <p>The Council needs to ensure further improvements are made so that it can meet the earlier closedown and audit timetables in 2018.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

In previous years we have commented on the qualitative aspects of the Trusts financial statement production, in particular the number of errors and delays in and the quality of working papers. We issued statutory recommendations at the conclusion of our 2014/15 audit which included improving arrangements for the production of the accounts.

Revised arrangements were put in place by the Executive Director of Finance and Resources for 2015/16 to improve the quality of the financial statements and supporting working papers. These arrangements ensured the accounts were submitted on the 30 June 2016 deadline.

There were improvements in the quality of the financial statements and supporting working papers, but further work is needed in this area, specifically:

- working papers to support entries in the accounts must be available at the start of the audit and clearly link to the item in the financial statements.
- audit queries need to be resolved in an efficient and timely way to support the delivery of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Governance and Standards Committee on 22 September 2016. We identified a number of issues during our audit that we have asked the Council's management to address for the next financial year. We have included the recommendations from our AFR as an appendix to this letter.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

We felt that the significant governance issues were not adequately explained in the draft version of the Council's Annual Governance Statement. We agreed with the Executive Director of Finance and Resources that amendments would be made to give more information regarding the responses to our statutory recommendations.

Other statutory powers and duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16.

At the end of the 2014/15 audit we issued four statutory recommendations. These were:

- 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.
- The Council should develop a comprehensive project plan for the preparation of the accounts
- The Council should put in place robust arrangements for the preparation of its budget
- 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

We have issued a qualified value for money conclusion on matters relating to progress on implementing two of these recommendations.

The key actions we expect the Council to take to fully address our statutory recommendations are:

- improve financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.
- ensure that the financial statements are adequately supported with working papers and audit queries are responded to promptly
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically making clear the impact of proposals on the level of reserves and balances
- improve the clarity and consistency of in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and being taken to address budget variances are reported are clearly quantified.

Further details are set out on the following pages.

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance. In 2014/15 we issued 4 recommendations under section 11 (3) of the Audit Commission Act 1998 to which we required a formal response. Those responses and our assessment are below

	Recommendation	Follow up
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. <p>In order to achieve this the Council should:</p> <ul style="list-style-type: none"> - ensure sufficient resources and specialist skills are available to support the accounts production - introduce appropriate project management skills to the production of the financial Statements. 	<p>We found that the Council had put in place arrangements for the production of its financial statements which met the statutory deadlines and international financial reporting standards. The arrangements in place included</p> <ul style="list-style-type: none"> • A detailed project plan subject to review by the Executive Director of Finance and Resources • Specific in house training from CIPFA and attendance at a number of external events • Additional experienced external was brought in to support the finance team <p>Whilst this is an improvement given the issue identified in the prior year the Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.</p>
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 Board. 	<p>We found that the Council had developed a detailed project plan that ensured that the financial statements were compiled directly from the ledger. However:</p> <ul style="list-style-type: none"> • Entries in the financial statements were not adequately supported by working papers and not all working papers were available at the start of the audit. • Audit queries were not dealt with in an efficient and timely way to support the delivery of the audit. <p>The Council needs to ensure that further improvements are made and plans are developed to meet the new deadlines in place from 2018.</p>

Other statutory powers and duties

	Recommendation	Follow up
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	<p>The Council has put in place improved arrangements for setting its annual budget. These include</p> <ul style="list-style-type: none"> • Detailed 'bid' forms for every capital and revenue pressure, linked to the strategic purposes • Template forms for savings/additional income to identify where growth could be made • Use of planning information in relation to new homes bonus and council tax • A review of fees and charges. <p>There are also changes in progress for the 2017/18 budget setting.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the MTFS is unclear and difficult to interpret and does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions.</p>
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.	We found that Council has good arrangements at an officer level to manage the budgets. However the in year reporting to Members is inconsistent and difficult to follow. We have concluded that there are weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed recommendations to address our findings. These are contained in appendix B.

Overall VfM conclusion

We have therefore concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions
- governance arrangements due to insufficient progress in fully implementing our financial reporting statutory recommendations.

We are satisfied that, in all significant respects, except for the matter we identified above, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusions
<p>Financial Outturn</p> <p>We identified during 2014/15 that the outturn position resulted in a large increase in the General fund balances which was not planned when the budget was set. It is not clear from the Council's management processes how this had been achieved.</p> <p>NAO Criteria: Reliable and timely financial reporting that supports the delivery of strategic purposes</p>	<p>We found that Council has good arrangements at an officer level to manage the budgets but in year reporting to Members is inconsistent and difficult to follow. We have therefore concluded that there are weaknesses in the Council's arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p> <p>The 2015/16 outturn position presented to Executive in July 2016 shows an underspend of £1.031 million against a revised budget of £15.874 million. However this performance does not explain significant movements in the budget during the year making it unclear how this outturn performance has been achieved. The agreed budget for 2015/16 was £11.126 million and members were not provided with an explanation for changes to the budget and the forecast spend during the year.</p>
<p>MTFS and budget setting</p> <p>We identified during the 2014/15 audit that the budget preparation processes could be strengthened and should be 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> <p>NAO Criteria: Planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions</p>	<p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decisions. The impact of the MTFS on reserves and balances is unclear and difficult to interpret. We have concluded that it does not enable Members to make decision to support the sustainable delivery of the Council's strategic purposes and maintain statutory functions.</p> <p>The 2016/17 budget presented to Cabinet on 22 February 2016 showed a breakeven position. It assumes savings delivery of £654,000. However the breakdown included in the appendices totals £619,000. The 2017/18 and 2018/19 budgets include further savings. The 2016/17 budget also includes the planned use of £479,000 of balances but no further analysis is provided of this or of the impact of the 2017/18 and 2018/19 budgets on reserves and balances.</p> <p>The Council has a number of options available and is considering further savings plans as part of the production of its Efficiency Plan in October 2016. Given the scale of the challenge the Council faces in 2017/18 and 2018/19 it will need to review the range and nature of non essential services and the level of balances it holds to ensure it can continue to deliver strategic priorities and maintain statutory functions.</p>

Key findings

Significant risk	Findings and conclusions
<p>Corporate plan and monitoring of service performance</p> <p>The corporate plan was last updated in July 2013 and therefore may not address the current strategic purposes of the Council. There is also currently no performance management information routinely reported (other than around customer services which is reported to audit committee). It is not possible to assess the impact of service changes or savings on service quality or priorities as there is no reporting.</p> <p>NAO criteria: Understanding and using appropriate cost and performance information to support informed decision making and performance management</p>	<p>We have concluded that the arrangements in place are sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management.</p> <p>The Corporate Plan was plan last updated in 2013. The six strategic purposes in this document are clearly still in use by the Council. The Corporate Plan has been refreshed and presented to Executive on 7th September 2016 but the strategic purposes remain the same.</p> <p>Since January 2016 officers within the Council have utilised a corporate dashboard to monitor performance management information. The dashboard contains a range of performance indicators that have been developed by departments to support delivery of strategic purposes. The indicators are a combination of service performance and statutory targets and each indicator has a target owner responsible for providing commentary on performance. Six Members are currently trialling access to the dashboard with the intention of rolling out access to all Members . The Overview and Scrutiny Committees will then be able to hold senior officers to account for service performance.</p> <p>There are currently no plans to produce a summary document for consideration by Executive or full Council. Whilst internally (officers and members) will have access to the performance information thought should be given to how to express service performance to the wider public and stakeholders.</p>

Working with the Council

Our work with you in 2015/16

We have worked with you over the past year and maintained a positive and constructive relationship. We have helped you deliver some improved outcomes.

Audit efficiency – Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team has enabled us to support the improvements that have been made so far and we have given you clear and honest feedback on the further improvements you need to make.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We made comments to improve the internal controls around shared services invoice, ledger structure and receipt of invoices.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for

- continued progress on the financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.
- improvements to the reporting of the annual budget and MTFS to Members, specifically to include the impact on reserves and balances
- improvements to the clarity and consistency of the in year reporting of the budget to enable accurate forecasts to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances

Sharing our insight – we provided regular Audit, Governance and Standards committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work and Reforging local government

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your teams with training on financial accounts and annual reporting and housing benefits. The courses were attended by member of the finance and benefits teams.

Working with you in 2016/17

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

We will continue to work with the finance team to improve the efficiency of the year end audit and also share our insights on advanced closure of local authority accounts, through our publication "Transforming the financial reporting of local authority accounts".

