



# Audit, Governance & Standards Committee

Thursday, 27th April,  
2017  
7.00 pm

Committee Room Three  
Town Hall  
Redditch



[www.redditchbc.gov.uk](http://www.redditchbc.gov.uk)

**If you have any queries on this Agenda please contact**

**Debbie Parker-Jones  
Democratic Services Officer  
Town Hall, Walter Stranz Square, Redditch, B98 8AH  
Tel: 01527 881411  
Email: [d.parkerjones@bromsgroveandredditch.gov.uk](mailto:d.parkerjones@bromsgroveandredditch.gov.uk)**



# Audit, Governance & Standards

Thursday, 27th April, 2017

7.00 pm

Committee Room 3 Town Hall

## Committee

### Agenda

#### Membership:

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

<p><b>1. Apologies and named Substitutes</b></p>	<p>To receive the apologies for absence and details of any Councillor nominated to attend the meeting in place of a member of the Committee.</p>
<p><b>2. Declarations of Interest</b></p>	<p>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.</p>
<p><b>3. Minutes</b> (Pages 1 - 14)</p>	<p>To confirm as a correct record the minutes of the meeting of the Audit, Governance and Standards Committee held on 2nd February 2017.</p> <p>(Minutes attached)</p>
<p><b>4. Monitoring Officer's Report - Standards Regime</b> (Pages 15 - 18) Head of Legal, Equalities and Democratic Services</p>	<p>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.</p> <p>(Report attached)</p> <p><b>(Astwood Bank &amp; Feckenham Ward)</b></p>

# Audit, Governance & Standards

Committee

Thursday, 27th April, 2017

<p><b>5. External Audit - Certification Work Report 2015/16</b> (Pages 19 - 24)</p>	<p>To present Members with the Grant Certification Letter for 2015/16 from the Council's External Auditors Grant Thornton.  (Report attached)  <b>(No Direct Ward Relevance)</b></p>
<p><b>6. External Audit - Audit Plan 2016/17</b> (Pages 25 - 48)</p>	<p>To present to Members the Grant Thornton Audit Plan 2016/17.  (Report attached)  <b>(No Direct Ward Relevance)</b></p>
<p><b>7. External Audit - Auditing Standards 2016/17</b> (Pages 49 - 78)</p>	<p>To present Members with the Auditing Standards report for 2016/17 from the Council's External Auditors Grant Thornton.  (Report attached)  <b>(No Direct Ward Relevance)</b></p>
<p><b>8. External Audit - Audit Fee Letter 2017/18</b> (Pages 79 - 84)</p>	<p>To present Members with the Audit Fee letter for 2017/18 from the Council's External Auditors Grant Thornton and to approve the level of fee.  (Report attached)  <b>(No Direct Ward Relevance)</b></p>
<p><b>9. Proposed Accounting Policies 2016/17</b> (Pages 85 - 100)  Executive Director, Finance and Resources</p>	<p>To present the proposed accounting policies to be used for the closure of the 2016/17 accounts.  (Report attached)  <b>(No Direct Ward Relevance)</b></p>

# Audit, Governance & Standards

Committee

Thursday, 27th April, 2017

<p><b>10. Financial Savings Monitoring Report</b> (Pages 101 - 104) Executive Director, Finance and Resources</p>	<p>To report to the Committee the monitoring of the savings for 2016/17 and the delivery of savings and additional income for the period April to December 2016.</p> <p>(Report attached)</p> <p><b>(No Direct Ward Relevance)</b></p>
<p><b>11. Internal Audit - Progress Report</b> (Pages 105 - 140)</p>	<p>To present a progress report of internal audit work for 2016/17.</p> <p>(Report attached)</p> <p><b>(No Direct Ward Relevance)</b></p>
<p><b>12. Internal Audit - Final Audit Plan 2017/18</b> (Pages 141 - 150)</p>	<p>To present to Members the Council's final Internal Audit Operational Plan for 2017/18, and to confirm the performance indicators for the Worcestershire Internal Audit Shared Service for 2017/18.</p> <p>(Report attached)</p> <p><b>(No Direct Ward Relevance)</b></p>
<p><b>13. Committee Action List and Work Programme</b> (Pages 151 - 160) 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><b>14. Annual Review of the Operation of the Committee and the Committee's Terms of Reference and Procedure Rules</b> (Pages 161 - 172) Chief Executive</p>	<p>To review the operation of the Audit, Governance and Standards Committee during the 2016/17 Municipal Year to date, together with the Committee's Terms of Reference and Procedure Rules.</p> <p>(Chair's oral report)</p> <p>(A copy of the Committee's Terms of Reference and Procedure Rules are attached for reference)</p> <p><b>(No Direct Ward Relevance)</b></p>

# Audit, Governance & Standards

Committee

Thursday, 27th April, 2017

## 15. 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, 2 February 2017

### MINUTES

#### Present:

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

Dave Jones – Independent Member for Audit and Governance (non-voting co-opted member of the Committee)

#### Also Present:

Neil Preece and Richard Percival – Grant Thornton (External Auditors)

#### Officers:

Andy Bromage, Claire Felton, Sam Morgan, Amanda Singleton and Paul Stephenson

#### Democratic Services Officer:

Debbie Parker-Jones

#### 25. CHAIR'S OPENING REMARKS - SAM MORGAN

The Chair informed Members that Sam Morgan, Financial Services Manager, was leaving the authority after in excess of 25 years' service at the Council. Members thanked Mrs Morgan for her work over the years and wished her well for the future.

#### 26. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received on behalf of Councillor Rachael Smith.

#### 27. DECLARATIONS OF INTEREST

There were no declarations of interest.

.....  
Chair

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

## **28. MINUTES**

The minutes of the meeting of the Audit, Governance and Standards Committee held on 22nd September 2016 were submitted.

### **RESOLVED that**

**the minutes of the meeting of the Audit, Governance and Standards Committee held on 22nd September 2016 be confirmed as a correct record and signed by the Chair.**

## **29. MONITORING OFFICER'S REPORT - STANDARDS REGIME**

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

Since the last meeting of the Committee in September 2016 two complaints had been received, both of which had been made against Borough Councillors by members of the public. Following investigation by the MO both complaints had been resolved locally, with one of the complaints having been based on information which was found to be factually incorrect.

Regarding Member training, the MO advised that Officers were continuing to populate the Member Training Programme for 2017/18. If Members wished for any training to be added to this they should pass their requests onto their Group Leader for consideration, or in the case of non-group Members direct to the MO.

A Member raised concerns at previous poor attendance by Members at Corporate Parenting training, and stated their view that this should be put out to Members again to attend. The MO stated that if Members wished to have attendance at particular training sessions made compulsory they should again route any such requests through their Group Leader.

### **RESOLVED that**

**the Monitoring Officer's report be noted.**



# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

## **30. GRANT THORNTON - PROGRESS REPORT AND UPDATE**

The Chair welcomed Mr Neil Preece, new Audit Manager at Grant Thornton, to his first meeting of the Committee. Mr Preece had replaced Suzanne Joberns.

Mr Preece presented the report and advised that progress was going well. A slightly different approach was being taken by Grant Thornton to audit work this year with joint interim visits, covering both Redditch Borough Council and Bromsgrove District Council, being carried out by a single audit team, rather than two separate teams as had previously been the case. Initial planning work had been carried out in January and interim audit work was due to be completed in March. Regular meetings were taking place with key Officers regarding progress and the majority of the Value for Money work had been completed.

The Chair queried whether, in light of the Financial Services Manager's impending departure from the authority, together with Mr Preece's recent appointment and the fact that Grant Thornton's contract as the Council's external auditors was due to cease in April 2018, the following year was something which the Committee needed to worry about. Mr Percival responded that Grant Thornton were keen to retain the Council as a client and hoped that they would be successful in their bid for this under the upcoming Public Sector Audit Appointments framework.

Mr Preece and Officers responded to Members' question in relation to the implications of the Apprentice Levy and salary sacrifice, as highlighted in the report. Members raised various questions on the possible impact of Brexit, and queried how many migrant workers (defined as those who did not hold a British passport) the Council employed. Officers agreed to find out the figure and to report this back to Members. Whilst the Committee agreed that it was not possible to ascertain the impact of Brexit at this stage, Officers confirmed that the Council did not receive any EU grants, nor did it have any foreign investments. EU procurement rules would be affected however no detail on this was known at present.

**RESOLVED that**

**the Grant Thornton Progress Report and Update included at Appendix 1 to the report be noted.**

# Audit, Governance & Standards

Committee

Thursday, 2 February 2017

---

## 31. GRANT THORNTON - ANNUAL AUDIT LETTER 2015/16

Members were presented with Grant Thornton's Annual Audit Letter which summarised the key findings arising from the work which they had carried out at the Council for the year ended 31st March 2016.

Mr Percival stated that Grant Thornton had given an unqualified opinion on the Council's financial statements on 28th September 2016. Whilst Grant Thornton had not identified any issues that had required them to issue any new statutory recommendations, they had considered the Council's response to the statutory recommendations issued in 2014/15. In doing so they had qualified their Value for Money conclusion on matters relating to progress made by the Council in implementing the 2014/15 recommendations. Grant Thornton had set out four key actions that they expected the Council to take to address the recommendations, details of which were set out in the Audit Letter. Members queried whether progress on implementing the key actions for the recommendations was improving. Mr Percival stated that work was currently being undertaken on this and that he was satisfied the direction of travel was appropriate. It was however too early to say at this stage whether all issues had been resolved as it would take time to work through these.

Whilst there had been improvements in the accounts production, further improvements were needed in order to ensure that the accounts audit could be delivered by the earlier (statutory) closedown and audit timetable in 2018. Grant Thornton were currently working with Officers to support such improvements, in particular with the standard and delivery of working papers. Officers advised that they had drawn up a detailed plan for the closedown timetable of the final accounts, which they had recently shared with Grant Thornton and which was a changing model. Officers hoped to be in a position to close down the 2016/17 accounts on 31st May 2017, which would allow opportunity to consider any 'lessons learned' for 2018. Mr Percival stated that Members also needed to ensure that they had sufficient understanding of the Council's financial position. Regarding comments made in the report that there had been a failure in governance arrangements, a Member asked to see a copy of the accounts closedown timetable referred to by Officers and commented that they felt they were not always being sufficiently informed to be an effective Committee. Officers agreed to email the timetable to Members and to send a hard copy of this to Councillor Chalk.

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

A query was raised in relation to implementation dates for the third statutory recommendation; that the Council should improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically to make clear the impact of proposals on the level of reserves and balances. The Action Plan stated that the cross party member budget scrutiny group would be presented with the revised format for the Medium Term Financial Plan for 2017/18 to 2020/21 in October 2016 to ensure that this met with Member expectations, however it was queried whether this had in fact happened. Officers advised that as the budget had been challenging this year they had not been in a position to present this information to Members. They added that the Medium Term Financial Plan had now been issued, which had included some improvements.

A discussion ensued regarding Members' ability to see background / working papers. In terms of the Committee's role, Mr Percival stated that it was not appropriate for Members to review detailed working papers. The Committee's role was to ensure that it was satisfied that due processes had been put in place for the production of the final accounts, with 'governance of process' being the Committee's main function. He added that Officers' confirmation that action plans were in place should be sufficient, and that Members should seek to ensure that adequate progress was being made by Officers against plan delivery to ensure that any plans were being properly executed. It was also noted that, in relation to the Corporate Plan and monitoring of service performance, Grant Thornton had concluded that the arrangements in place for this were sufficient to demonstrate that the Council understood and was using performance information to support informed decision making and performance management.

The Chair questioned the role of the Committee and which elements Members could monitor as part of this. Officers advised that the Committee's Terms of Reference and Procedure Rules set out this information. Both documents formed part of the Council's Constitution and were referred to the Committee on an annual basis. Officers agreed to circulate a further copy of the documents for Members' information. The Chair added that both he and other Members of the Committee could meet with Grant Thornton when required to discuss relevant issues.

## **RESOLVED that**

**the Annual Audit Letter included at Appendix 1 to the report be noted.**

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

## **32. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2017/18 TO 2019/20**

The Committee considered, for recommendation to the Council, the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003. It was noted that some interest rate information had been incorrectly set out in Treasury Management Strategy Statement and Investment Strategy 2017/18, attached at Appendix 1 to the report, which would therefore require minor amendment prior to Council.

Officers presented the report and highlighted some of the key elements of this. The Ratio of Financing Costs to Net Revenue Stream were noted, with it being estimated that in 2019/20 the Council would be paying back nearly 20% for capital expenditure. Officers advised that the Council only undertook external borrowing if it was unable to borrow from internal funds.

Regarding the Investment Objectives Strategy, Mr Jones stated, as he had the previous year, that he would like to have seen yield benchmark data for how the authority invested its funds. Officers stated they could look into this for the following year's report and also undertook to circulate to Members details of the current interest payments for the Housing Revenue Account.