We will continue to share our insights into best practice and provide training and support.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	57,960	57,960	83,730
Housing Benefit Grant Certification	10,529	TBC*	13,720
Total fees (excluding VAT)	57,440	TBC	67,890

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	0

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

*Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The deadline for completion of this work is the end of November 2016

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Appendix B: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should improve financial statements production to ensure it can meet the earlier closedown and audit timetable in 2018.	High	<p>Officers are currently preparing the closedown timetable for 2016/17 closure of accounts with the aim to finalise the accounts earlier in 2017 in readiness for the 2018 new deadline. This will be shared with the Audit team as soon as possible.</p> <p>A regular monthly meeting with all the finance staff is held to discuss issues from 2015/16 that can be improved for 2017/18 .</p> <p>Finance representatives will be arranging involvement at departmental management team meetings to ensure that all officers are aware of responsibilities in providing accurate and timely information to the finance team.</p> <p>A presentation will be made to the 4th tier manager forum in relation to the early closedown and how this will impact on information required.</p>	<p>Z Martin December 2016</p> <p>Z Martin October 2016</p> <p>S Morgan December 2016</p> <p>S Morgan December 2016</p>

Appendix B: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
2	The Council should ensure that the financial statements are adequately supported with working papers and audit queries are responded to promptly	High	<p>Within the timetable will be dates for completion of working papers to be prepared in a format that is of a good quality.</p> <p>Staffing resource will be identified at the start of the Audit to ensure that officers are available to respond to queries in a timely manner.</p>	<p>Z Martin December 2016</p> <p>S Morgan April 2017</p>
3	The Council should improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically making clear the impact of proposals on the level of reserves and balances	High	<p>Officers are currently working on the Medium Term Financial Plan for 2017/18-2020/21 and this will include improvements to the reporting to members to improve clarity.</p> <p>Officers will discuss format with External Audit to ensure it is appropriate.</p> <p>The cross party member budget scrutiny group will be presented with the revised format to ensure this meets with member expectations.</p>	<p>J Pickering February 2017</p> <p>J Pickering January 2017</p> <p>J Pickering October 2016</p>
4	The Council should improve the clarity and consistency of in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and being taken to address budget variances are reported are clearly quantified.	High	<p>Officers have revised the in year budget monitoring for members to ensure the report is clearly linked back to the original budget.</p> <p>Heads of Service are requested to include clear explanations of budget variances within the report</p>	<p>K Godley September 2016</p> <p>K Godley September 2016</p>



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**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

**TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT
STRATEGY 2017-18 TO 2019-20**

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.

- 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.”

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

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.

Service/Operational Issues

3.9 None as a direct result of this report.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**2nd February 2017

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:

- 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 2017/18

Appendix 2 – Treasury Management Policy Statement

AUTHOR OF REPORT

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AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

Appendix 1

Treasury Management Strategy Statement And Investment Strategy 2017/18

1. Introduction

- 1.1 On 17th March 2010 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. A copy of the Authority's Treasury Management Policy Statement is in Appendix 2.
- 1.2 The purpose of this TMSS is, therefore, to approve:
- Treasury Management Strategy for 2017/18
 - Annual Investment Strategy for 2017/18
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20
 - MRP Statement.
- 1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4 The Authority has borrowed substantial sums of money, primarily for the HRA subsidy settlement in 2012, and from time to time has surplus operational cash balances and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 1.5 in accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumption on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

External Context

1.6 Economic background: The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook:

1.7 Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

2. Background - Local Context

The Authority currently has £104m of borrowing this is all long-term debt and £7m in short-term investments. Details of debt are shown in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding minimum working capital of £2m.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £112m over the forecast period.

2.1 Table 1: Balance Sheet Summary and Forecast

	31.3.2016 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £'000	31.3.19 Estimate £'000	31.3.20 Estimate £'000

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

General Fund CFR	20.35	21.58	23.48	24.57	25.67
HRA CFR	117.46	117.46	117.46	117.46	117.46
Total Capital Financing Requirement	137.81	139.04	140.94	142.03	143.13
Less external borrowing**	-108.93	-108.30	-110.20	-111.29	-112.39
Internal borrowing					
Less: Usable reserves	-27.02	-24.92	-24.92	-24.92	-24.92
Less: Working capital	-1.86	-5.82	-5.82	-5.82	-5.82
Investments (or new borrowings)	-	-	-	-	-

** Includes £98.9m borrowing undertaken in March 2012 for the HRA subsidy reform settlement.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2016/17.

3. Interest Rate Forecast

3.1 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

3.2 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 3.5%, and that new long-term loans will be borrowed at an average rate of 0.25%.

4 Borrowing Strategy

4.1 The Authority currently has £109m of long-term borrowing; the level of long-term borrowing is unchanged from 31st March 2016.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

- 4.2 The balance sheet forecast in table 1 shows that the Authority is likely to have a borrowing requirement in 2017/18 of £110m. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the Authorised Limit for borrowing of £140 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. 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 and flexibility.

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 but without compromising flexibility.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below in Table 2)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Worcestershire County Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities, for example operating and finance leases, hire purchase.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

The Council's treasury advisor, Arlingclose Ltd, will assist the Authority with this 'cost of carry' and breakeven analysis.

Short-term and variable rate loans are subject to the limit to the net exposure to variable interest rates in the treasury management indicators in section 10 below.

- 4.3 **LOBOs:** The Authority holds a £5m of LOBO (Lender's Option Borrower's Option) loan where Barclays Bank, the lender, has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. This LOBO has semi-annual options during 2016/17, and although the Authority understands that the lender is unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £5m, i.e. no further LOBO loans will be borrowed.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium (i.e. an amount over and above the principal outstanding) or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, only if this is expected to lead to an overall cost saving or a reduction in risk.

The Authority's PWLB loans were borrowed at a one-off preferential rates for HRA self-financing settlement. At current interest rates (15/1/2017), a premium would be incurred on the if the Authority were to prematurely any

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

of the four PWLB loans; the premiums range between 11% and 21% of the outstanding loan principal.

5 Investment Objectives Strategy

Objectives: Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Strategy: Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes, where practicable, during 2017/18. All of the the Authority's surplus cash is currently invested in call accounts or term deposits with banks and building societies which, by their nature, are unsecured.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and the European Union. Australia and Switzerland are well advanced with their own plans. Meanwhile, changes which took place to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with the Authority making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

The Authority will also consider investment of surplus monies in pooled Money Market Funds which provide much greater diversification of credit risk as well as high liquidity (same-day access to the investment).

Over the past 24 months, invested funds have ranged between nil and £12 million; a similar pattern is expected in the forthcoming year.

The Authority may invest its surplus funds with any of the counterparties defined in Table 2 below, subject to the time and cash limits (per counterparty) shown below.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

Table 2: Approved Investment Counterparties

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£2m 5 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£2m 5 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£2m 5 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£2m 3 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£2m 2 years
A	£2m 13 months	£2m 2 years	£2m 5 years	£2m 2 years
A-	£2m 6 months	£2m 13 months	£2m 5 years	£2m 2 years
BBB+	£1m 100 days	£1.5m 6 months	£1m 2 years	£1m 1 year
BBB	£1m next day only	£1m 3 months	n/a	n/a
None	£1m 6 months	n/a	£3m 25 years	£500k 1 year
Pooled Funds	£2m per fund			

Investments in the categories outlined above are:

Banks Unsecured: call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

Banks Secured: covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are exempt from bail-in and are secured on the financial institution's assets, which limits the potential losses in the unlikely event of insolvency.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

Government: Investments with local authorities or guaranteed by national governments, investments with multilateral development banks. These are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Risk Assessment and Credit Ratings:

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used (for example the rating assigned to a secured investment), otherwise the counterparty credit rating is used.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If necessary, surplus monies will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For Money Market Funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. Such investments will be limited to those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

definition on high credit quality. The Authority will limit non-specified investments to £2 million in total.

Authority's Banker – The Authority's current accounts are held with Lloyds plc. The lowest long-term credit rating (as at 15/1/2016) for Lloyds Bank is 'A' (reference Table 2). Should the bank's credit rating be downgraded to BBB or BBB-, the Authority may continue to deposit surplus cash with Lloyds Bank plc providing that investment can be withdrawn on the next working day.

Table 3: Portfolio Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£2m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Unsecured investments with Building Societies	£2m in total
Money Market Funds	£7.5m in total

6. Policy on the use of Financial Derivatives

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.

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.

7. 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

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

to the relevant pool, whether it be General Fund or HRA and interest and costs charged/credited to the respective revenue account. 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.

8. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months*	0%	15%*
12 months and within 24 months	0%	15%
24 months and within 5 years	0%	35%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

*Note: In accordance with CIPFA's guidelines, LOBO option dates are treated as potential repayment dates. The Council's £5m LOBO has 6-monthly option dates and is included within the 'Under 12 months' band above.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£2m	£2m	£2m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments will be assigned a score based on their perceived risk.

	Target
Portfolio average credit score	6, which is equivalent to a credit rating of 'A'

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£3m

9. Annual Minimum Revenue Provision Statement 2017/18 (MRP)

- 9.1 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

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

- 9.2 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.
- 9.3 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.
- 9.4 MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal annuity with an annual interest rate of 4% starting in the year after the asset becomes operational. This is a change from previous years, where MRP was charged in equal instalments over the useful life. This change has come about in order to recognise the time value of money, resulting in less charge in early years, rising as time goes on.

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. (*This is Option 3 as per the Guidance for England and Wales*).

- 9.5 No MRP will be charged in respect of assets held within the Housing Revenue Account.
- 9.6 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.
- 9.7 Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2017 Estimated CFR	18/19 Estimated MRP

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

	£'000	£'000
General Fund assets	34,242	931
Assets in the Housing Revenue Account	217,000	Nil
HRA subsidy reform payment	-98,929	Nil
Total Housing Revenue Account	118,071	Nil
Total	141,538	931

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

10.1 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.

11. Other Items

11.1 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.

11.2 The Authority has appointed Arlingclose Limited as treasury management advisers; receiving specific advice on investment, debt and capital finance issues.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

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.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the Budget report.

Capital Expenditure and Financing	2016/17 Revised £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s
General Fund	4,293	2,251	3,044	2,248
HRA	10,617	8,271	8,271	8,271
Total Expenditure	14,910	10,522	11,315	10,519
Capital Receipts	-	(500)	(500)	(500)
Government Grants	(743)	(521)	(649)	(649)
Reserves	(10,436)	(7,217)	(7,196)	(7,175)
Revenue	(419)	(1,050)	(1,071)	(1,092)
Borrowing	(3,064)	(1,234)	(1,899)	(1,103)
Total Financing	(14,910)	(10,522)	(11,315)	(10,519)

2. 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.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

Capital Financing Requirement	16/17 Revised £'000	31.03.17 Estimate £'000	31.03.18 Estimate £'000	31.03.19 Estimate £'000
General Fund	20,350	21,580	23,480	24,570
HRA	117,460	117,460	117,460	117,460
Total CFR	137,810	139,040	140,940	142,030

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Revised £000s	31.03.17 Estimate £000s	31.03.18 Estimate £000s	31.03.19 Estimate £000s
Borrowing	120,600	122,800	123,890	124,990
Total Debt	120,600	122,800	123,890	124,990

Total debt is expected to remain below the CFR during the forecast period.

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 31/03/2016	£'000
Borrowing	108,000
Other Long-term Liabilities	-
Total	108,000

6. Authorised Limit and Operational Boundary for External Debt

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

- 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). This limit includes all HRA debt, including that borrowing taken for HRA self-financing in 2012.

Authorised Limit for External Debt	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	140,000	140,000	140,000
Other Long-term Liabilities	0	0	0
Total	140,000	140,000	140,000

- 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

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option 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	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	120,000	120,000	125,000	125,000
Other Long-term Liabilities	0	0	0	0
Total	120,000	120,000	125,000	125,000

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	13.07	16.46	19.39	19.58
HRA	11.55	11.55	11.94	12.29

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

Incremental Impact of Capital Investment Decisions	2017/ Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	5.00	5.00	5.00
HRA - decrease in average weekly rents	(0.81)	(0.79)	(0.78)

Adoption of the CIPFA Code of Practice: The indicator below 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 and the updated 2011 Treasury Management Code at 15 th January 2017.

The Council has incorporated the changes from the revised 2011 CIPFA Code of Practice into its treasury policies, procedures and practices.

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**2nd February 2017

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."

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

- 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.

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND STANDARDS
COMMITTEE**2nd February 2017**COMPLIANCE TEAM UPDATE**

Relevant Portfolio Holder	Councillor John Fisher, Portfolio Holder for Corporate Management
Portfolio Holder Consulted	√
Relevant Head of Service	Amanda de Warr, Head of Customer Access and Financial Support
Wards Affected	All Wards

1. SUMMARY OF PROPOSALS

This report provides an update on the work of the compliance team following the transfer of benefits fraud to the DWP Single Fraud Investigation Service in February 2016.

2. RECOMMENDATIONS

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

3. KEY ISSUES

- 3.1 In February 2016 responsibility for benefits fraud investigations transferred to DWP.
- 3.2 Various duties remained with the team at this time such as
- Investigation of Council Tax Support claims
 - Compliance / Verification of HB claims
 - HBMS referrals
 - National Fraud Initiative (NFI) data matching
 - Police requests for information / liaison
 - Support to DWP in respect of Housing Benefit fraud cases.
- 3.3 We took this as an opportunity to develop work in relation to wider non compliance issues around Council Tax and Business Rates.

Financial Implications

- 3.4 The work of the team has resulted in increased income as follows.
- 3.5 New Homes Bonus of approximately £76.5k for 1 year, and £306k payable over 4 years.
- 3.6 £144k in incorrectly claimed Council Tax discounts which we are in the process of recovering.

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND STANDARDS
COMMITTEE**2nd February 2017

- 3.7 7 properties missing off the Council Tax data base with a minimum return of £6k if the properties were to be banded at band A.
- 3.8 £11k in overpaid Housing Benefit.
- 3.9 £14k in overpaid Council Tax Support.
- 3.10 Housing Benefit Matching Service (HBMS) work managed by the compliance team resulted in the identification of overpayments of the following:

Housing Benefit:	£92.5k
Council Tax Support:	£17.5k

- 3.11 As a result of the work to date we have been able to evidence financial benefits to the other major preceptor, who receive the majority of the Council Tax collected. Officers are currently working with County colleagues to agree funding to enable enhancement of the compliance work.

Legal Implications

- 3.12 There are no specific legal implications.

Service/Operational Implications

- 3.13 Long Term Empty Properties
The work of the team has resulted in a net reduction in long term empty properties of 130. This results in a net gain of New Homes Bonus. Under the new criteria, reducing the number of long term empty properties in Redditch resulted in New Homes Bonus of approximately £76.5k for 1 year, and £306k payable over 4 years.
- 3.14 Council Tax Discounts & Exemptions
The team has identified £143,344 in incorrectly claimed Council Tax discounts and exemptions. The team are currently working with the Revenues department to implement procedures to reduce fraud and error within the discounts and exemptions.
- 3.15 Council Tax missing properties
The team identified 7 missing properties. One of these properties has been processed by the Valuation Office, and the banding of the property equates to £1,048 per annum. The remaining 6 properties are in the process of being valued and will appear in next year's figures.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

2nd February 2017

3.16 Proactive Housing Benefit work

As a result of proactive Housing Benefit case reviews, we have identified £11k in overpaid Housing Benefit. The overpayments are due to information not being provided at the time of a change in circumstances and the case reviews would not have been possible without the resources and expertise of the Compliance Team.

3.17 Proactive Council Tax Support work

As a result of proactive Council Tax Support case reviews, we have identified £14k in overpaid Council Tax Support. Again, these overpayments have occurred where changes in circumstances could not have been identified by the team without proactive work by the team.

3.18 Business Rates

Currently, the team are in training in order to identify missing or incorrectly rated premises.

Customer / Equalities and Diversity Implications

- 3.19 Identification of overpayments, or incorrectly claimed discounts and exemptions and the subsequent work to recover these debts can result in financial hardship, therefore consideration is given to this when agreeing repayment plans. Where additional support, such as money management advice, is provided where relevant.

4. **RISK MANAGEMENT**

The work of the team is to reduce the risk of lost income to the authority. The results to date show that this work is both necessary and rewarding.

5. **APPENDICES**

None

6. **BACKGROUND PAPERS**

None

AUTHOR OF REPORT

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Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

**THE INTERNAL AUDIT PROGRESS REPORT OF THE HEAD OF INTERNAL
AUDIT SHARED SERVICE; 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 progress report of internal audit work with regard to 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”.

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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 2016 to 31st December 2016 against the performance indicators agreed for the service and further information on other aspects of the service delivery.

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (22nd September 2016):

2016/17 AUDIT SUMMARY UPDATES:

Rent Verification

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

- Procedural documents are available to all staff.
- Clear rent statements are provided by staff regularly, identifying payments and charges that have been associated with the tenant account.
- The process for the timely processing of refund requests and accurate refunding of account credits is working effectively.
- Accurate and timely reconciling of payments and general ledger postings.
- Suitable access controls over the Rents and Payments systems.

The review found the following area of the system where control could be strengthened:

- Refund payment Authorisation

Type of audit: Full system audit

Assurance: Significant

Report issued: 12th September 2016

Charity Fund Accounts

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

- The accounting for charitable fund income and expenditure.
- Managing the use of charitable funds in accordance with Council requirements and the terms of the funding arrangements

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

- Regular monitoring and reporting of actions taken with regards to the charitable funds.
- Expenditure relating to the Mayor's charity is in accordance with the purpose of the fund, and in accordance with Council procedures.
- The payment to charitable bodies in accordance with the defined purpose of the fund.