### **RECOMMENDED that**

- 1) subject to the minor interest rate amendment as detailed in the preamble above, the Strategy and Prudential Indicators at Appendix 1 to the report be approved; and**
- 2) the updated Treasury Management Policy Statement at Appendix 2 to the report be approved.**

## **33. COMPLIANCE TEAM UPDATE**

Members were provided with the first update report on the work of the Compliance Team following the transfer of benefits fraud to the Department for Work and Pension Single Fraud Investigation Service (SFIS) in February 2016. Officers explained the background to the report and responded to Members' questions in this regard.

Following the transfer of benefits fraud various duties had remained within the Compliance Team and Officers had taken the opportunity

# Audit, Governance & Standards

Committee

Thursday, 2 February 2017

---

to develop work for wider non-compliance issues around Council Tax and Business Rates. Members noted the work which had been undertaken by the Team and the positive results of this. The financial implications of this work, which were detailed throughout the report, included:

- reduction in long term empty properties which resulted in a net gain of New Homes Bonus income of £76.5k for 1 year and £306k over 4 years;
- identified overpayments in incorrectly claimed Council Tax discounts and exemptions of £143,344, plus £14k Council Tax Support overpayments and £11k of Housing Benefit overpayments; and
- identification of 7 missing properties (mostly annexes to existing properties, not Council properties).

Officers were currently in the process of recovering overpayments and incorrectly claimed discounts and exemptions. Where recovery action might result in financial hardship to residents this was being taken into account when agreeing repayment plans, with additional assistance such as money management advice being given to residents where relevant. Members queried the possible impact of the future rollout of Universal Credit. Officers stated that the key risks to the Council involved the direct payment of housing rents to claimants and the impact of this on the Council's ability to reclaim any overpaid housing benefits.

Officers advised that owing to other service changes during the preceding 12 months, the majority of the Compliance Team's costs had been absorbed within existing budgets. As a result of the work carried out Officers had been able to evidence financial benefits to the County Council and were currently working with County colleagues to agree funding to enable enhancement of the compliance work. The Team were also in the process of receiving training in order to identify missing or incorrectly rated premises.

Members commended the Compliance Team on the work which it had carried out over the preceding 12 months and the positive results this had seen. Members agreed that update reports should in future be referred to the Committee on a six-monthly basis. Whilst Officers were unable to confirm at this stage what monies had been recovered, and how long it would take for any overpayments to be repaid to the Council, they confirmed that they would look to see whether it was possible to include information on this in the next report.

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

**RESOLVED that**

- 1) **the report be noted; and**
- 2) **Officers refer future update reports to the Committee on a six-monthly basis.**

## **34. INTERNAL AUDIT - PROGRESS REPORT**

The Committee considered the Internal Audit Progress Report, which presented Members with progress in internal audit work for 2016/17. The Head of the Internal Audit Shared Service (HIASS) presented the report and responded to Members' questions on this.

Regarding overall delivery against the Internal Audit Plan it was noted that the number of days used to 31st December 2016 had, in some areas, exceeded the number of planned days. The HIASS explained the reasons for this and stated that he would be speaking with the s151 Officer at year end and would report back to the Committee. Whilst some areas had almost reached their number of planned days there were no major concerns with this and the HIASS did not envisage that the number of overall days would exceed the number of forecasted days.

Under Performance Indicators, the 59% Service Productivity figure was 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 Quarter 2. Expectation was that productivity would continue to increase as the auditors became more familiar with Partner and Service requirements. In relation to Planned Follow Ups at Appendix 3 to the report, there were no exceptions to report.

A discussion ensued on Planned Follow Ups. Mr Jones asked whether there was enough emphasis by senior management to close down outstanding actions on recommendations early on. The HIASS stated that some areas did take longer than others and that there was not always a quick fix to an issue. He added that it was reasonable to say that when second and third follow up visits were required this took up additional resource and increased number of days. Mr Jones commented that there should not be third follow ups as this drove waste into the system and queried whether the scope of some audits should be changed, particularly given that the number of follow ups had increased significantly over the previous year. It was queried whether members of the Senior Management Team (SMT) at director level, and/or Portfolio Holders, should become involved in the process, particularly where outstanding

# Audit, Governance & Standards

Committee

Thursday, 2 February 2017

---

actions were not being dealt with in a timely manner, resulting in additional Follow Ups

Mr Percival commented that Grant Thornton would expect Internal Audit to carry out their audit work, set recommendations and agree implementation dates with relevant service Officers for completion of required actions and to undertake required follow up on these. He added that if recommendations were not being implemented within agreed timeframes then there should be a clear escalation route, which would involve more senior managers. There should be a clear explanation from Officers as to why actions were not progressing, to ascertain whether the particular circumstances involved warranted any delays. If circumstances had changed this should equally be made clear and looked into, otherwise this would lead to a culture of non-compliance.

Members queried how the position would be reported back on and whether a formal request in this regard needed to be made to the Senior Management Team (SMT). As no members of SMT were present to respond in this regard Officers agreed to look into the position and report back on this at the next meeting. The HIASS confirmed that he did not have any strong views against the proposal for senior management involvement however he added that the Corporate Management Team (Heads of Service) would need to be engaged in any agreed process to ensure that there was a clear escalation route and engagement throughout.

## **RESOLVED that**

**subject to the required Officer action detailed in the preamble above in relation to Planned Follow Ups, the report be noted.**

### **35. INTERNAL AUDIT - DRAFT AUDIT PLAN 2017/18**

Members received the draft Internal Audit Operational Plan for 2017/18, together with the Key Performance Indicators for the Worcestershire Internal Audit Shared Service for the same period. It was noted that the Plan would be subject to final approval at the Committee's April.

The Head of Internal Audit Shared Service (HIASS) introduced the report and highlighted the key aspects of this. In doing so he referred to the discussion which had taken place under the previous agenda item in relation to Planned Follow Ups and the action arising from that discussion. The draft Plan included 5 additional days for follow up on recommendations owing to an increasing

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

number of recommendations being revisited on more than one occasion.

He stated that audit demand could change in some instances and that he and the s151 Officer would discuss the position if that were the case. Some of the Performance Indicators had been changed slightly following discussions with the s151 Officer and Mr Jones, the Independent Member on the Committee, and these now provided additional information for the Committee's information.

In response to Members' questions the HIASS confirmed that the Corporate Risk Register was taken into consideration when drawing up the Plan. Officers also advised that the Committee received 6 monthly updates in relation to the Corporate Risk Register and that the Annual Corporate Risk Register was referred to the Committee in April each year. Mr Jones added that he was also working with the s151 Officer on the Corporate Risk Register. It was noted that the overall number of audit days for 2017/18 remained at 400; the same as for 2016/17.

## **RESOLVED that**

**the draft Internal Audit Operational Plan for 2017/18, which was subject to final approval at the Committee's April meeting, be noted.**

### **36. APRIL - SEPTEMBER FINANCIAL SAVINGS MONITORING REPORT 2016/17**

Members received the second of the 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 September 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.



# Audit, Governance & Standards

Committee

Thursday, 2 February 2017

---

Officers explained that the savings were based on the previous year's base budget. The majority of the savings were projected savings to the end of the financial year and would be ongoing. It was noted that the lower election costs as a result of there being no local elections in 2017 was a one-off saving for the current year only.

## RESOLVED that

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

### 37. COMMITTEE ACTION LIST AND WORK PROGRAMME

#### Action List

#### i) Ref 1 – Statement of Accounts 2014/15 – Inventories

Mr Jones confirmed that he had met with Officers from the Stores Team the previous April to discuss inventories and had undertaken an inventory risk analysis. He had looked at the Council's ordering process, which he had concluded was satisfactory. He stated that there were no optimum minimum or maximum order levels, no lean process in place and the Council did not have a formal inventory management policy. Mr Jones queried whether the Council needed to look at introducing such a policy. Officers advised that the issues raised would need to be looked at and it was agreed that Mr Kevin Hirons, Environmental Services Manager, be invited to the next meeting of the Committee for this item.

Action: item to remain on Action List for April meeting.

#### ii) Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19 – Liquidity risk

Mr Jones stated that he had not received any feedback from Officers on this matter.

Officers proceeded to circulate details relating to the Council's cash flow as at January 2017 and advised that ledgers for this were completed on a daily basis.

It was agreed that Officers would meet separately with Mr Jones to discuss this information further and that the item be removed from the Action List in the meantime.

# Audit, Governance & Standards

Committee

Thursday, 2 February 2017

---

Action: subject to Mr Jones meeting with Officers to discuss any ongoing cash flow concerns, the item be removed from Action List.

- iii) Debt Recovery Update – Quarters 1 and 3 2015/16 – Write-offs

Mr Jones confirmed that he had met with an Officer to review the corporate Dashboard. He stated that some elements within the Dashboard did not show hard or soft savings, and that some of the parameters had been changed with no comments or sign-off from service managers.

Mr Jones confirmed that he would arrange to meet with Jayne Pickering in order that the position could be looked into and reported on further at the April meeting of the Committee.

Action: item to remain on Action List for April meeting.

- iv) Internal Audit – Progress Report – Key Performance Indicators (KPIs) / Measures Dashboard

As reported on earlier in the meeting under the Internal Audit draft Audit Plan 2017/18 (Minute No. 35 refers), it was noted that some of the Performance Indicators had been changed slightly following discussions with Jayne Pickering and Mr Jones. As a result of this the Performance Indicators now provided helpful additional information for the Committee.

Action: item to be removed from Action List.

## Work Programme

The Work Programme was noted without comment.

## **RESOLVED that**

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

## **38. CALENDAR OF MEETINGS 2017/18**

Members were presented with the meeting dates of the Committee for the 2017/18 Municipal Year.

# **Audit, Governance & Standards**

Committee

Thursday, 2 February 2017

---

It was anticipated that the Officer Briefing on the Statement of Accounts would take place on either 5th or 7th September 2017. Officers would confirm the date once this had been finalised.

**RESOLVED that**

**the Calendar of Meetings 2017/18 be noted.**

The Meeting commenced at 7.00 pm  
and closed at 9.16 pm

.....  
Chair



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

27th April 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 2nd February 2017.
- 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

## **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

27th April 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 February 2017 one Member to Member complaint has been received. The Monitoring Officer has asked for a formal investigation to take place into this, which at the time of drafting this report was ongoing.

#### **Member Training**

- 3.4 Personal health and safety training for Members was held in February. It was attended by 9 Councillors and was well received.
- 3.5 A housing workshop was held in early March involving members of the Member Support Steering Group only. This brought forward ideas for future training and support for Members on dealing with housing issues, as well as opportunities for further data protection training.
- 3.6 Social media training which was scheduled for the 29th March was cancelled due to low Member response.

### **Customer / Equalities and Diversity Implications**

- 3.7 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.

**AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE**27th April 2017

---

**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**

Name: Debbie Parker-Jones

Email: [d.parkerjones@bromsgroveandredditch.gov.uk](mailto:d.parkerjones@bromsgroveandredditch.gov.uk)

Tel: 01527 881411





**AUDIT, GOVERNANCE & STANDARDS & COMMITTEE 27<sup>TH</sup> APRIL 2017****GRANT THORNTON – CERTIFICATION WORK REPORT 2015/16**

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 present Members with the Grant Certification Letter for 2015/16 from the Councils External Auditors Grant Thornton.

**2. RECOMMENDATIONS**

- 2.1 **The Committee is asked to note the letter 2015/16**

**3. KEY ISSUES****Financial Implications**

- 3.1 The base fee for the grant work is £11k. Any further work undertaken as a result of additional testing is chargeable. This is proposed at £15k and is detailed in the Appendix.

**Legal Implications**

- 3.2 Grant Thornton have a statutory responsibility to certify the claims submitted by the Council.

**Service / Operational Implications**

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. This includes certification of grant claims.
- 3.4 The auditors have certified the Housing Benefit Claim for 2015/16 relating to over £24.3m of expenditure. Following the recommendations proposed from 2014/15 an action plan was prepared and this has delivered improvements in the processing for 2015/16. However due to the timing of the action plan and the audits the improvements could only impact on the last quarter of 15/16 and therefore additional testing had to be undertaken. It is also worth making Members aware that there is a snowball effect to the benefits subsidy audit in that once one mistake has been found then 40+ testing must be carried out which then results in further testing the following years until the 40+ testing shows no errors at all. Hence in

**AUDIT, GOVERNANCE & STANDARDS & COMMITTEE 27<sup>TH</sup> APRIL 2017**

the 16/17 audit we expect further testing to be undertaken. The high percentage of complex cases that we have does mean that error is more likely.

- 3.5 The External Auditors have reported that there has been a reduction in additional testing due to improvements in the quality of work processed.
- 3.6 The action plan put in place as a result of the 14/15 audit is being continuously monitored and any concerns addressed immediately to improve service delivery. In addition we have different guidance as to the work we have to do and this has reduced the expected work load considerably.

**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 – Grant Thornton Certification Letter 2015/16

**6. BACKGROUND PAPERS**

Individual audit reports.

**AUTHOR OF REPORT**

Name: Jayne Pickering  
E Mail: [j.pickering@bromsgrove&redditch.gov.uk](mailto:j.pickering@bromsgrove&redditch.gov.uk)  
Tel: 01527-881207



# Grant Thornton

An instinct for growth™

Jayne Pickering  
Executive Director of Finance and Resources  
Redditch Borough Council  
Town Hall  
Walter Stranz Square  
Redditch  
B98 8AH

9 March 2017

Grant Thornton UK LLP  
The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

T +44 (0)121 212 4000  
F +44(0)121 212 4014  
DX 13174 Birmingham  
Grantthornton.co.uk

Dear Jayne

## **Certification work for Redditch Borough Council for year ended 31 March 2016**

We are required to certify the Housing Benefit subsidy claim submitted by Redditch Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

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

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £24.3m million. Further details of the claims certified are set out in Appendix A.

There were issues arising from our certification work which we wish to highlight for your attention.

We undertake testing on an initial sample of 20 cases for each subsidy area (pro-rated for Non-HRA). This involves agreeing back to prime documentation and confirming entitlement to the housing benefit awarded. An additional sample of 40 cases (if there are fewer than 40 cases in the population then all cases are tested and reviewed) are then selected and tested for each type of error found in the initial testing. The initial testing resulted in eight lots of additional testing. We also undertook 12 lots of additional testing for errors found in the previous year, which the DWP require us to follow up. The additional testing mainly consisted of review of earnings for all tenancy types, classification of overpayments and checking the rent included in the calculation of benefit. The decrease in the amount of additional testing required compared to the previous year is pleasing. However, there is a time lag which means that quality measures take time to come through. Officers are hopeful that the direction of travel will continue once the full year impact of the enhanced quality measures feeds through.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. This approach is taken as the Housing Benefit claim for the preceding year (in this case 2014/15) is not completed until after the fees have been set. This approach means that annual variations to the indicative fee will always occur where there is a difference in the amount of additional testing undertaken. The indicative scale fee set by the Audit

Commission for the Council for 2015/16 is £10,529. This is set out in more detail in Appendix B.

In the base year of 2013/2014 we undertook five lots of additional testing. This year our risk assessment of the Council increased due to the prior year issues which meant we increased our re-performance of the workbooks. These factors resulted in the Council and the audit team spending a considerable amount of time on the claim to be in position to certify it before the deadline. This is going to result in a variation to the certification fee of £14,799. This has been agreed with you, but needs to be confirmed by PSAA.

There are two parts to this as follows:

1. “CAKE” testing £4,973. This is the testing we were required to carry out due to errors in the previous year’s claim. Due to the Council's resource constraints we agreed to complete the testing on five workbooks and agreed the additional fee at the start of the audit.
2. Additional testing £10,826. The indicative fee set by PSAA was based on the 2013/14 fee, but the volume of work required in 2015/16 was significantly more than in 2013/14 (20 workbooks of additional testing compared to five in 2013/14). Although the quality of the initial workbooks provided to us was better than in 2014/15 there is still scope for further improvement. Our review found errors in the testing of Non-HRA, Rent Rebates and Rent Allowances. Due to these problems we increased the level of re-performance of workbooks. This had to be further increased when we found items marked as ‘pass’ which were ‘fails’. The volume of ‘fails’ meant that the qualification letter was complex and required thorough checking. The nature of the errors in 2015/2016 (e.g. earned income and child care costs) were more complex than in 2013/2014 leading to additional time taken to undertake the re-performance and difficulties in resolving queries. We also found complicated issues on Modified Schemes that were not identified by the Council’s testing. Given the complexity and volume of testing we had to deploy higher grade staff to complete the work.

As we are already most of the way through the financial year, the issues that we have included in our qualification letter to the Department of Work and Pensions will be carried forward to the 2016/2017 claim.

Yours sincerely



Richard Percival  
Engagement Lead  
For Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£24,246,004	No	N/A	Yes	The 2014/2015 process identified a significant number of issues which required testing in 2015/2016. In addition to these errors the audit team also identified errors (not previously identified) from the initial testing. This resulted in significant work from the initial testing. A detailed qualification letter was issued to the DWP on 30 <sup>th</sup> November.

## Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	14,038	10,529	25,328	14,799	<p>The indicative fee for the Housing Benefits Subsidy is based on the 2013/2014 fee, reduced by 25%.</p> <p>We have agreed a substantially increased fee to the indicative fee due to the volume of extra work undertaken.</p>

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE 27<sup>th</sup> APRIL 2017****GRANT THORNTON AUDIT PLAN 2016/17**

Relevant Portfolio Holder	Cllr John Fisher
Portfolio Holder Consulted	N/A
Relevant Head of Service	Jayne Pickering ( Exec Director)
Wards Affected	<b>All</b>
Ward Councillor Consulted	None specific

**1. SUMMARY OF PROPOSALS**

- 1.1 To present to members the Grant Thornton Audit Plan 2016/17. A copy of this document is attached to this report as Appendix A..

**2. RECOMMENDATIONS**

- 2.1 **Members are asked to note and agree the 2016/17 Audit Opinion Plan**

**3. KEY ISSUES****Financial Implications**

- 3.1 The fee associated with the External Audit Opinion and audit of accounting statements and consideration of the Councils arrangements for securing economy, effectiveness and efficiency is £58k. In addition it is anticipated that the fee in relation to the audit of the Housing Benefit Grant Claim will be £23k.

**Legal Implications**

- 3.2 The Council has a statutory responsibility to formally prepare accounts in compliance with national guidelines and ensure these are audited by an audited body.

**Service / Operational Implications**

- 3.3 Attached at Appendix A is the 2016/17 Audit Plan . The Plan sets out work that the Grant Thornton propose to undertake in relation to the Audit of the financial accounts for 2016/17 and any risks that have will require additional review and consideration.
- 3.4 The Audit will include an understanding of the organisational operations together with issues that may impact on the Council in the future. This assessment results in the External Audit consideration of

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE 27<sup>th</sup> APRIL 2017**

---

the risks associated with the accounts and the Appendix details the level of risk allocated to the services we provide.

- 3.5 The work by the Grant Thornton will enable a robust opinion to be made across all the internal control and accounting arrangements that the Council has in place.
- 3.6 The Auditors will also make an assessment of the Councils arrangements to secure value for money to include systems and processes to manage financial risks and improving efficiency. This will include an assessment of the recommendations in relation to the reporting of financial information and monitoring to members and the delivery of savings and additional income.

**Customer / Equalities and Diversity Implications**

- 3.7 None as a direct result of this report

**4. RISK MANAGEMENT**

- 4.1 The Financial Services risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards. Risk management arrangements in place across the organisation ensure that risks are addressed and mitigated.

**5. APPENDICES**

Appendix 1 – Annual Audit Plan 2016/17

**AUTHOR OF REPORT**

Name: Jayne Pickering – Exec Director Finance and Resources  
E Mail: [j.pickering@bromsgroveandredditch.gov.uk](mailto:j.pickering@bromsgroveandredditch.gov.uk)  
Tel: 01527-881400



# The Audit Plan for Redditch Borough Council

---

**Year ended 31 March 2017**

27 April 2017

**Richard Percival**  
Engagement Lead  
T 0121 232 5434  
E [richard.d.percival@uk.gt.com](mailto:richard.d.percival@uk.gt.com)

**Neil Preece**  
Manager  
T 0121 232 5292  
E [neil.a.preece@uk.gt.com](mailto:neil.a.preece@uk.gt.com)

**Mary Wren**  
Audit Senior  
T 0121 232 5254  
E [mary.wren@uk.gt.com](mailto:mary.wren@uk.gt.com)





Redditch Borough Council  
 Town Hall  
 Walther Stranz Square  
 Redditch  
 B98 8AH

27 April 2017

Dear Members of the Audit, Governance and Standards Committee  
**Audit Plan for Redditch Borough Council for the year ending 31 March 2017**

Grant Thornton UK LLP  
 Colmore Building  
 Colmore Circus Queensway  
 Birmingham  
 B4 6AT  
 T +44 (0)121 212 4000  
 www.grant-thornton.co.uk

This Audit Plan sets out for the benefit of those charged with governance (in the case of Redditch Borough Council, the Audit, Governance and Standards Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Richard Percival

Engagement Lead

**Chartered Accountants**  
 Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.  
 A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.  
 Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTL). GTL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

---

# Contents

## Section

Understanding your business and key developments	4
Materiality	5
Significant risks identified	6
Other risks identified	9
Value for Money	11
Other audit responsibilities	14
Results of interim audit work	15
The audit cycle	18
Audit fees	19
Independence and non-audit services	20
Communication of audit matters with those charged with governance	21

# Understanding your business and key developments

## Key challenges

### Financial position

The Council's current financial forecasting anticipates the general fund reserve will be £1.7m at 1<sup>st</sup> April 2017. Should the four year MTFP to 2020/21 be achieved £0.43m of General Fund balances will be utilised, maintaining £1.3m for future use. In order to maintain this level of reserves the MTFP includes the following efficiencies and savings:

2017/18 £1.56m  
2018/19 £1.03m  
2019/20 £0.2m  
2020/21 £0.1m

In addition to these efficiencies and savings the MTFP clearly sets out the use of balances of:

2017/18 £0.1m  
2018/19 £0.1m  
2019/20 £0.1m  
2020/21 £0.14m

The quarter three financial budget monitoring report projected an outturn underspend of £0.59m. The report also includes a new appendix showing the movements in budget to quarter three to enable members to identify the changes over the last nine months from the original budget estimates.

### Housing Revenue Account

The Initial Budget for the Housing Revenue Account presented to the Executive in January 2017 painted a challenging picture. It noted a loss of rent income of £1.26m compared with the HRA Business Plan model (rents going down by 1% rather than increased by 2%). Over a 30 year period the loss of rent income is estimated at £120.87m. This will have a significant negative impact on the HRA Business Plan. The rent income lost is almost the same as the £122.16m debt.

By 2018/19 the HRA will need to find savings or additional income of £0.24m to balance the account. It is unlikely that the Council will be in a position to repay the debt within the 30 year plan but it will have the base budget to pay for the interest.

### The Council Plan 2017 - 2020

The Council has set out its key priorities for the next four years in line with its six strategic priorities. These priorities include:

- Encouraging inward investment and business growth
- Supporting communities during changes to welfare and benefits
- Supporting the provision of appropriate housing
- Promoting independence and reducing social isolation

Delivering the Plan's priorities will need the Council to adopt innovative approaches with its partners.

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

## Our response

- We aim to complete all our substantive audit work on your financial statements by 18<sup>th</sup> August 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will review the Council's progress in achieving the required savings and efficiencies as part of our work in reaching our VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole is determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,324,000 (being 2% of gross expenditure). In the previous year, we determined materiality to be £971,000 (being 1.5% of gross expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £66,200.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to the public interest in these disclosures. Individual misstatements will also be evaluated with reference to how material they are to the other party.	£20,000 but individual issues will be evaluated with reference to the other party as well.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Redditch Borough Council.</p>
<p><b>Management override of controls</b></p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management.</li> <li>• Review of the journal entry process.</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Further review of accounting estimates, judgments and decisions made by management.</li> <li>• Selection of unusual journal entries for testing back to supporting documentation.</li> <li>• Review of unusual significant transactions.</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315). In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p><b>CIES Disclosure Reconfiguration ('Telling the story')</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording of the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

# Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>• We will seek assurance from the external auditor of the Worcestershire County Council Pension Fund (WCCPF) regarding the relevant controls and processes in place at the WMPF in order that we can rely on the outputs from the WCCPF.</li> </ul>



# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over operating expenditure.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review the completeness of subsidiary interfaces and control account reconciliations.</li> <li>Obtain an understanding of the accruals process and test a sample of accruals (and other creditors balances).</li> <li>Cut off testing of a sample of payments after the year end.</li> </ul>
Employee remuneration	Employee remuneration accruals are understated.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of your controls in place over payroll expenditure.</li> <li>Review the completeness of the payroll reconciliation between the subsidiary system and the ledger. Completed to Month 9.</li> <li>Trend analysis of monthly payroll runs to Month 9.</li> <li>Testing of employee deductions to Month 9.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of the year-end reconciliation of your payroll system to the general ledger.</li> <li>Update the trend analysis of the monthly payroll runs for the year.</li> <li>Update employee deductions testing for the year.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

---

# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Intangible assets
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Housing Revenue Account and associated notes