The review found the following area of the system where control could be strengthened:

- Security of cash collections to minimise the potential risk to collecting officers.

There were no 'high' or 'medium' priority recommendations.

Type of audit: Full system audit

Assurance: Significant

Report issued: 25th October 2016

One Stop Shops – Reception Service

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

- Locality, contact details and opening hours were published in different formats and accessibility methods.
- Ensuring adequate resources were available to deal with the types and volumes of customer enquiries.
- Customer transactions were handled professionally, efficiently and as promptly as possible.
- Staff knowledge and access to information to aid with the customers was consistent and effective.
- Services were working well with the team and required information was being passed between the services.
- There was a strong awareness of Data Protection and only taking information where required.
- Generally safety systems and procedures were all in place and updated annually or sooner if required.
- Management team were analysing information gained and acting where they could to make improvements for the service.
- Customer complaints were being acted upon and lessons learnt where appropriate.
- Feedback was being gained where required and consideration of more customer response was being looked at for the future.

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

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

- Recording and maintenance of records of training.
- Staff awareness to facilities such as language line and the use of hearing loops.
- Formalising meetings between services.
- An update of email process with customers and a data cleanse of what is currently being stored.
- Safety measures in the neighbourhood offices and staff awareness.

Type of audit: Full system audit

Assurance: Significant

Report issued: 28th September 2016Treasury Management

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

- Investments and borrowings are in line with the Treasury Management Strategy and internal procedures.
- Money is being invested when not required and clear planning is being made when funds are required.
- Interest was being received and paid in a timely manner.
- There was a clear audit trail of transactions with appropriate authorisation.
- Clear separation of duties was demonstrated.
- Great improvements to the coding of transactions by cashiers.

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

- Formalising the quarterly reconciliation.
- Use of transaction document, specifically the confirmation box and if it's still required.

There were no 'high' or 'medium' priority recommendations.

Type of audit: Full system audit

Assurance: Significant

Report issued: 13th December 2016Debtors

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

- There has been strong movement forward in cleansing from the migration of systems
- Suspense account is being monitored and cleared on a regular basis

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

- The general provision of invoicing and reclaiming debt is working well.
- Write offs are being raised and authorised appropriately.
- Stop lists are being regularly monitored and reported back to the appropriate services
- Suppressions are being monitored
- There is regular and timely reporting back to the services.

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

- Ensuring notes are entered on the system to back up and give transactions meaning
- More descriptive recording of monitoring information

Type of audit: Full system audit

Assurance: Significant

Report issued: 13th December 2016

Freedom of Information

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

- The file management structure to store all requests and correspondence
- Where information was available or the customer needed signposting to another authority the request was dealt with quickly
- The templates used for the customer responses were very clear and explained well for the customer to understand where their request is at.
- The training given to the employees is strong and gives clear guidance what to do with both data protection and freedom of information.
- The information on the website well informs customers of what to do and access to the publication scheme.
- Information Management team are very knowledgeable with regards to the legislation surrounding Freedom of Information
- There is use of a purposeful spreadsheet to help monitor the requests.
- Procedure of complaints is clearly outlined to the customer and process is working well within the team.
- The reporting is kept up to date on the dashboard.

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

- Staff attending initial and refresher training.
- Inconsistent approach to chasing information from the departments.

Type of audit: Full system audit

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Assurance: Significant
Report issued: 24th October 2016

Cash Collection

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

- Daily cashing up practises
- Procedures and practise with regard to the safety and security of cash
- Cash and cheques being credited timely to the bank
- Customers were receiving an efficient transaction and a receipt at the end of their transaction.
- The cash receipting suspense account is being reviewed regularly and cleared where possible.
- Procedural controls were followed with regards to collection of cash by G4S
- Systems access reflects the position and requirements of the cashier for service delivery
- Monitoring was being carried out by the Team Leader.

The review found the following area of the system where control could be strengthened:

- Responsibility and security of safe keys.

Type of audit: Full system audit

Assurance: Significant

Report issued: 3rd January 2017

Summary of assurance levels:

2016/17	
Rent Verification	Significant
Charity Fund Accounts	Significant
One Stop Shop – Reception Service	Significant
Treasury Management	Significant
Debtors	Significant
Freedom of Information	Significant
Cash Collection	Significant

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

2016/17 AUDIT WORK WHICH WAS ONGOING AT THE END OF QUARTER 3:

Audits completed to draft report stage included:

- Bereavement Services
- Planning Enforcement
- Planning Applications and Fees
- Community Centres
- Insurance (Critical Review)

Audits that were continuing as at the 31st December 2016 included:

- Risk Management
- Post Contract Appraisals
- Creditors
- NDR
- Council Tax
- Benefits
- Payroll

The summary outcome of the above reviews will be reported to Committee in due course when they have been completed and management have confirmed an action plan.

The Post Contract Appraisal review was extended due to some initial review findings. This piece of work is currently being concluded and will be reported before Committee in due course. In regard to this review Senior Management Team has commissioned an additional piece of work which WIASS will be undertaking during January to March 2017. Due to resourcing requirements in regard to this area of work it will impact on the overall 2016/17 audit plan the position of which the s151 Officer and Head of the Internal Audit Shared Service are currently in dialogue to agree the best solution.

The System Administration and Website Security reviews from 2015/16 are progressing through the final clearance stages and are currently awaiting management sign off. Payroll reported at the last Committee as being in the final clearance stages has since been finalised. A summary for 2015/16 and the 2016/17 Payroll due to take place this quarter will be reported to committee at the appropriate time.

Critical review audits that are designed to add value to an evolving Service area. Depending on the transformation that a Service is experiencing at the time of a scheduled review a decision is made in regard to the audit approach. Where there is significant change taking place due to transformation, restructuring or legislative updates a critical review approach will be used. In order to assist the service area to move forwards a number of challenge areas

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

will be identified using audit review techniques. The percentage of critical reviews will be confirmed as part of the overall outturn figure for the audit programme. To report this percentage during the year based on outturn will cause the figure to fluctuate throughout the year, however, a final percentage figure will be reported in the annual report. The outturn from the reviews will be reported in summary format as part of the regular reporting as indicated at 3.3 above.

Follow up reviews are an integral part of the audit process. There is a rolling programme of review that is undertaken to ensure that there is progress with the implementation of the agreed action plans. The outcome of the follow up reviews is reported on an exception basis taking into consideration the general direction of travel and the risk exposure.

3.4 AUDIT DAYS

The table in Appendix 1 shows the progress made towards delivering the 2016/17 Internal Audit Plan and achieving the targets set for the year. As at 31st December 2016 a total of 349 days had been delivered against an overall target of 400 days for 2016/17. 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. Performance and management Indicators were agreed by the Committee on the 21st April 2016 for 2016/17 with an additional two indicators introduced part way through the year.

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

Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

- 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

There has been on going work undertaken in regard to the National Fraud Initiative. This year is the 2 yearly cycle of data extraction and uploading to enable matches to be reported. The initiative is over seen by the Cabinet Office. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Redditch Borough Council.

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 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

- 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.

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

5. APPENDICES

Appendix 1 ~ Internal Audit Plan delivery 2016/17
Appendix 2 ~ Performance indicators 2016/17
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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Date: 2nd February 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE****APPENDIX 1****Delivery against Internal Audit Plan for 2016/17**
1st April 2016 to 31st December 2016

Audit Area	2016/17 PLAN DAYS	Forecasted days to the 31st December 20 16	Days used to 31st Decemb er 2016
Core Financial Systems (see note 1)	104	71	77
Corporate Audits(see note 2)	66	55	62
Other Systems Audits(see note 3)	176	141	183
TOTAL	346	267	322
 Audit Management Meetings	 20	 15	 13
Corporate Meetings / Reading	9	7	4
Annual Plans and Reports	12	9	7
Audit Committee support	13	10	3
Other chargeable	0	0	0
TOTAL	54	41	27
GRAND TOTAL	400	308	349

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. There has been a particularly heavy demand on the investigatory budget with an ongoing review. The time for this work is being split between both Corporate and Other Systems audit budgets and indications are it will lead to an overspend on each of the budget headers.

Note 3

A budget allocation that was linked to a service area has been channeled into the consultancy and investigatory budget. Work is continuing and will be reported when completed.

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

APPENDIX 2

Performance Indicators (KPIs) for 01st April 2016 to 31st December 2016

The success or otherwise of the Internal Audit Shared Service can be measured the following performance indicators for 2016/17.