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

---

# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>In year reporting to Members</b> We have previously identified that improvement is needed in reliable and timely financial reporting that supports the delivery of strategic purposes. We have identified the following risks for in year reporting to Members:</p> <ul style="list-style-type: none"> <li>• Is the current and forecast financial position clearly identified?</li> <li>• Is the delivery of savings to date and the risks to their achievement reported?</li> <li>• Are changes from the start point budget tracked through, and is the impact on balances and reserves clear?</li> <li>• Are budget variances identified and the reasons for the variance and mitigating actions explained in sufficient detail?</li> </ul>	<p>Informed decision making – “Reliable and timely financial reporting that supports the delivery of strategic priorities”.</p>	<p>We will:</p> <ol style="list-style-type: none"> <li>1) Review the financial monitoring reports to determine whether any changes to the original budget are adequately explained to Members;</li> <li>2) Review reporting to Members to determine whether the impact on reserves and balances is clear;</li> <li>3) Review how the Council is monitoring the delivery of the Council Plan.</li> </ol>
<p><b>Financial sustainability</b> We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. We have identified the following risks:</p> <ul style="list-style-type: none"> <li>• How robust is the MTFP and how well developed are savings plans?</li> <li>• How is the performance dashboard for Members being implemented?</li> </ul>	<p>Sustainable resource deployment – “Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions”.</p> <p>Informed decision making – “Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management”.</p>	<p>We will:</p> <ol style="list-style-type: none"> <li>1) Review how the Council is monitoring delivery of the Efficiency Plan;</li> <li>2) Examine how robust the MTFP is by testing a sample of individual schemes to determine whether they are worked through appropriately and realistic;</li> <li>3) Consider progress on the review of the management structure;</li> <li>4) Review how the Corporate Performance Strategy is being implemented.</li> </ol>

---

# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We have not yet reviewed internal audits work on key financial systems. This will be completed as part of our final accounts work.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. These are as follows:</p> <ul style="list-style-type: none"> <li>- Operating expenditure</li> <li>- Payroll</li> </ul> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls and testing to month 9</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have also completed substantive testing of journal entries to month 9.</p>	<p>We have not identified any weaknesses relating to the Council's journal entry policies and procedures.</p> <p>No issues have been identified with the details journal testing completed to date.</p>
<b>Early substantive testing - Payroll</b>	<p>We have completed early substantive testing for the payroll system. We have tested 9 months of the sample.</p>	<p>We have not identified any issues with the testing completed to date. We are waiting for one line manager response which confirms the existence of employees. This is currently being pursued.</p>

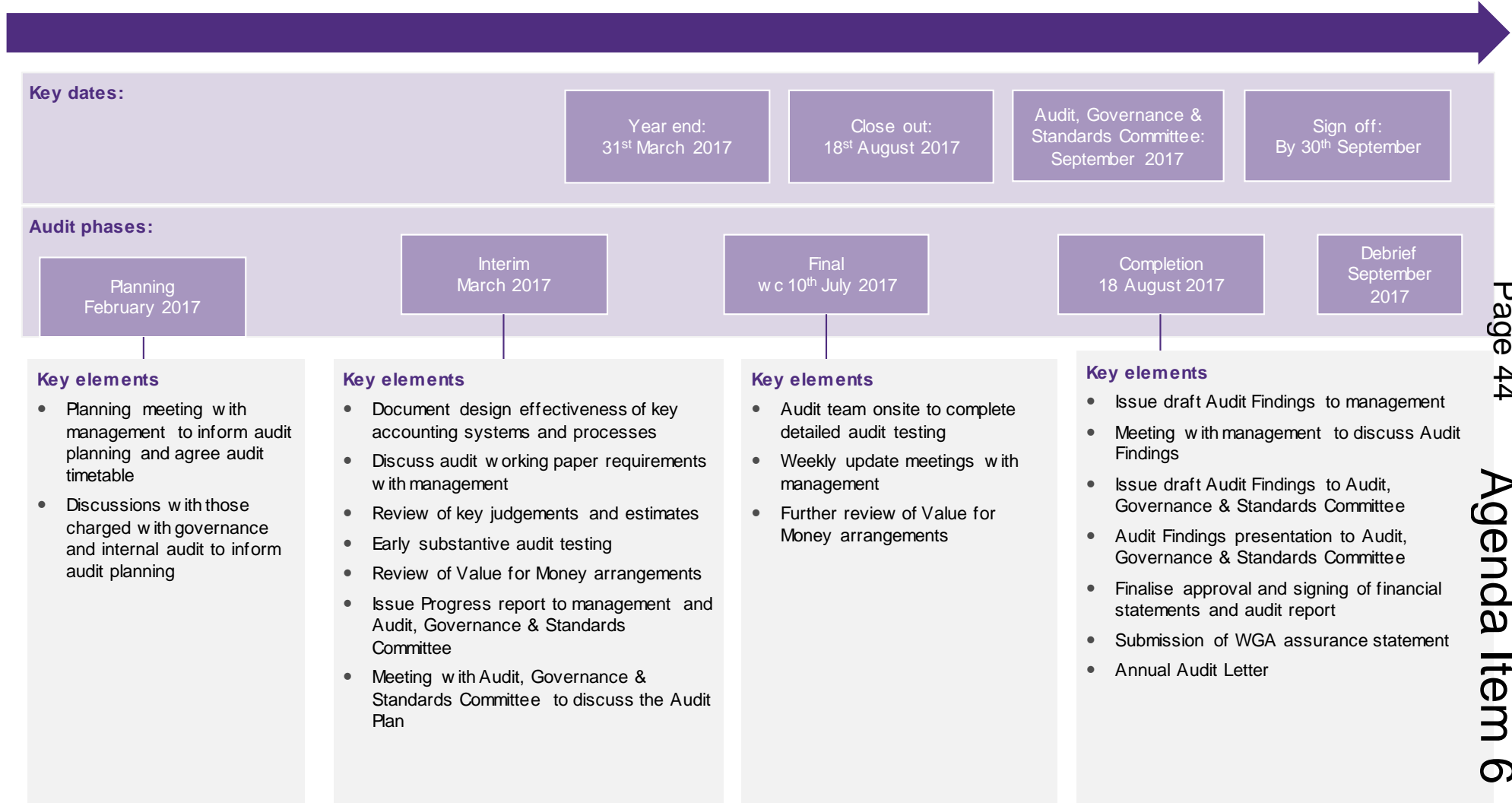


## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Early substantive testing – Operating expenditure</b>	We have completed early substantive testing for operating expenditure. We have tested 9 months of the sample.	We have not identified any issues with the testing completed to date.
<b>Early substantive testing – Operating income</b>	We have completed early substantive testing for operating income. We have tested 9 months of the sample.	We have not identified any issues with the testing completed to date.

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	57,960
Grant Certification (Housing Benefit Subsidy indicative fee)	TBC
<b>Total audit fees (excluding VAT)</b>	<b>TBC</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

---

# Independence and non-audit services

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No audit related and non-audit services were identified for the Council for 2016/17.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**

**AUDIT, GOVERNANCE & STANDARDS AND COMMITTEE 27<sup>th</sup> APRIL 2017****GRANT THORNTON – AUDITING STANDARDS 2016/17**

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

**1. SUMMARY OF PROPOSALS**

- 1.1 To present Members with the Auditing Standards report for 2016/17 from the Councils External Auditors Grant Thornton.

**2. RECOMMENDATIONS**

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

**3. KEY ISSUES****Financial Implications**

- 3.1 There are no financial implications as a direct result of this report however robust internal financial control mechanisms as confirmed within this report reduce the costs associated with fraud and inaccurate accounting arrangements.

**Legal Implications**

- 3.2 Grant Thornton have a responsibility to ensure that robust systems are in place together with proactive communications with those charged with Governance.

**Service / Operational Implications**

- 3.3 External Auditors have a duty in planning and performing their audit of the financial statements to understand how Cabinet, supported by the Council's management, and the Audit Committee meets its responsibilities in the following areas:

- Fraud
- Law and regulation
- Going concern
- Related parties
- Accounting for estimates

**AUDIT, GOVERNANCE & STANDARDS AND COMMITTEE 27<sup>th</sup> APRIL 2017**

The report attached at Appendix 1 details the management response in relation to the controls that are in place within Redditch Borough Council to ensure that arrangements are in place to support the financial and operational management of the organisation. There are no specific concerns that have been highlighted by the External Auditors.

**Customer / Equalities and Diversity Implications**

3.4 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 – Grant Thornton Auditing Standards Report 2016/17

**6. BACKGROUND PAPERS**

Individual internal audit reports.

**7. KEY**

N/a

**AUTHOR OF REPORT**

Name: Jayne Pickering  
E Mail: [j.pickering@bromsgrove&redditch.gov.uk](mailto:j.pickering@bromsgrove&redditch.gov.uk)  
Tel: 01527-881207



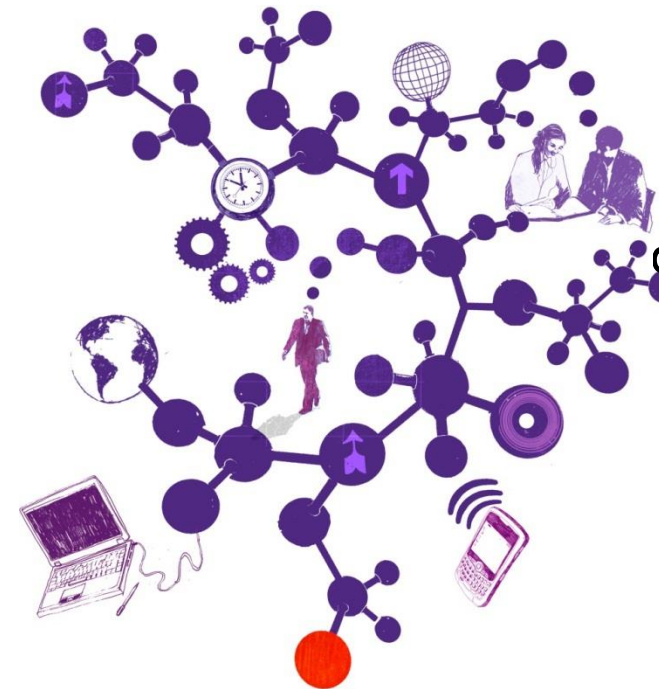
Auditing Standards – Communication with the Audit, Governance  
and Standards Committee  
Redditch Borough Council

Audit year 2016/17

April 2017

Richard Percival  
Engagement Lead  
T 0121 232 5434  
E [richard.d.percival@uk.gt.com](mailto:richard.d.percival@uk.gt.com)

Neil Preece  
Manager  
T 0121 232 5292  
E [neil.a.preece@uk.gt.com](mailto: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.

---

# Contents

<b>Section</b>	<b>Page</b>
Introduction	4
Fraud Risk Assessment	5
Table 1: Fraud Risk Assessment	7
Law and Regulation	12
Table 2: Law and Regulation	13
Going concern	14
Table 3: Going concern	15
Accounting Estimates	17
Table 4: Accounting Estimates	18
Related Parties	19
Table 5: Related parties	20
Appendix 1: Accounting Estimates	22

# Introduction

The purpose of this report is to ensure there is effective two way communication between the Council's Audit, Governance and Standards Committee, who are "Those Charged with Governance" and the external auditor.

As your external auditors we have a responsibility under professional auditing standards to ensure there is effective communication with the Audit, Governance and Standards Committee. This means developing a good working relationship with Members, while maintaining our independence and objectivity. If this relationship works well it helps us obtain information relevant to our audit and helps Members to fulfil their financial reporting responsibilities. The overall outcome is to reduce the risk of material misstatement.

In planning and performing our audit of the financial statements we need to understand how the Audit, Governance and Standards Committee, supported by the Council's management, meets its responsibilities in the following areas:

- Fraud
- Law and regulation
- Going concern
- Accounting for estimates
- Related Parties

This report summaries the respective responsibilities of the Audit, Governance and Standards Committee, Officers and external audit in each of these area, as set out by International Standards on Auditing (UK and Ireland) (ISAs). Our primary responsibility is to consider the risk of material misstatement.

**Each section of the report includes a series of questions that management have responded to. We would like to ask the Audit, Governance and Standards Committee to consider these responses and confirm that it is satisfied with the arrangements.**

# Fraud Risk Assessment

The ISAs define fraud as:

**"An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."**

[ISA (UK&I) 240, paragraph 11]

The primary responsibility to prevent and detect fraud is with the Audit, Governance and Standards Committee and the Council's management. To do this:

- Officers need to ensure there is a strong emphasis on fraud prevention and deterrence, with a commitment to honest and ethical behaviour
- Audit, Governance and Standards Committee oversight needs to include the potential for the override of controls and inappropriate influence over the financial reporting process.