	PI	Trend / Target requirement	2015/16 Year End Position	2016/17 Position (as at 31/12/2016)	Frequency of Reporting
1	No. of customers who assess the service as 'excellent'.	Target = >85% of returns	2 returns; 1 excellent & 1 good	8 issued; 5x returned 5x excellent	Quarterly
2	No. of audits achieved during the year	Per identified target	Target = 16 (minimum) Delivered = 23	Target = 17 (minimum) Delivered = 10 With a further 5 in draft	Quarterly
3	Percentage of Plan Delivery	>90% of agreed annual plan	99%	87%	Quarterly
4	Service Productivity	Annual target >70%	81%	* 59%	Quarterly

*Service productivity is starting to show signs of recovery after the arrival of three new auditors in the first quarter along with a further auditor towards the end of Q2. Expectation is that productivity will continue to increase as they become more familiar with Partner and Service requirements.

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

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

APPENDIX 3

Planned Follow Ups:

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action 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 quarters 3 and 4.

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
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.	Followed up in March 16. There is one recommendation that is partially implemented, this relates to the cleansing of the DFG files. The files are in the process of being cleansed and it is hoped that this will be completed by September 2016.	Originally due Sept 2016 Follow up 26/08/2016 - Spoke to Private Sector Housing Team Leader in RBC, one FT time post has been vacant which has resulted in a delay for cleansing the RBC files, minimal progress made since previous follow up. The team leader thinks it should be completed by early 2017. New follow up date March 2017
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.	Follow up in April 16. 1 recommendation is in progress. The recommendation relates to the updating of the procedural guidance however this will not be done until the restructuring has taken place. A further follow up will be undertaken in December 2016, at which point the Service are aiming to complete the restructuring of the Service.	Follow up took place in December 2016 and found the one outstanding recommendation relating to updating procedures was implemented. There will be no further follow ups.
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	Followed up in June/ July 15. 1 medium priority recommendation concerning the updating of the contracts register has been implemented. 2 medium priority recommendations	Follow up 15/03/16 ~ 2 medium priority recommendations remain outstanding. Training to be delivered w/c 7th April and the new procurement strategy to be written by no	Follow up took place in October 2016, it found both recommendations are in progress, these relate to the procurement strategy which is currently in draft form. The next

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
				and that there is a clear procurement protocol in relation to procurement rules.	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.	later than September 2016. Delay attributed to a lack of resource. Overall risk has reduced due to other training and support from the procurement officer being delivered to staff. Further follow up October 2016	follow up will take place in May 2017.
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 in Jan 16. 1 'medium' priority recommendation in relation to stock control has been implemented. 1 'medium' priority recommendation in relation to independent checks of fees and charges up loaded to the system is still to be actioned. This will be followed up in April 16 when the new fees and charges will be uploaded.	The area to follow up was whether the non-resident couple Reddicard had gone through committee in 2016/17 for approval. The Reddicard charge did not go to committee for approval in December 2016. The risk to the Council has not increased due to the minimal (3 sold in 15/16) demand for this type of Reddicard.	This will be followed up officially in February 2017 after the 2017/18 fees and charges have been agreed.
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	Follow up undertaken on Nov 24th, report issued 19th of Jan. 1 recommendation implemented re. fees and charges, 3 recommendations are in progress and therefore these will be followed up in 3 months time on the anniversary of the final implementation date which is April 2016.	Follow up in April 2016 found that out of the 3 'medium' priority recommendations in progress 2 in relation to reconciliations and the cashing up process had been implemented and 1 in relation to inventory was in progress. Further following up February 2017 due to seasonal opening.

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
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.	Follow up undertaken in December 2015. The medium priority recommendation in relation to suspense accounts has been implemented. The recommendation in relation to PCIDSS certification is still to be actioned as this will need to be revisited.	Follow up undertaken December 2016 with Finance. Implementation remains in progress in obtaining PCI certification; delays due to resources and delays with the banks.	
Corporate Governance - appointments to 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.	The follow-up in April 2016 found that the 1 'medium' priority recommendation is in progress and to be finalised by the end of August 2016.	Progress on outstanding recommendation with a further visit planned for February 2017.	
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	A follow up was undertaken in June 2016 and found that one recommendation was implemented and one was outstanding relating to member allowances.	Feb- 2017	
Safeguarding	4 th February 2016	Human Resources Manager	Significant	3 'medium' priority recommendations; training course monitoring, staff vetting and case records.	A follow up took place in September 2016, it found both recommendations relating to DBS checks and training are implemented and no further follow up will take place.		

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<u>Audit</u>	<u>Date</u> <u>Final</u> <u>Audit</u> <u>Report</u> <u>Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High,</u> <u>Medium and Low</u> <u>priority</u> <u>Recommendations</u>	<u>Date to be 1st Followed</u> <u>up</u>	<u>2nd</u>	<u>3rd</u>
Leisure Banking –	9 th February 2016	Sports Services Manager	Moderate	1 ‘high’ and 3 ‘medium’ priority recommendations; advance payments, manual operations, bankings and invoices.	A follow up undertaken in November found that service had implemented three recommendations relating to the advance payment scheme, manual operations and banking arrangements. One medium priority recommendations is partially implemented relating to invoicing arrangements.	Feb- 17	
Leisure Consumables -	4/01/16	Leisure Services Manager	N/A Critical Friend	Challenge points and good practice	A follow up took place in October 2016 and found the service was satisfactorily progressing with all challenges and had a clear sense of direction. There are certain areas that need further consideration or action. Further follow up required.	Jan- 17	
Corporate Governance – AGS	22/02/16	Financial Services Manager	Moderate	1 ‘high’ priority and 3 ‘medium’ priority recommendations; No action plan, compilation of AGS, review of terminology and circulation of document	A follow up took in September 2016 and found 3 recommendations were in progress relating to the circulation of the AGS, action plan and the responsibility for compilation of the AGS. 1 recommendation was still to be actioned relating to a review of the AGS.	Feb- 17	
Stores Intervention	18/01/16	Environmental Services Manager	N/a Critical Friend	Challenge points and good practice	Follow up August 2016 with 4 points actioned, 2 in progress and 1 no longer relevant	A follow up took place in September 2016, it found that the service had a clear sense of direction and the	No further follow up will take place.

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
						service was engaging in the challenges made.	
S106s - Planning obligations	08/04/2016	Head of Planning and Regeneration, Financial Services Manager, Principal Solicitor	Critical review	Challenge points and good practice in relation to Committee Reporting, Policies/Procedures, Waste Services Contributions, Project Contribution areas, Central Finance Spreadsheets, Withdrawn Planning Applications, Online Publication and Retention and Income Management	The follow up in September 2016 found that the service is progressing with the challenges made. The follow up has found that out of the nine challenges made above Management have actioned five of them and have/are giving due consideration to the other challenges made. These relates to the contributions formula being updated, process to monitor amount of developers per project and uploading of S106 agreements. Further follow up in 6 months time.	Mar- 17	
CCTV	31/03/2016	Head of Community Services	Critical review	Challenge points and good practice in relation to Training and the CCTV system.	A follow up was undertaken in September 2016 and found although both recommendations have been actioned however there is more progress to be made relating to access rights to CCTV and a new anti-social behaviour policy.	Apr- 17	
Consultancy and Agency	13/06/2016	Corporate and Senior Management Team	Limited	2 'high' and 3 'medium' priority recommendations in relation to Matrix, Procurement procedures, Post transformation	A follow up took place in December 2016 which found that 4 recommendations are still in progress relating to the use of Matrix, the procurement procedures, outcomes set	Jun- 17	

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
				reviews, professional indemnity Insurance and accuracy of invoices received.	for the use of agency staff and processing invoices. One recommendation is still to be actioned reliant on the outcome of a recommendation.		
Housing Right to Buy	08/06/2016	Head of Housing and Housing Performance and Database Manager	Moderate	3 'medium' priority recommendations in relation to confirmation of the right to buy, Completion of Sale and Mortgage rescue Scheme	Follow up meeting arranged 2/2/17.		
Regulatory Services	08/06/2016	Head of Regulatory Services	Critical Review	Time recording challenges in relation to Systems Specification, Policies & Guidance, Coding Structure, Fee Earners, Performance Measurement and Database Accuracy.	A follow up took place in December, it found that 2 challenges had been actioned, 4 considered and 1 considered but still awaiting further action. Direction of travel is positive and a further follow up will take place in 6 months time.	Jun- 17	
Grants to Voluntary Bodies	16/06/2016	Head of Community Services	Significant	1 'medium' priority recommendation in relation to financial checks on large grant requests.	A follow up took place in December 2016 and found that the one medium priority recommendation relating to undertaking financial checks on business applying for above £25,000 had been implemented.	No further follow ups will take place.	
Allotments	16/08/2016	Head of Leisure and Cultural Services	Limited	1 'high' priority recommendation in regard to the overall management of allotment services	Follow up meeting arranged 2/2/17		

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
Community Transport (incl. Shopmobility)	01/09/2016	Head of Community Services	Significant	2 'medium' priority recommendations in relation to insurance arrangements for the Shopmobility safe, and maintaining a full audit trail of fundraising activities.	Mar-17		
Rent Verification	12th September 2016	Housing Services	Significant	One medium priority recommendation was made relating to refund payment authorisation	Mar-17		
Charity Fund Accounts	26th October 2016	Legal	Significant	One medium priority recommendation was made this relates to charity collections. No follow up will be required.	N/a		
One Stop Shop/Customer Services	28th September 2016	Community Services	Significant	Three medium priority recommendations were made relating to training, minutes of meetings and safety of staff. Two low priority recommendations were made relating to assistance for translators and for data management.	Mar-17		

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

<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>
Freedom of Information	24th October 2016	Business Transformation	Significant	One medium and one low priority recommendation was made. The medium recommendation related to training on data protection.	Apr-17		
end							

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

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>

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

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>

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Rent Verification					
Assurance: Significant					
Summary: Full system review					
1	Medium	<p><u>Refund Payment Authorisation</u></p> <p>There is no formal procedure in place for authorising payments in the absence of approved officers.</p> <p>From a randomly selected sample of 10 refunds processed during the April – June 2016/17 period, one was found to have been authorised for payment by the Income Recovery Team Leader. Normal procedure requires either the Housing Database & Performance Manager or the Head of Housing Services to authorise the payment, however neither of these officers were available at the time. The payment was checked by a second member of staff at the time, and it was reviewed for suitability upon the return of the Housing Database & Performance Manager.</p>	Payments authorised without approval of designated budget holders, potentially leading to increased risk of erroneous and / or fraudulent refunds taking place resulting in reputational damage and financial loss.	To review the 'business continuity' requirements of the service to ensure that appropriate designated Officers are available to authorise payments at all times.	<p>Management Response: In the absence of the Housing Performance & Database Manager, the Housing Services Manager will be authorising the payments. Due to leave of both managers in September the Head of Housing Services will authorise the payments</p> <p>Responsible Manager: Housing Performance & Database Manager, Housing Services Manager</p> <p>Implementation date: October 2016</p>
Audit: One Stop Shops – Reception Service					
Assurance: Significant					
Summary: Full systems audit					
1	Medium	<p><u>Training</u></p> <p>No training records have been kept within the service, however, mandatory records are kept by Human Resources.</p> <p>There is no evidence to prove that the skills matrix is being used and that the Customer Support Officers have the skills outlined on the matrix.</p>	Risk to reputation if dealt with by a Customer Service Officer who has not had appropriate training and the council receives complaints regarding the level of service received. It could also be a risk to safety and security if	A system of recording who has had training, signed by the employee, and when that training requires updating to be maintained. The skills matrix to become a fully integrated tool to assess future training requirements.	<p>Management Response: Team Leader to produce a training record and provide a process for updating completion of the record.</p> <p>Advise staff of the procedure and monitor record monthly.</p> <p>Work through the current Skills Matrix Training</p>

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>Testing identified that not all staff have attended the update refresher for Health and Safety training (Redditch - 4 out of a sample of 20 had not attended).</p> <p>In addition training records for staff for Payment Card Industry Data Security Standards found that 8 out of 20 staff had not signed their training record.</p>	<p>they have missed training relating to these areas resulting in possible financial claims.</p> <p>Potential risk in proving staff have received the correct training to be compliant with the Payment Card Industry Data Security Standards potentially leading to fines and reputation damage</p>	<p>Management to ensure that all staff have attended/been booked on to attend the update on Health and Safety training</p>	<p>Plan and arrange sessions where appropriate for staff.</p> <p>Staff who have not attended Health & Safety training to attend courses as and when available.</p> <p>Team Leader to complete PCI Security Standards with all Customer Service Staff and provide records that this has been undertaken.</p> <p>Corporately work underway to align all training records/training plans and Skills Matrix together.</p> <p>Responsible Manager: Customer Services Manager</p> <p>Implementation date: 30th September 2016</p>
2	Medium	<p><u>Minutes of Meetings</u></p> <p>Meetings with the other services e.g. Benefits, are not being formally documented to act as an action log and reference point.</p>	<p>Potentially a reputational risk if information has been provided and not relayed. Potentially could cause miscommunication and a poor customer service experience leading to a damage of trust between departments and poor customer relationships.</p>	<p>Meetings to be formally documented in an agreed format to capture the essential information/action points.</p>	<p>Management Response: Customer Services Manager to agree format with other service managers and commence formally documenting meetings.</p> <p>Responsible Manager: Customer Service Manager</p> <p>Implementation date: 31st October 2016</p>
3	Medium	<p><u>Safety of Staff</u></p> <p>There was no panic alarm on the Customer Support Officer desks at Woodrow and Batchley neighbourhood offices since the movement of the desks but there is in the cashier's area.</p>	<p>Potential risk to safety if unable to get attention of cashier to raise the alarm in the event of an attack.</p>	<p>Panic alarms to be installed now the desks have been moved.</p> <p>All staff to be made aware of the use of pagers and mobiles when on</p>	<p>Management Response: Customer Services Manager contacted place Partnership for the desk alarm and hearing loop to be fitted following changes to offices. Review action September 30th 2016.</p>

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		Mobile phones and pagers are in drawers meaning there were out of reach if required to be used. All other safety precautions were in place.		location in the neighbourhood office to enhance their own safety. A periodic check of the mobile phones and pagers to be undertaken and refresher training provided on a regular basis.	Team Leader to check mobile phones and pagers use monthly, review procedure in place and provide refresher training for staff of procedures. Responsible Manager: Customer Service Manager Implementation date: 14 th October 2016
Audit: Debtors					
Assurance: Significant					
Summary: Full system audit					
1	Medium	<u>System Notes</u> Testing has found that notes are not always being applied where there should be reasoning given to the transaction 2 out of 10 testing on credit notes/reversals for Redditch had no notes to explain.	There is potential for the misuse of the system thus compromising the data integrity, and credible audit trail as to why a refund or credit has been carried out leading to potential challenge and a lack of confidence and transparency in the system.	Re-emphasise that notes are applied in all circumstances to all processes of refunds and credits to provide clarity and transparency.	Management Response: This has already been reiterated to staff and this will be followed up through Team Meetings. Responsible Manager: Income Team Leader Implementation date: December 2016
Audit: Freedom of Information					
Assurance: Significant					
Summary: Full system audit					
1	Medium	<u>Training</u> Training is a mandatory requirement for the organisation. A number of people have not received refresher training. As the training includes Data Protection updates staff may be in a compromised position if they manage their data incorrectly.	The potential of inconsistent approach by staff along with the provision of inappropriate information potentially leading to reputation damage, litigation and Information Commissioners	Ensure that the current training provision remains fit for purpose and closer monitoring of training delivery is undertaken to ensure all staff receive the appropriate training in a timely manner	Management Response: New starter training is up to date and scheduled as they commence with authority. Front line teams are now up to date and will be continued to be scheduled yearly. Refresher training backlog is on track to be completed by end of December 2016

REDDITCH BOROUGH COUNCIL

Date: 2nd February 2017

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
			Office investigation.		Implementation date: The policy and training application, Netconsent, will be re implemented by beginning of 2017. This will enable automated monitoring and reports to managers. Responsible Manager: ICT Operations Manager
Audit: Cash Collection					
Assurance: Significant					
Summary: Full system audit					
1	Medium	<u>Key Security</u> For one cash office Audit observed a cashier was taking home the safe key.	Potential risk to the keys being mislaid or taken resulting in unauthorised access to the Cash Office area, leading to compromised security and financial loss to the Council.	A review of the security of all safe keys at cash offices to be undertaken to agree appropriate handling requirements.	Management Response: This has already been addressed, and changes to key handling in place. Responsible Manager: Customers Services Manager Implementation date: 20/12/16
end					

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017**THE 2017/18 PROVISIONAL INTERNAL AUDIT PLAN REPORT OF THE HEAD OF INTERNAL AUDIT SHARED SERVICE, WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

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

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

- the Redditch Borough Council Provisional Internal Audit Operational Plan for 2017/18;
- to confirm the performance indicators for the Worcestershire Internal Audit Shared Service for 2017/18

2. RECOMMENDATIONS**2.1 The Committee is asked to approve the 2017/18 Annual Audit Plan.****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**

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017

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**

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 Provisional Internal Audit Plan for 2017/18, 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 will continue with and Heads of Service in regard to the audit plan and the risk exposure in their areas. The internal audit plan for 2017/18 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 provisional plan is brought before Committee to provide an opportunity for Member engagement and comment.