Our overall responsibility is to ensure the Council's financial statements are free from material misstatement due to either fraud or error. We are required to maintain professional scepticism through the audit, which means considering the potential for the intentional manipulation of the financial statements.

## Fraud Risk Assessment cont..

We are also required to carry out a fraud risk assessment to inform our audit approach. This includes considering the following:

- How management assess the risk of material misstatement in the financial statements due to fraud.
- Officers' response to assessed fraud risk, including any identified specific risks.
- Investigations into data matches identified through the National Fraud Initiative and subsequent outcomes.
- How Officers communicate the process for assessing and responding to fraud risk to the Audit, Governance and Standards Committee.
- How Officers communicate their views on ethical behaviour to the Audit, Governance and Standards Committee.
- How the Audit, Governance and Standards Committee exercises oversight of officers' fraud risk assessment and response processes and the internal controls to mitigate these risks.
- What knowledge the Audit, Governance and Standards Committee has of actual, alleged or suspected fraud.

Table 1 sets out how Officers have responded to our financial risk assessment.

# Table 1 Fraud Risk Assessment

Question	Management response
<p>1. What is Officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible Officers on emerging technical issues. Officers also attend technical updates. Financial monitoring reports also highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts.</p> <p>Management considers there is a low risk of material misstatement in the financial statements due to fraud.</p>

# Table 1 Fraud Risk Assessment cont.

Question	Management response
<p>2 Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2016? If so how does the Audit, Governance and Standards Committee respond to these?</p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> <li>▪ Council Tax</li> <li>▪ Benefit Fraud</li> <li>▪ Single person discount</li> </ul> <p>However, there is a dedicated benefits investigation team which investigates any fraud and have undertaken a number of successful reviews and prosecutions during 2016/17. The benefits investigations transferred to the DWP in February 2016 but the Council has retained the team to enable other compliance work and Council Tax fraud to be investigated.</p> <p>The Audit, Governance and Standards Committee receives any adhoc fraud reports. There are no material instances of fraud that have been identified during the year.</p> <p>The Audit, Governance and Standards Committee would consider the fraud and the actions put forward by officers to ensure fraud is mitigated in the future.</p>



Table 1 Fraud Risk Assessment cont.

Question	Management response
<p>3 Do you suspect fraud may be occurring, either within the Council or within specific departments ?</p> <ul style="list-style-type: none"> <li>▪ Have you identified any specific fraud risks?</li> <li>▪ Do you have any concerns there are areas that are at risk of fraud?</li> <li>▪ Are there particular locations within the Council where fraud is more likely to occur?</li> </ul>	<p>Evidence published suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Authority.</p> <p>Locations handling income, particularly in the form of cash, are more likely to be at risk of fraud. However management does not consider these to be significant risks.</p>
<p>4 Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> <li>▪ The process for reviewing the system of internal control;</li> <li>▪ Internal controls, including segregation of duties; exist and work effectively?</li> </ul> <p>If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets?)</p>	<p>Yes – Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as constitution.</p> <p>The role of internal audit, provides assurance that the Council's internal controls are in place. An annual report is produced and is available prior to the annual accounts being signed and approved.</p> <p>The regular monitoring of budgets and the allocation of financial professional support to budget holders provides control and mitigation against such overrides.</p>

Table 1 Fraud Risk Assessment cont.

Question	Management response
<p>5 How do you encourage, and communicate to, employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> <li>▪ What concerns are staff expected to report about fraud?</li> </ul>	<p>There is a Fraud Strategy and Whistleblowing procedure in place which explain the procedures to follow. These have been reviewed and will be presented to Members during early 2017/18.</p> <p>Employees are aware of the anti-fraud and corruption strategy, details are available on the website.</p>
<p>6 From a fraud and corruption perspective, what are considered to be high-risk posts:</p> <ul style="list-style-type: none"> <li>▪ How are the risks relating to these posts identified, assessed and managed?</li> </ul>	<p>There are not any significantly high-risk posts identified.</p>
<p>7 Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> <li>▪ How do you mitigate the risks associated with fraud related to related party relationships and transactions?</li> </ul>	<p>2015/16 financial statements disclosure of related party transactions does not identify potential fraud risk. Members and Officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>8 What arrangements are in place to report fraud issues to the Audit, Governance and Standards Committee?</p> <p>How does the Audit, Governance and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Internal Audit provide the Audit, Governance and Standards Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. Any adhoc investigations are reported to the Audit, Governance and Standards Committee.</p> <p>The Corporate risk register is reviewed by the Committee and the Member risk champion reports to the Committee at each meeting on updates from managers in relation to departmental registers.</p>

---

## Table 1 Fraud Risk Assessment cont.

Question	Management response
9 Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2016? If so, how does the Audit and Ethics Committees respond to these?	We are not aware of any whistleblowing reports. If there was such a report then Members would consider the appropriate course of action.

# Law and Regulation

Auditing standards require us to consider the impact that law, regulation and litigation may have on the Council's financial statements. The factors that may result in particular risks of material misstatement due to fraud or error are:

- The operational regulatory framework – this covers the legislation that governs the operations of the Council.
- The financial report framework – according to the requirement of International Financial Reporting Standards, the Code of Accounting for Local Authorities in England and relevant Directions.
- Taxation considerations – for example compliance with Value Added Tax and Income Tax regulations.
- Government policies that otherwise impact on the Council's business
- Other external factors; and
- Litigation and claims against the Council.

Where we become aware of information about a possible instance of noncompliance we need to gain an understanding of it to evaluate the possible effect on the financial statements.

The ISAs also require us to make enquiries of management and the Audit, Governance and Standards Committee about the arrangements in place to comply with law and regulation. To help with this, management have responded to the following questions.

## Table 2 : Law and Regulation

Question	Management response
<p>1 How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.</p> <p>The reporting arrangements include sections for both financial and legal implications to ensure managers have considered compliance with laws and regulations. In addition staff have professional training and conduct in place to support compliance.</p>
<p>2 How is the Audit, Governance and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to Executive.</p>
<p>3 Have there been any instances of non-compliance with law and regulation since 1 April 2016 with any on-going impact on the 2016/17 financial statements</p>	<p>No.</p>
<p>4 Is there any actual or potential litigation or claims that would affect the 2016/17 financial statements?</p>	<p>None.</p>
<p>5 What arrangements does the Council have in place to identify, evaluate and account for litigation and claims?</p>	<p>The legal and finance team liaise on a regular basis to identify and evaluate any potential claims.</p>
<p>6 Have there been any reports from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance?</p>	<p>No.</p>

---

# Going Concern

Going concern is a fundamental principle in the preparation of the financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Following are key questions on the going concern assumptions which we would like the Audit, Governance and Standards Committee to consider.

## Table 3 : Going Concern

Question	Management response
1 Has a report been received from management forming a view on going concern?	The Director of Finance and Corporate Resources (as s151 Officer) is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy.
2 Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Financial Plan is based on delivering the key priorities of the Council and all income and expenditure is set on the basis of ensuring the purposes are met.
3 Are the implication of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Financial Plan considered the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review and other changes to local government finance including Business Rate reforms.
4 Have there been any significant issues raised with the Audit, Governance and Standards Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	The recent S11 report (2014/15) identified areas of improvements within the Councils budgeting processes. A clear action plan is in place to ensure that future assumptions on estimates and monitoring reports are robust. Further issues were also identified during the 2015/16 audit. These have now been reviewed and action has been taken to improve the financial reporting.
5 Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No.

## Table 3 : Going Concern cont...

Question	Management response
<p>6 Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes.</p>
<p>7 Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>Yes – regular financial monitoring reports to Officers and Members.</p>
<p>8 Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>No.</p>
<p>9 Are arrangements in place to report the going concern assessment to the Audit, Governance and Standards Committee?</p> <p>How has the Audit Governance and Standards Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?</p>	<p>Regular financial monitoring is presented to the Committee. In addition it is proposed that the savings plans are monitored on a regular basis at the Audit, Governance and Standards Committee.</p>



# Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard, we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an account estimate.

We need to be aware of all estimates that the Council are using as part of their accounts preparation; these are detailed in appendix 1.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable, and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

## Table 4: Accounting Estimates

Question	Management response
1 Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant account estimates that require significant judgement?	No.
2 Are management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes, Officers have reviewed the estimates and believe they are reasonable.
3 How is the Audit, Governance and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate?	The professional judgement of the s151 Officer is accepted by the Committee.

# Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related Party Disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates
- joint ventures in which the authority is a venturer
- an entity that has an interest in the authority that gives it significant influence over the authority
- key officers and close member of the family of key officers
- post employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is related party of the Council.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Table 5: Related Parties

Question	Management response
<p>1 Who are the Council's related parties?</p>	<p>The Council discloses its related parties under the following headings:</p> <ol style="list-style-type: none"> <li>1. Government – Central Government has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</li> <li>2. Pension Fund – this party is subject to common control by Central Government.</li> <li>3. Precepts &amp; Levies – these parties are subject to common control by Central Government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</li> <li>4. Assisted Organisations – the provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</li> <li>5. Members and Officers – certain Members and Officers may have controlling influence or related interests with other of the Council's related party organisations, such that they may be in a position to significantly influence the policies of the Council.</li> </ol>

Table 5: Related Parties cont....

Question	Management response
<p>2 What are the controls in place to identify, account for, and disclose, related party transactions and relationship?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>▪ Maintenance of a register of interests for Members a register for pecuniary interests in contracts for Officers and Senior Mangers requiring disclosure of related party transactions.</li> <li>▪ Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests.</li> <li>▪ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>▪ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation.</li> <li>▪ Review of year end debtor and creditor positions in relation to the related parties identified.</li> <li>▪ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.</li> </ul>

# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant and equipment valuations	The Council has a contract with Place Partnership Ltd to manage its asset base, including undertaking annual valuations. The Valuer is a RICS/CIB Member) and reviews are made inline with RICS guidance on the basis of 5 year valuations with interim reviews.	Technical Accountant notifies the valuer of the programme of rolling valuations or of any conditions that warrant an interim re-valuation.	Yes, the Place Partnership valuer.	Valuations are made in line with RICS guidance – reliance on expert.	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> <li>▪ Buildings 50 years</li> <li>▪ Equipment/vehicles 5 years</li> <li>▪ Plant 12 years</li> <li>▪ Infrastructure 40 years</li> </ul>	Consistent asset lives applied to each asset category.	Yes, the Place Partnership valuer.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction material used. This life would be recorded in accordance with the local qualified RICS or CIB Member.	No

# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> <li>▪ Assets acquired in the first half of a financial year and depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year.</li> <li>▪ Assets that are not fully constructed are not depreciated until they are brought into use.</li> </ul>	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable	Assets are assessed at each year end as to whether there is any indication that an asset may be impaired.	Place Partnership Valuer.	Valuations are made in line with RICS guidance – reliance on expert.	No

# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments cont..	amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.			is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income.	
Non adjusting events – events after the BS date.	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of Services notify the s151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A



# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professions.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	An aged debt listing is provided routinely and finance calculate the provision.	No	Consistent proportion used across aged debt as per the Code.	No

# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

# Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a Change in accounting method in year?
Accruals	Financial Services collate accruals of Expenditure and Income in conjunction with the service managers. Activity is accounted for in the financial year it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No



**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE** 27<sup>th</sup> APRIL 2017**GRANT THORNTON – AUDIT FEE LETTER 2017/18**

Relevant Portfolio Holder	Councillor John Fisher
Portfolio Holder Consulted	No
Relevant Head of Service	Jayne Pickering – Executive 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 present Members with the Audit Fee letter for 2017/18 from the Councils External Auditors Grant Thornton and to approve the level of fee.

**2. RECOMMENDATIONS**

- 2.1 **The Committee is asked to RESOLVE that the fee be agreed.**

**3. KEY ISSUES****Financial Implications**

- 3.1 The 2017/18 budget assumes the level of fee of £58k as set in the attached letter. The fee in relation to the Housing Benefit Grant certification is to be confirmed.

**Legal Implications**

- 3.2 None as a direct result of this report. The Council currently has a contract with Grant Thornton to provide the External Audit service.

**Service / Operational Implications**

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice.
- 3.4 The areas of work include
- Audit of Financial Statements
  - Value for Money Conclusion
  - Work on Whole Of Government Accounts

**Customer / Equalities and Diversity Implications**

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE** 27<sup>th</sup> APRIL 2017

3.6 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 – Grant Thornton Audit Fee Letter

6. **BACKGROUND PAPERS**

Individual internal audit reports.

7. **KEY**

N/a

**AUTHOR OF REPORT**

Name: Jayne Pickering  
E Mail: [j.pickering@bromsgrove&redditch.gov.uk](mailto:j.pickering@bromsgrove&redditch.gov.uk)  
Tel: 01527-881400



Jayne Pickering  
Executive Director  
Redditch Borough Council  
Council House  
Walter Stranz Street  
Redditch  
Worcestershire  
B98 8AH

Grant Thornton UK LLP  
The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT  
www.grant-thornton.co.uk

10 April 2017

Dear Jayne

**Planned audit fee for 2017/18**

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

**Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £57,960.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

**Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and

guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the [2017/18 work-programme and scales of fees](#) set out on the PSAA website. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*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.*

### **Certification of grant claims and returns**

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2017	14,490
December 2017	14,490
March 2018	14,490
June 2018	14,490
<b>Total</b>	<b>57,960</b>
<b>Housing Benefit Certification</b>	
March 2018	TBC



**Outline audit timetable**

We will undertake our audit planning and interim audit procedures in November 2017 to February 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July and work on the whole of government accounts return in August.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	November 2017 to February 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	February to July	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	August	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to November	Grant certification report	A report summarising the findings of our housing benefit certification work

**Our team**

The key members of the audit team for 2017/18 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Richard Percival	0121 232 5434	richard.d.percival@uk.gt.com
Engagement Manager	Neil Preece	0121 232 5292	neil.a.preece@uk.gt.com
In Charge Auditor	Mary Wren	0121 232 5254	mary.wren@uk.gt.com

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Mark Stocks our Public Sector Assurance regional lead partner, via [Mark.C.Stocks@uk.gt.com](mailto:Mark.C.Stocks@uk.gt.com).

Yours sincerely

Richard Percival

Engagement Lead

For Grant Thornton UK LLP

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE****27<sup>TH</sup> APRIL 2017****2016-17 PROPOSED ACCOUNTING POLICIES**

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

**1. SUMMARY OF PROPOSALS**

This report presents the proposed accounting policies to be used for the closure of the 2016/17 accounts. These are prepared in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2016/17 (the Code). Adopting the proposed policies will support timely production of the annual Statement of Accounts.

**2. RECOMMENDATIONS**

- 2.1. It is recommended that the Audit Standards And Governance Committee approves the Council's proposed Accounting Policies to be adopted in completing the 2016/17 Statement of Accounts.

**3. KEY ISSUES**

- 3.1 In order to comply with International Accounting Standards, the Council needs to disclose the accounting policies it has applied to all material balances and transactions, in compiling its annual Statement Of Accounts These relate to the accounting practices, as set down in the Code, which all local authorities follow.
- 3.2 It is considered good practice to obtain member approval for the accounting policies that are to be adopted and will assist with production of the draft accounts by 31 May 2017. The aim is to have the audited accounts complete by 30<sup>th</sup> June 2017.
- 3.3 There are some changes to the format of the accounts this year .For example the presentation of the Comprehensive Income and Expenditure Statement has been revised so that this will better reflect how the Council is structured and manages its resources.
- 3.4 In addition, a new funding and expenditure note will reconcile the movement on the General Fund balance to the Surplus or Deficit on Provision of Services. The proposed changes are designed to help make the accounts clearer for readers.

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE 27<sup>TH</sup> APRIL 2017**

---

- 3.5 Although there will be changes to the appearance of the accounts, they do not directly impact on the underlying accounting policies and there have been no material changes to the policies that were included in the 2015-16 Statement Of Accounts which are presented at Appendix 'A'.
- 3.6 Preparation of draft accounts is required to come forward to 31 May following the relevant year end, for financial years 2017/18 onwards. At the same time, the audited statements will need to be published by 31 July following the relevant financial year end.

**Legal Implications**

- 3.7 The Code constitutes 'proper accounting practices' to be followed by a local authority under the terms of section 21 of the Local Government Act 2003

**Service/Operational Implications**

- 3.8 None, as a direct result of this report

**Customer / Equalities and Diversity Implications**

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

**4. RISK MANAGEMENT**

Effective financial management is included in the Corporate Risk Register.

**5. APPENDICES**

Appendix A -2016/17 Proposed Accounting Policies

**6. BACKGROUND PAPERS**

CIPFA recommended template for the Statement of Accounts

**AUTHOR OF REPORT**

Name: John Tolley – Business Support  
Email: johntolley@bromsgroveandredditch.gov.uk  
Tel: (01527) 587006

# Redditch Borough Council

## Notes to the Financial Statements FOR THE YEAR ENDED 31 MARCH 2017

### 1 DRAFT Accounting Policies

#### General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2016, which require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### Summary of Significant Accounting Policies

##### i) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

##### ii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

**iii) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period

**iv) Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**v) Council Tax and Non-Domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

**Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

**vi) Employee Benefits****Benefits Payable During Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post Employment Benefits

Employees of the Authority are members of three separate pension schemes:

#### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme

- The liabilities of the Worcestershire Pension Fund (WPF) attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of x% (based on the indicative rate of return on high quality corporate bond [name of bond or index of bonds]).
- The assets of WPF attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Worcestershire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### **Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **vii) Events After the Reporting Period**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

#### **viii) Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [other financial instruments as applicable] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.



**ix) Financial Instruments****Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Available-for-sale assets**

The Council has no available for sale assets

**x) Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**xi) Heritage Assets****Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

Heritage Assets are those with cultural, environmental or historical significance that make their preservation for future generations important.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see note ix in this summary of significant accounting policies.

**xii) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **xiii) Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

#### **xiv) Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

#### **xv) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

## The Authority as Lessee

### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg, there is a rent-free period at the commencement of the lease).

## The Authority as Lessor

### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg, there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**xvi) Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. A materiality level of £1.324m has been set by the External Auditors and notes below this amount have been removed where they are not considered to add value to the statements.

**xvii) Overheads and Support Services**

The costs of overheads and support services are charged to the HRA in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

**xviii) Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie, it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain Community Assets) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following bases:

- dwellings - the s151 Officer has reviewed the use of the Major Repairs Allowance as depreciation for Housing Revenue Account properties, and considers this to be a reasonable estimate for depreciation cost. An amount equivalent to the Major Repairs Allowance has been used as the annual depreciation charge for HRA assets. other buildings – straight-line allocation over the useful life of the property as estimated by the valuer and is between 15-100 years.
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**xix) Provisions, Contingent Liabilities and Contingent Assets****Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

**Provision for Back Pay Arising from Unequal Pay Claims**

Job evaluation was implemented during 2016-17 and backpay was included where appropriate. There is no provision for backpay or equal pay claims.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential

**xx) Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

**xxi) Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.



**xxii) Shared Services**

Redditch Borough Council provides the hosting for a number of shared service arrangements with Bromsgrove District and Wyre Forest District Council. A number of other shared services are hosted by Bromsgrove District (including Worcestershire Regulatory Services which is a Jointly Controlled Operation), Worcester City Council and Wyre Forest District Council.

Each arrangement is accounted for within the records of Redditch Borough Council with a monitoring report prepared for the partner authority on a monthly basis for consideration of the operational costs together with an annual statement of assets and liabilities extracted from the accounts of Redditch Borough Council. There is a responsibility for each partner Council to account for their share of the arrangement within their statement of accounts

When entering into shared services with Bromsgrove District Council, all capital assets that are purchased are financed by each authority separately and accounted for on their own Balance Sheet. Any assets purchased prior to the start of the shared service are not included in the shared service; the costs associated with this remain on the accounts of the authority that purchased the asset only.

The Management team is shared across both authorities as well as other services. Cross-charging occurs where a resource is used by the other Authority where there is not a formal shared service in place.

Each Authority pays a fair share of services which are shared, in line with the Business Case; all direct expenditure is shared on this basis, with income staying with the home Authority. Where a cost is only in relation to one Authority, this falls outside the Business Case and the Authority that gains the benefit for this is fully charged.

Where support services are fully recharged across direct services a review of these has been undertaken. On doing this, it has been established that currently no internal recharges are to be charged to/from Redditch Borough Council with the exception of accommodation in one area. The work has shown that as services become shared each Authority is already paying its share of internal recharges within the splits of the live shared services. Services that were not shared during this period have been looked at by each Authority and Redditch Borough Council is already paying its share of all support services.

**xxiii) VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.



REDDITCH BOROUGH COUNCILAUDIT, GOVERNANCE AND STANDARDS COMMITTEE27<sup>th</sup> APRIL 2017APRIL – DECEMBER FINANCIAL SAVINGS MONITORING REPORT 2016/17

<b>Relevant Portfolio Holder</b>	Councillor John Fisher
<b>Portfolio Holder Consulted</b>	-
<b>Relevant Head of Service</b>	Jayne Pickering – Exec Director Finance and Resources
<b>Ward(s) Affected</b>	All Wards
<b>Ward Councillor(s) Consulted</b>	No
<b>Key Decision / Non-Key Decision</b>	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 – December 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 – December 2016.

**3. KEY ISSUES**

- 3.1 This report provides a statement to show the savings for April 2016 – December 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 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.

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE AND STANDARDS COMMITTEE****27<sup>th</sup> APRIL 2017**

---

3.4 Appendix 1 shows that for April 2016 – December 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 further £125k 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 £220k savings have been realised from further efficiencies and income.
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 independed	-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
<b>TOTAL</b>		<b>-712</b>	



Date: 27<sup>th</sup> APRIL 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	Paul Field, Interim 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: 27<sup>th</sup> APRIL 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 01<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 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 (2<sup>nd</sup> February 2017):

2016/17 AUDIT SUMMARY UPDATES:

**Bereavement Services**

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

- There is an effective system in place for managing bookings.
- Monitoring of non-payment for services, and resultant actions to obtain these outstanding monies.
- The monitoring of performance and usage of the facilities for both cremations and cemeteries.
- The maintenance of statutory registers for burials and cremations.

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

- The complete and timely charging of services to customers;
- The use of manual invoices instead of the electronic centralised debtors system.
- The timely and accurate collection and banking of income from customers.

Type of audit: Full system audit

Assurance: Significant

Report issued: 17<sup>th</sup> March 2017



Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

Planning Enforcement

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

- Information and guidance concerning Planning Enforcement Policy is available to staff and customers on the Council's website;
- Complaints are prioritised for enforcement actions based on importance and urgency;
- The Council has issued enforcement notices in line with regulatory requirements;
- The owner / occupier is suitably informed of their obligations under the Enforcement Notice;
- There is a suitable system in place for recording and monitoring appeals against enforcement actions; and
- Land charges are notified promptly when an Enforcement Notice has been issued.

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

- Use of the Uniform system as the primary / sole record of planning enforcement activity;
- Enforcement documentation to be maintained within Uniform with appropriate linkages; and
- Decision on publication of Planning Enforcement Notices and the security and integrity of the physical Register.

Type of audit: Full system audit

Assurance: Significant

Report issued: 16<sup>th</sup> February 2017

Development Control (Planning Applications and Fees)

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

- Staff have access to guidance provided by the Town and Country Planning Act 1990 and 2015 and to guidance on the use of the Uniform planning system;
- The Council has adopted and applies the national scale of fees for planning applications;
- The setting of pre-planning application fees is transparent, and information regarding charges is clear and made available to applicants;
- The Council has sufficient procedures in place for managing different types of applications, from small refurbishments to larger corporate developments; and
- Financial and non financial performance reports are produced for management on a regular and timely basis.

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

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

- The charging of VAT for pre application advice;
- Redaction of personal sensitive data on planning applications prior to publication;
- Charging of pre application fees in line with approved fees and charges;
- Recording of actions on the Uniform system to maintain an adequate audit trail; and
- Reconciliation of Uniform recorded income to general ledger planning income codes.

Type of audit: Full system audit

Assurance: Moderate

Report issued: 16<sup>th</sup> February 2017

Community Centres

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

- Monitoring of Community Centre performance, including maintenance of a suite of performance measures, and ongoing reviews into improving this functionality.

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

- The booking system is not currently working effectively. Applications forms have not been completed and retained in all instances to show a full audit trail of activity.
- Invoicing has not been effective and in accordance with defined procedures in some instances.
- Debt monitoring is not being proactively monitored due to a lack of effective reporting on outstanding debts.
- There is a need to ensure statutory requirements and good site management practice regarding the community centres are being adhered to, i.e. displaying of current insurance policy documentation, regular changing of security codes, etc.

Type of audit: Full system audit

Assurance: Limited

Report issued: 6<sup>th</sup> February 2017

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

Post Contract Appraisals

The review found the following areas of the system to be working well:

- Contract specifications were found to detail the goods/materials required and, where appropriate, to include BSI references or other trade descriptor
- The Standard Terms and Conditions were used in all contracts reviewed

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

- The control of contract variations was found to be less than satisfactory which, in the worst scenario, could lead to loss of financial control (Housing)
- Contracts did not always contain meaningful performance measures and when combined with infrequent meetings with the contractor could lead to contractor performance not being effectively monitored (Housing & Environmental Services)
- In instances where measurements/quantities were not specified in Housing contracts this had led to differences in contractor charges applied to similar properties and excessive amounts being invoiced (Housing).
- Contractor's insurance was not being routinely confirmed as required and this could expose the Council to unnecessary risks (Housing & Environmental Services)

Type of audit: Full system audit

Assurance: Limited

Report issued: 17<sup>th</sup> March 2017

During this review and due to the number and nature of the areas of risk identified several of the findings were addressed by management before the report was issued. Management continue to work and implement their robust action plan to address the risks identified in this review and close monitoring will continue.