With the increasing amount of closer working arrangements with Redditch Borough Council and Bromsgrove District Council the 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

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE****Date: 2nd FEBRUARY 2017**

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 allowed time for a positive input into the audit work programme for 2017/18 and provided an opportunity to make suggestions as to where audit resources could 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 2017/18 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 2016/17 figures due to the difficulties encountered in certain areas e.g. Housing. There would have been a proposal to reduce the days if the issues had not been encountered in the last municipal year. The Head of the 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 Provisional Internal Audit Plan for 2017/18 is set out at **Appendix 1**.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2017/18 will be closely monitored by the Head of the Internal 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 outturn against 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**.

AUDIT & GOVERNANCE COMMITTEE

Date: 2nd FEBRUARY 2017

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 2017/18

Appendix 2 ~ Performance indicators 2017/18

6. BACKGROUND PAPERS

None

7. KEY

N/a

AUTHOR OF REPORT

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REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017**APPENDIX 1****Detailed Provisional Programme of Work for 2017/18**

Audit Area	Planned Days 2016/17	Planned Days 2017/18	Difference = + or -	Comment
CHARGEABLE AND PRODUCTIVE				
Core Financial Systems				
Council Tax	12	12	0	holding steady as historical indications show as being approximately correct
Benefits	15	15	0	holding steady as historical indications show as being approximately correct
NNDR	12	12	0	holding steady as historical indications show as being approximately correct
Payroll (inc allowances, starters, leavers)	17	17	0	holding steady as historical indications show as being approximately correct
Creditors	8	8	0	holding steady as historical indications show as being approximately correct
Cash Collection	10	10	0	holding steady as historical indications show as being approximately correct
Debtors	7	7	0	holding steady as historical indications show as being approximately correct
Treasury Management	7	7	0	holding steady as historical indications show as being approximately correct
Main Ledger inc Budgetary Control & Bank Reconciliation	16	16	0	holding steady as historical indications show as being approximately correct
VAT	0	4	4	Increase due to cyclical requirement
CORE FINANCIAL TOTAL	104	108	4	
Corporate				
Risk Management	5	5	0	holding steady due to joint working
Fraud, Special Investigations incl NFI	19	25	6	small increase due to additional demands on this budget during 2016/17

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017

Audit Area	Planned Days 2016/17	Planned Days 2017/18	Difference = + or -	Comment
Advisory and Consultancy / Contingency	14	14	0	holding steady as historical indications show as being approximately correct
Previous Year Work completion	10	14	4	small increase due to knock on effect during 2016/17 re. additional work; there will be some slippage which will impact next year
Statement of Internal Control	3	3	0	holding steady as historical indications show as being approximately correct
Follow Up on recommendations	15	20	5	small increase as an increasing number of recommendations are being revisited on more than one occasion
CORPORATE TOTAL	66	81	15	
Other Systems Audits				
2017/18				
Service Area: Planning and Regeneration	20	10	-10	Decreased as reasonable coverage in this area during 2016/17 and risk deemed to be elsewhere
Miscellaneous Planning Income				
Service Area: Housing	35	40	5	Increased due to recent review findings and broader coverage
Statutory Compliance				
St David's House				
Contract Management				
Service Area: Community Services	14	12	-2	Decreased as single focus and reasonable coverage during 2016/17
Disabled Facilities Grants				

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017

Audit Area	Planned Days 2016/17	Planned Days 2017/18	Difference = + or -	Comment
Service Area:				
Environmental	22	15	-7	Decreased as single focus, reasonable coverage during 2016/17 and risk deemed to be elsewhere
Waste Management				
Service Area:				
Leisure and Culture	24	20	-4	Decreased as reasonable coverage during 2016/17 and two clear audits
Golf Course				
Palace Theatre				
Service Area: (Corporate)				
Including Legal and Democratic	20	25	5	Increase as main emphasis to be on procurement
Elections or Land Charges				
Procurement				
Service Area:				
IT	16	16	0	No change - two specific audit areas for coverage
Transformation assistance				
Records Management				
Service Area:				
Customer Services	12	11	-1	Decreased as reasonable coverage during 2016/17 and single focus
One Stop Shops/reception Services channel shift				
Sub Total (Service Areas)	163	149	-14	
Bus Operators Grant	8	8	0	Cyclical requirement
Insurance	5	0	-5	No further work required in this area
SERVICE AREA TOTAL	176	157	-19	
Audit Management Meetings	20	20	0	
Corporate Meetings / Reading	9	9	0	
Annual Plans and Reports	12	12	0	
Audit Committee support	13	13	0	
SUPPORT TOTAL	54	54	0	No change - deemed sufficient coverage
TOTAL CHARGEABLE	400	400	0	No overall change

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017**Summary of Days per Overall Audit Group for 2017/18.**

Planned Days for 2017/18	2016/17	2017/18
Core Financial Systems	104	108
Corporate Work	66	81
Other Systems Audits	176	157
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

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 2nd FEBRUARY 2017**Appendix 2****PERFORMANCE INDICATORS 2017/18**

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2017/18. Other key performance indicators link to overall governance requirements of Redditch Borough Council e.g. KPI 4. The position will be reported on a cumulative basis throughout the year.

	KPI	Trend/Target requirement/Direction of Travel	2017/18 Position (as at XXXXXXXX)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 18 Delivered = XX	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	XX	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	XX	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	XX	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	XX	When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded (<5%)	XX	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	XX	When Audit Committee convene

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

REDDITCH BOROUGH COUNCIL**AUDIT GOVERNANCE AND STANDARDS COMMITTEE 2nd FEBRUARY 2017****APRIL – SEPTEMBER FINANCIAL SAVINGS MONITORING REPORT 2016/17**

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 report to the Committee the monitoring of the savings for 2016/17. This report includes the delivery of savings and additional income for the period April 2016 – September 2016.

2. RECOMMENDATIONS

- 2.1 That the Committee note the final financial position for savings as presented in the report for the period April 2016 – September 2016.

3. KEY ISSUES

- 3.1 This report provides a statement to show the savings for April 2016 – September 2016 for each strategic purpose and the delivery of the saving for the financial year. This report is separate to the main financial monitoring report that is presented to Executive as it focuses on the delivery of savings rather than the overall financial position of the Council. For 2016/17 this report also presents other savings and additional income that have been generated across the Council.
- 3.2 The External Auditors, Grant Thornton, have recommended that the delivery of savings be monitored more closely to ensure that the Council is meeting savings in the way that was expected when the budget was set. This monitoring is recommended to be undertaken by this Committee and the statement attached at Appendix 1 details the savings to be achieved and the current financial position of each area.
- 3.3 As members may be aware during the budget process, heads of service propose savings that are to be delivered during future financial years. The budget allocation is

REDDITCH BOROUGH COUNCIL**AUDIT GOVERNANCE AND STANDARDS COMMITTEE 2nd FEBRUARY 2017**

then reduced to reflect the proposed saving and officers meet on a monthly basis to ensure that all estimated reductions to budget are being delivered.

- 3.4 Appendix 1 shows that for April 2016 – September 2016 savings to budgets have been delivered. In addition further savings / additional income are shown that were not included in the original budget projections. A September a further £284k is projected to be saved by the end of the financial year 2016/17.

3.5 **Legal Implications**

None as a direct result of this report.

3.6 **Service/Operational Implications**

Timely and accurate financial monitoring ensures that services can be delivered as agreed within the financial budgets of the Council

4. **Customer / Equalities and Diversity Implications**

None, as a direct result of this report.

5. **RISK MANAGEMENT**

Effective financial management is included in the Corporate Risk Register.