Due to the potential risks identified and associated with this review The Head of Internal Audit and the Senior Management Team agreed to commission a further piece of work focussing primarily on the Housing Capital Programme. Since commissioning the piece of work in November 2016 a significant and evidence based piece of work has been undertaken in this area by the internal audit team. There have been regular progress meetings between the Senior Management Team and the Head of Internal Audit Shared Service to review findings during this time and to agree the ongoing direction of the work. This work has now drawn to a close. A key outcome of this review has been to employ a Senior Contracts Manager who is now working on developing as

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

well as delivering a robust action plan to address the risks. The Manager is reporting directly to the Senior Management Team and internal audit have worked with the team sharing information. A summary report as well as an update on progress will be provided to the next available committee.

Insurance (Critical Review)

A comparative review was completed to provide Management with an insight of insurance procedures among partner Councils, therefore, no audit opinion has been provided. Benchmarking of insurance procedures was completed using statements to outline the process of insurance claim management.

Audit testing showed that Insurance claim procedures in the main were similar across the Council's with differences occurring due to the nature and number of claims each Council manage. One significant difference between Council's was found in Redditch Borough Council were an annual Admin and Claim Handling Fee is currently paid. Investigation identified that the Admin and Claim Handling Fee is included within the premium where the excess is £10,000 or below whereas anything above £10,000 would incur an Admin and Claim Handling Fee. In addition, due to the excess being above £10,000, Redditch Borough Council pay claims directly to the claimant unlike the others who are invoiced by Zurich Municipal whom pay the claims on the Councils' behalf. It must be remembered that the Borough is unique in regard to the partnership in so far that it retains the housing stock. Due to this there is a different profile in regard to dealing with the number of insurance claims and the Borough considered this to be the most appropriate way of administering claims at the time the contract was agreed.

Type of audit: Comparative Full System Audit

Assurance: N/A (Critical Review)

Report issued: 17th February 2017

Payroll 2015/16

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

- Records and documents are protected against loss or unauthorised access.
- Reconciliations

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

- Assessment of risks

Type of audit: Full System

Assurance: Moderate

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

Report issued: 30<sup>th</sup> January 2017  
 Summary of assurance levels:

<b>2016/17</b>	
Bereavement Services	Significant
Planning Enforcement	Significant
Planning Applications and Fees	Moderate
Community Centres	Limited
Post Contract Appraisals	Limited
<b>2015/16</b>	
Payroll	Moderate

2016/17 AUDIT WORK WHICH WAS ONGOING AT THE END OF QUARTER 4:

Audits completed to draft report stage included:

- Fees and Charges
- Performance Indicators
- Creditors
- Benefits
- Worcester Regulatory Services
- Risk Management

Audits that were continuing as at the 31st March 2017 included:

- NDR (clearance)
- Council Tax (clearance)
- Payroll (fieldwork review)

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.

Due to the resourcing requirements in regard to the additional piece (as indicated in the Post Contract Appraisal summary above) in regard to the Housing Capital Programme the overall 2016/17 audit plan position has been impacted to which the s151 Officer and Head of the Internal Audit Shared Service have been in dialogue to agree the best solution for the Partners.

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

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.

Critical review audits (e.g. Insurance) 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, significant legislative updates or a comparison required a critical review approach will be used. In order to assist the service area to move forwards a number of challenge areas 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. An escalation process is to be agreed for 2017-18 involving CMT and SMT to ensure more effective use of resource in regard to follow up and reduce the number of revisits that are currently necessary.

#### 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 31<sup>st</sup> March 2017 a total of 460 days had been delivered against an overall target of 400 days for 2016/17. The target days to the end of the quarter have been exceeded due to a combination of factors including reduced productivity and a number of over runs against audits throughout the year brought about by a substantial churn in the team as well as the additional work that was required for both the Post Contract Appraisal review along with the Housing Capital Programme review. Productivity is starting to show signs of an increase now the staff have settled in and have begun to understand the Borough's requirements.

Appendix 2 shows the performance indicators for the service. Performance and management Indicators were agreed by the Committee on the 21<sup>st</sup> April 2016 for 2016/17.

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

Appendix 3 shows the tracking of completed audits.

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

**3.5 OTHER KEY AUDIT WORK**

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

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

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**

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

3.6 There are no implications arising out of this report.

**4. RISK MANAGEMENT**

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

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

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

**5. APPENDICES**

Appendix 1 ~ Internal Audit Plan delivery 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

**AUTHOR OF REPORT**

Name: Andy Bromage  
Head of Internal Audit Shared Service  
Worcestershire Internal Audit Shared Service  
Tel: 01905 722051  
E Mail: [andy.bromage@worcester.gov.uk](mailto:andy.bromage@worcester.gov.uk)



REDDITCH BOROUGH COUNCILDate: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE****APPENDIX 1****Delivery against Internal Audit Plan for 2016/17**  
**1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017**

<b>Audit Area</b>	<b>2016/17 PLAN DAYS</b>	<b>Forecasted days to the 31<sup>st</sup> March 2017</b>	<b>Days used to 31<sup>st</sup> March 2017</b>
Core Financial Systems (see note 1)	104	112	115
Corporate Audits(see note 2)	66	105	112
Other Systems Audits(see note 3)	176	182	185
<b>TOTAL</b>	<b>346</b>	<b>399</b>	<b>412</b>
Audit Management Meetings	20	20	18
Corporate Meetings / Reading	9	9	6
Annual Plans and Reports	12	12	12
Audit Committee support	13	13	11
Other chargeable	0	0	0
<b>TOTAL</b>	<b>54</b>	<b>54</b>	<b>47</b>
<b>GRAND TOTAL (see note 4)</b>	<b>400</b>	<b>453</b>	<b>460</b>

**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 additional work and ongoing review. The time for this work is being split between both Corporate and Other Systems audit budgets and has led to an overspend on each of the budget headers.

**Note 3**

Due to the additional work 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.

Note 4: As previously reported as part of the performance indicators Service productivity has been down due to a combination of factors for the financial year. It 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 quarter 2. Expectation is that productivity will continue to increase as they become more familiar with Partner and Service requirements but the result of the reduced productivity is that audits have taken longer to deliver resulting in an increase in the overall required days, as indicated above, to deliver the plan.

Date: 27<sup>th</sup> APRIL 2017**AUDIT, GOVERNANCE & STANDARDS COMMITTEE****APPENDIX 2****Performance Indicators (KPIs) for 01<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017**

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

	<b>PI</b>	<b>Trend / Target requirement</b>	<b>2015/16 Year End Position</b>	<b>2016/17 Position (as at 31/03/2017)</b>	<b>Frequency of Reporting</b>
1	No. of customers who assess the service as 'excellent'.	Target = >85% of returns	2 returns;  1 excellent & 1 good	12 issued;  6x returned & 6x excellent	Quarterly
2	No. of audits achieved during the year	Per identified target	Target = 16 (minimum)  Delivered = 23	Target = 17 (minimum)  Delivered = 17  With a further 6 in draft	Quarterly
3	Percentage of Plan Delivery	>90% of agreed annual plan	99%	100%	Quarterly
4	Service Productivity	Annual target >70%	81%	* 62%	Quarterly

\*As previously reported as part of the performance indicators Service productivity has been down due to a combination of factors during the financial year. It 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 quarter 2. Expectation is that productivity will continue to increase into 2017/18 as they become more familiar with Partner and Service requirements but the result of the reduced productivity during 2016/17 is that audits have taken longer to deliver resulting in an increase in the required days, however, the 2016/17 plan has been delivered.

WASS 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 (i.e. where no action has commenced by the agreed implementation date) will be reported to the Committee.

For some audits undertaken each year 'follow-ups' may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the over all work load and are assessed by the 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: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></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.	<u>3<sup>rd</sup></u> 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.  <u>4<sup>th</sup></u> Further follow up March 2017. Auditor has been in contact with service re: progress of cleansing files. Files are being cleansed however due to staff shortages not as quickly as initially thought. Further audit in this area to take place 2017-18 Q1 therefore <b>no further follow up</b> on this as audit will encompass the points.
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	Followed up in June/ July 15. 1 medium priority recommendation concerning the updating of the contracts register has been implemented. 2 medium	Follow up 15/03/16 ~ 2 medium priority recommendations remain outstanding. Training to be delivered w/c 7th April and the new procurement	Follow up took place in October 2016, it found both recommendations are in progress, these relate to the procurement strategy which is currently

**REDDITCH BOROUGH COUNCIL**

**Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
				the appropriate times and that there is a clear procurement protocol in relation to procurement rules.	priority recommendations concerning the updating of the procurement guidance and the provision of training to staff on good procurement practice have not yet been implemented. Expected implementation of recommendations will be December 15.	strategy to be written by no 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	in draft form. Further audit in this area to take place 2017-18 Q1 therefore <b>no further follow up</b> on this as audit will encompass the points.
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.	<b>3rd</b> This will be followed up officially in February 2017 after the 2017/18 fees and charges have been agreed.  <b>4th</b> Discussion with management occurred in February 2017. The reddicard was not approved by committee however the amount is not considered material (£140 received for the card this year). There will be <b>no further follow up</b> . however there will be a fees and charges review in Q4 2016-17, therefore any material issues will highlighted.

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
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 <sup>th</sup> 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.	<b>3rd</b> 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.  <b>4th</b> A follow up took place in November 2016, it found the one outstanding recommendation relating to recording artefacts at Crossgates has now been implemented. <b>No further follow up</b> will take place.
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.  Further follow up In March 17 when audit spoke to the interim financial services manager to make him aware of the ongoing report. The interim services manager will	

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
						look into the need for PCI certification.	
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.	A follow up took place in February 2017 and found that the one outstanding recommendation relating to members reporting had been implemented. <b>No further follow up</b> will take place.
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.	A follow up was undertaken in February 2017, it found the one outstanding recommendation relating to broadband allowances has been implemented. There will be <b>no further follow up</b> .	
Leisure Banking -	9 <sup>th</sup> 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.	A follow up took place in March 2017 and found the 1 remaining recommendation relating to invoicing arrangements has been implemented, Abbey Stadium now raise their own invoices. <b>No further follow up</b> will take place.	

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
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 May -17.	May- 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.	Follow up was scheduled for February, however, due to change of Financial Service Manager, the interim manager will pick up AGS as part of job therefore follow up has been delayed until June 2017.	
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	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	Follow up originally scheduled for Mar 2017, however, it has been delayed until after the restructure has taken place in mid May 17.	



**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
				Management	of developers per project and uploading of S106 agreements. Further follow up in 6 months.		
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.	Follow up originally scheduled for April 2017, however, delayed until May 17 due to staff resource issues in Community Services.	
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 reviews, professional indemnity Insurance and accuracy of invoices received.	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 for the use of agency staff and processing invoices. One recommendation is still to be actioned reliant on the outcome of a recommendation.	Jun- 17	
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	A follow up was undertaken in February and found that 2 recommendations relating to issuing of RTB2 and completion of sales were implemented. One recommendation relating to the mortgage rescue scheme has yet to be	Aug - 17	

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
					actioned. Further follow up in 6 months.		
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. Further follow up in 6 months.	Jun- 17	
Allotments	16/08/2016	Head of Leisure and Cultural Services	Limited	1 'high' priority recommendation in regard to the overall management of allotment services	A follow up took place in February 2017 finding one recommendation relating to the allotment action plan was in progress. Further follow up in 3 months.	May - 17	
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.	A follow up in February 2017 found that both recommendations have been fully implemented. There will be <b>no further follow up</b> .		
Rent Verification	12th September 2016	Housing Services	Significant	One medium priority recommendation was made relating to refund payment authorisation	A follow up took place in February 2017, it found the one recommendation relating to the refund authorisation process as implemented. There will be <b>no further follow up</b> .		