6. **APPENDICES**

Appendix 1 – Saving monitoring 2016/17

7. **BACKGROUND PAPERS**

Available from Financial Services

AUTHOR OF REPORT

Name: Jayne Pickering – Executive Director Finance and Resources
Email: j.pickering@bromsgroveandredditch.gov.uk
Tel: (01527) 881400

SAVINGS & ADDITIONAL INCOME - 2016/17

Department	Strategic Purpose	2016-17 £'000	Comments
Leisure and Cultural Services , Hewell Road	Provide Good things to see, do and visit	-5	Rates no longer chargeable as building demolished.
Leisure and Cultural Services , Hewell Road	Provide Good things to see, do and visit	-11	Vacant post released
Leisure and Cultural Services , Hewell Road	Provide Good things to see, do and visit	-44	Following full review of all budgets a number of savings can be released
Environmental Services	Keep my place safe & looking good	-24	Various savings in Supplies & Services due to the restructure of the Service
Environmental Services	Keep my place safe & looking good	-139	Savings generated from Service Review in addition to £190k savings identified in 15/16 budget round for 16/17 onwards as a result of the service review.
Environmental Services	Keep my place safe & looking good	-52	Additional income generated from price 8% annual increase on cremation fees
Environmental Services	Keep my place safe & looking good	-125	Anticipated growth in funeral numbers based on actual income achieved over budget in last few years
Corporate - Printing	Enabling	-46	Change to the way print contracts are managed
Community Services	Help me live my life independantly	-53	Following full review of all budgets a number of savings can be released
Business Transformation	Enabling	-6	Following full review of all budgets a number of savings can be released
Business Transformation	Enabling	-38	Following full review of all budgets a number of savings can be released
Business Transformation	Enabling	-5	Following full review of all budgets a number of savings can be released
Legal, Equality and Democratic Services - Elections	Enabling	-35	Due to the local election being combined with the PCC in 16/17 there will be lower costs. In 17/18 there are no Local Elections, only County Council
Legal, Equality and Democratic Services	Enabling	-16	Vacant posts in Democratic Services
Legal, Equality and Democratic Services	Enabling	-13	Following full review of all budgets a number of savings can be released
Customer Access and Financial Support	Help me be financially indpendent	-17	Reduction in Hours within Customer Services
Finance & Resources	Enabling	-3	Reduction in costs associated with the apprentice post
Various	All	-80	Following a review of the costs between the General Fund and HRA additional charges can be made to the HRA
TOTAL		-712	

AUDIT, GOVERNANCE & STANDARDS COMMITTEE ACTION LIST – 2nd FEBRUARY 2017 MEETING

Ref	Action/Issue	Origin	Lead Officer(s)/ Member(s)	Priority/ timescale	Officer Response/Action Status
1	Statement of Accounts 2014/15 Inventories Request for further details in relation to £27k Inventories.	Minute No's: 32 of 28.01.16 62 of 21.04.16 12 of 07.07.16	Jayne Pickering Sam Morgan Dave Jones	22.09.16 meeting	Officers emailed Mr Jones, Independent Member for Audit and Governance, on 05.04.16 and the remaining Committee members on 06.04.16 in this regard. Mr Jones responded further on this and relevant Officers liaised with him in this regard. Mr Jones met with Officers on 29.04.16 and will provide an update for Committee at 02.02.17 meeting.
2	Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19 Liquidity risk Re: paragraph 3.3 of report – request for Committee to be provided with both cash flow forecast and cash flow output.	Minute No's: 39 of 28.01.16 62 of 21.04.16 12 of 07.07.16	Jayne Pickering Sam Morgan Dave Jones	22.09.16 meeting	Officers provided details for cash flow position as at 31.03.16 at the 21.04.16 meeting. Mr Jones stated that details of both cash flow forecast and cash flow output, as detailed in the Action List, had been requested, which Officers agreed to provide. Update to be provided at 02.02.17 meeting.
3	Debt Recovery Update – Quarters 1 and 3 2015/16 Write-offs Request for levels of debts written off for 2014/15	Minute No's: 43 of 28.01.16 62 of 21.04.16 12 of 07.07.16	Jayne Pickering Mandy Singleton Dave Jones	22.09.16 meeting	Officers agreed to check the position and to report back to Members on this outside of the meeting. An email was sent to members of the Committee on 29.01.16 detailing required information. At the 21.04.16 meeting Mr Jones requested some context to the figures provided. Jayne Pickering agreed to email Mr Jones in this regard. Update to be provided at 02.02.17 meeting.

AUDIT, GOVERNANCE & STANDARDS COMMITTEE ACTION LIST – 2nd FEBRUARY 2017 MEETING

4	Internal Audit – Progress Report Key Performance Indicators (KPIs) / Measures Dashboard Issue raised on reporting of different KPIs in regard to the audit plan/service delivery, which it was felt could be presented in a dashboard.	Minute No's: 56 of 21.04.16 12 of 07.07.16	Jayne Pickering Andy Bromage Dave Jones	22.09.16 meeting	The S151 officer and Internal Audit Manager have arranged a meeting with Dave Jones, Independent Member, to address the issues raised. Update to 02.02.17 meeting
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**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE**

2nd February 2017

Work Programme for the calendar year ahead**Statement of Accounts**

Copies of the unaudited financial statements and the Annual Governance Statement are sent to all members of the Committee at the same time these are issued to the Council's external auditors at the end of June. An Officer briefing on the statement of accounts is held for all Members in early/mid-September (2017 date to be confirmed but anticipated to be either 5th or 7th September), prior to the Committee's formal consideration of the audited financial statements in late September.

Note: Under the Accounts and Audit Regulations 2015, with effect from 2017/18 unaudited financial statements will need to be published by the end of May and audited financial statements by the end of July.

27th April 2017 meeting**Standards**

- Monitoring Officer's Report

Governance

- External Audit – Update Report
- External Audit – Grant Claims Certification Work Report (deferred from February 2017 meeting)
- External Audit – Audit Plan 2016/17
- External Audit – Audit Fee Letter 2017/18
- External Audit – Auditing Standards 2016/17 (Communication with the Audit, Governance and Standards Committee)
- Accounting Standards (Statement of Accounting Policies)
- Internal Audit – Progress Report
- Internal Audit – Final Audit Plan 2017/18

Monitoring

- S11 Action Plan Monitoring
- Corporate Governance and Risk (to include: Governance and Accounts Action Plan (for any accounts and/or governance issues raised by the auditors) and Annual Governance Statement – to each meeting, annual Corporate Risk Register report to April meeting and any required Treasury Management monitoring updates)
- Financial Savings Monitoring Report (for January to March 2017 and to include any relevant Quarterly Budget Monitoring commentary from Portfolio Holder)
- Committee Action List and Work Programme
- Annual Review of the Operation of the Committee (Chair's oral report) and the Committee's Procedure Rules (Minute No. 4 of 28th June 2012 meeting refers)
- Calendar of Meetings 2017/18

**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

6th July 2017 meeting**Standards**

- Monitoring Officer's Report (including memberships of Hearing Sub-Committees if any changes in Audit, Governance and Standards Committee membership)

Governance

- External Audit – Update Report (including oral update on Value for Money Conclusion)
- Internal Audit – Annual Report 2016/17 (including review of effectiveness of Internal Audit – no separate Progress Report to this meeting)

Monitoring

- S11 Action Plan Monitoring
- Corporate Governance and Risk (to include: Governance and Accounts Action Plan (for any accounts and/or governance issues raised by the auditors) and Annual Governance Statement – to each meeting, plus any required Treasury Management monitoring updates)
- Financial Savings Monitoring Report (April to June – subject to timings and to include any relevant Quarterly Budget Monitoring commentary from Portfolio Holder)
- Committee Action List and Work Programme

21st September 2017 meeting**Standards**

- Monitoring Officer's Report

Governance

- External Audit – Audit Findings Report 2016/17 (note: external auditors don't usually provide general update report at this meeting)
- Audited Statement of Accounts 2016/17 (including final Annual Governance Statement)
- Internal Audit – Progress Report

Monitoring

- Re-appointment of Lead Risk and Fraud Members on the Committee
- S11 Action Plan Monitoring
- Corporate Governance and Risk (to include: Governance and Accounts Action Plan (for any accounts and/or governance issues raised by the auditors) and Annual Governance Statement – to each meeting, Corporate Risk Register 6-month update report to September meeting and any required Treasury Management monitoring updates)

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND
STANDARDS COMMITTEE****2nd February 2017**

- Financial Savings Monitoring Report (April to June and/or July to September – subject to timings and to include any relevant Quarterly Budget Monitoring commentary from Portfolio Holder)
- Committee Action List and Work Programme

1st February 2018 meeting**Standards**

- Monitoring Officer's Report

Governance

- Review of Independent Member Appointment (either to January/February or April 2018 meeting – prior to expiry of current 4-year term of office in July 2018 - Minute No. 22 of 25th September 2014 meeting refers)
- External Audit – Update Report
- External Audit – Grant Claims Certification Work Report
- External Audit – Annual Audit Letter 2016/17
- Treasury Management Strategy, Prudential Indicators and Minimum Revenue Policy Provision 2018/19
- Compliance Team Update
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan 2018/19

Monitoring

- S11 Action Plan Monitoring
- Corporate Governance and Risk (to include: Governance and Accounts Action Plan (for any accounts and/or governance issues raised by the auditors) and Annual Governance Statement – to each meeting, plus any required Treasury Management monitoring updates)
- Financial Savings Monitoring Report (subject to timings and to include any relevant Quarterly Budget Monitoring commentary from Portfolio Holder)
- Committee Action List and Work Programme

Later meetings (report details to be added in due course)

- **26th April 2018**
- **July 2018 – date yet to be determined** (General Dispensations Report to go to this meeting as first meeting following the 2018 Borough Council elections – note: there are no Borough elections in 2017)