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
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.	A follow up was undertaken in February 17 finding 1 recommendation relating to training has been implemented, and 2 recommendations relating to documenting meetings and safety of staff are in progress. Follow up 6 months.	Aug- 17	
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.	A follow up was undertaken in March 17, and found that the one medium priority recommendation relating to data protection training has been implemented. There will be <b>no further follow up</b> .		
Cash Collection	3rd January 2017	Executive Director (Finance and Resources)	Significant	The report reported one medium priority recommendation relating to a review taking place of safe keys for cash offices. Follow up in 6 months.	Jun-17		
Insurance	13th January 2017	Corporate	Critical Friend	This audit reported 3 recommendations to all 5 authorities, these related to, documentation of claims, insurance risk on risk register and	Aug- 17		

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
				admin and claim handling fee. Follow up in 6 months.			
Community Centres	6th February 2017	Leisure and Cultural Services	Limited	This audit report reported 1 high priority recommendation relating to debt monitoring and 6 medium priority recommendations relating to documents, invoices, cancellations and security. Follow up in 3 months.	May-17		
Planning Enforcement	16th Feb 17	Planning and Regeneration	Significant	This audit reported one high priority recommendation relating to supporting documentation for the planning enforcement. Follow up in 3 months.	May-17		
Planning Application and Fees	16th Feb 17	Planning and Regeneration	Moderate	This audit reported 2 high priority recommendations relating to, VAT and redaction of published applications and 2 medium priority recommendations relating to, record of notification and reconciliation of	May-17		

**REDDITCH BOROUGH COUNCIL**

Date: 27<sup>th</sup> APRIL 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>Results of follow Up</u> <u>1<sup>st</sup></u>	<u>Results of follow Up</u> <u>2<sup>nd</sup></u>	<u>Results of follow Up</u> <u>3<sup>rd</sup> &amp; 4<sup>th</sup></u>
				payments. Follow up in 3 months.			
Bereavement Services	17th March 17	Environmental Services	Significant	This audit reported 2 medium priority recommendations relating to written sales invoices and invoice reconciliations. A follow up will be undertaken in 6 months time.	Sept -17		
Contracts - Post Contract Appraisal	17th March 17	Housing	Limited	This audit reported 5 high priority recommendations and 3 medium priority recommendations relating to performance measures, contract specifications, variations, payments, tender evaluations, insurance, contract documents and meetings. A follow up will be undertaken in 3 months however contract specification, variations and contractor meetings have been satisfied..	Jun -17		
end							

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

---

**APPENDIX 4**

**Definition of Audit Opinion Levels of Assurance**

<b>Opinion</b>	<b>Definition</b>
<b>Full Assurance</b>	<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>
<b>Significant Assurance</b>	<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>
<b>Moderate Assurance</b>	<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>
<b>Limited Assurance</b>	<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>
<b>No Assurance</b>	<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**

---

<b>Priority</b>	<b>Definition</b>
<b>High</b>	<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>
<b>Medium</b>	<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>
<b>Low</b>	<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
<b>Audit: Bereavement Services</b>					
<b>Assurance: Significant</b>					
<b>Summary: Full system review</b>					
1	Medium	<p><b><u>Manually Written Sales Invoices</u></b></p> <p>Hand-written invoices are being issued by the Bereavement Service team to various clients, primarily in relation to services that have been paid for at the point of issuing the invoice, e.g. cash payments made at the point of booking.</p> <p>Electronic invoices are only raised for larger accounts involving regular customers.</p> <p>Debts relating to manual invoices are chased by the Bereavement Services team and are not monitored as part of the centralised Debtors process. Bad debts are not formally written off through the normal procedure.</p>	<p>Inefficient use of resources, whereby Bereavement Services staff are responsible for issuing, monitoring and chasing individual invoice payments.</p> <p>Lack of centralised monitoring of debts, which could result in financial loss and reputational damage if outstanding payments are not managed effectively, and correctly reported in corporate literature.</p>	<p>To consider alternative means of raising charges other than manual invoices, including the use of sales receipts or electronically raised invoices through the eFin Debtors system.</p>	<p><b>Management Response:</b></p> <p>Controlled stationery sequentially numbered receipt books now in operation for Redditch cash payments.</p> <p>All ad-hoc invoicing is now on eFin under appropriate authority.</p> <p>All payments will be via eFin where a request for payment is required (invoice). Card payments and cheques from the public will continue but no manual receipts will be issued unless it's for a payment of cash.</p> <p>Redditch card payment logons available to all staff to allow for more efficient payment methods.</p> <p>Monthly overdue accounts report now received automatically and staff trained on how to check payment of individual invoices to manage debtors.</p> <p><b>Responsible Manager:</b></p> <p>Bereavement Services Manager</p> <p><b>Implementation date:</b></p> <p>By 31<sup>st</sup> March 2017</p>
2	Medium	<p><b><u>Invoice Reconciliations</u></b></p> <p>There is currently no reconciliation process in place between booking records, and invoice records to ensure all services have been charged correctly.</p> <p>A random sample of 25 bookings identified that 1 booking in April 2016 had not been charged to the relevant funeral director. A further review by</p>	<p>There is a risk of financial loss for the councils, where not all charges are being levied against the customers.</p>	<p>To implement a reconciliation process to ensure all entries on the booking system have a corresponding invoice charge.</p> <p>To implement a process for monitoring the deletion of booking records, either by developing the audit trail functions on the booking system to retain a full list of all</p>	<p><b>Management Response:</b></p> <p>Dual inputting to be phased out. Automatic monthly report now used to reconcile bookings with manual data input by staff. Once both manual and automated reports agree the monthly Funeral Director invoicing is then completed. Original plan to phase out manual input has been held as the reconciling process has shown differences between the manual input on the spreadsheet and the manual</p>



**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>the Bereavement Services Manager identified that a total of 4 burial/ cremation bookings on that day had not been charged to the respective funeral directors, equating to approximately £2000.</p> <p>It was also noted that booking records could be deleted from the booking system. The audit trail which identifies changes to a record is linked to the booking record, and is also deleted at this time.</p>		<p>deletions, or by monitoring gaps in the automatically generated reference numbers, to ensure the correct invoicing of all completed bookings.</p>	<p>input on the system. Until the automatic population of the fees in the system is developed the reconciliation process will remain.</p> <p><b>Responsible Manager:</b> Bereavement Services Manager</p> <p><b>Implementation date:</b> By 31<sup>st</sup> March 2017</p>
<b>Audit: Planning Enforcement</b>					
<b>Assurance: Significant</b>					
<b>Summary: Full systems audit</b>					
1	High	<p><u>Supporting Documentation</u></p> <p>Case Officers were unable to provide Internal Audit with the initial complaints from which a complaint received date could be confirmed and therefore time taken to assign cases was impossible to calculate.</p> <p>Testing identified that there were insufficient records of actions taken and supporting documentation maintained to provide an audit trail and case history for each complaint recorded on the Uniform system.</p> <p>There was evidence that case officers were maintaining files containing supporting documentation outside of the Uniform system.</p> <p>Testing identified one planning application which at time of review was showing as having been open for 106 days; however the relevant Enforcement Officer confirmed that the case was in fact closed but that the Uniform system had not been updated to record this fact.</p>	<p>Failure to rely on supporting documentation in relation to decisions if challenged.</p> <p>Failure to be able to provide supporting documentation in case of appeal against enforcement action.</p> <p>The above leading to reputational damage.</p>	<p>All supporting documentation to be retained, scanned (if required) and linked to the Uniform system to provide a complete case history and audit trail of events and decisions made. The Uniform system to be updated promptly following actions taken on cases.</p> <p>Planning staff to receive Uniform system training on how documents can be linked and accessed through the Uniform system.</p>	<p><b>Management action:</b> Staff to be reminded of the need to utilise the Uniform system as the main record for the Panning Service.</p> <p>Staff to be provided with sufficient knowledge and training to utilise the system to its full potential.</p> <p><b>Responsible Manager:</b> Dale Birch</p> <p><b>Implementation date:</b> End of January 2017</p>

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
<b>Audit: Development Control (Planning Application and Fees)</b>					
<b>Assurance: Moderate</b>					
<b>Summary: Full system audit</b>					
1	High	<p><b><u>VAT on Pre Applications</u></b> Income codes within the CIVICA financials system include for the allocation of VAT to the VAT code with the net amount to the income code if this is selected in the code set up. Finance confirmed that the pre application income code is not subject to VAT.</p> <p>Testing confirmed that VAT was not being charged for pre application advice.</p>	Non compliance with VAT requirements resulting in financial sanctions being taken by HMRC.	Advice to be sought as to whether VAT is applicable for pre application advice.	<p><b><u>Management action:</u></b> Finance will obtain advice on whether VAT is, or is not, chargeable for pre application planning advice and if so to ensure that income codes are set up to allocate VAT accordingly.</p> <p><b>Responsible Manager:</b> Financial Services Manager</p> <p><b>Implementation date:</b> 31 January 2017</p>
2	High	<p><b><u>Redaction of Published Applications</u></b> The last page of the planning application contains personal details and therefore is not to be published. However, on checking those that have been published it was noted that a number of the applications did have the last page published.</p> <p>Internal Audit understands that there is a system issue which has not allowed the redaction of documents prior to publication.</p>	Personal details of applicants are being published in contravention of the Data Protection Act 1998 leading to reputational damage and possible censure and fine from the information Commissioners Office.	Planning Applications to be redacted as appropriate prior to publication to ensure that no personal and or sensitive data is published.	<p><b><u>Management action:</u></b> Planning Team to investigate a resolution of the issues preventing the appropriate redaction of personal and other data from published data.</p> <p><b>Responsible Manager:</b> Development Control Manager (Business Projects)</p> <p><b>Implementation date:</b> Mid March 2017 When the single uniform system is bedded in.</p>
3	Medium	<p><b><u>Record of Notification</u></b> Applicants requesting pre application advice and determination to be notified of the outcome of determination. Such notification to include a disclaimer concerning any future decision on the planning application.</p> <p>Testing of all 15 pre applications received in quarter 1 2016-17 found that there was a record of date of determination for 6/15 cases.</p> <p>For 3/6 of these determined cases there was no</p>	<p>Lack of an audit trail and record of pre application notifications leading to potential reputational damage if challenged.</p> <p>Where there is no disclaimer made on pre application advice there is a risk of claims for compensation if the decision is relied upon by the applicant and leads to financial loss.</p>	<p>All details of action taken and any related supporting documentation to be entered and retained on the Uniform system promptly to provide a complete case history and audit trail of events and decisions made.</p> <p>Disclaimers to be included within all pre application advice given.</p>	<p><b><u>Management action:</u></b> Staff to be reminded of the need to include evidence of actions taken on the Uniform system promptly and that all notifications to include an appropriate disclaimer in relation to the evidence provided.</p> <p><b>Responsible Manager:</b> Development Control Manager (Business Projects)</p> <p><b>Implementation date:</b> End of January 2017</p>

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>recorded evidence of notification having been given. Of the remaining cases 2/3 contained a relevant disclaimer and 1/3 did not.</p> <p>There were other examples found during testing where details of cases were not recorded on Uniform. For example there was a Pre Application which had not been closed and for which payment details were not included.</p> <p>A further Pre Application record did not include details of the assigned officer or reference to a site meeting and determination that the Planning Application would be acceptable in planning terms or that the Pre Application fee had been paid.</p>			
4	Medium	<p><b><u>Reconciliation of Payments</u></b></p> <p>There is no procedure in place for the reconciliation of Uniform recorded income to income on the transaction report for pre planning and planning application codes.</p> <p>Planning Officers forward cheques to the finance Service for processing. There is no specific process for ensuring that all cheque income is received and banked by the Finance Section. Although cheques that are rejected by the relevant bank will be identified during bank reconciliation and the relevant service notified.</p> <p><b><u>Fees Paid / Received</u></b> - From our sample of 25 planning applications there were 20/25 that had a record of payment on the Uniform system.</p> <p>We were unable to verify payment of 8/20 of our sample where a fee was stated as paid on the system as the information provided against the transaction on the transaction report did not include our sample cases unique application reference, property address or the name of the property owner.</p> <p>Internal Audit understands that current CIVICA</p>	<p>Inability to reconcile payments to the Uniform system which could lead to financial loss to the service where fees are not paid into the correct income codes.</p> <p>Unauthorised refunds are made where details of such are not transparent. The above leading to increased risk of irregularity or fraud.</p>	<p>Transaction references for payments for pre application and planning applications to include the Uniform system case reference number in the narrative field.</p> <p>Once the above has been addressed then payments shown on the Uniform system to be reconciled to the relevant transaction reports for the relevant pre planning and planning application income codes.</p>	<p><b><u>Management action:</u></b> A narrative search facility to be set up and utilised to allow searches of planning income by application reference number.</p> <p>This will facilitate the reconciliation of planning income recorded on the ledger to the income recorded on the Uniform system.</p> <p><b><u>Responsible Manager:</u></b> Head of Planning and Regeneration</p> <p><b><u>Implementation date:</u></b> End of March 2017</p>

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		settings do not allow for the Uniform unique reference to be included in narrative within income codes.			
<b>Audit: Community Centres</b>					
<b>Assurance: Limited</b>					
<b>Summary: Full system audit</b>					
1	High	<p><b><u>Debt Monitoring</u></b></p> <p>The Community Centres Development Manager has not been sent monthly reports of outstanding debts for monitoring. Therefore no actions are being taken against customers who have not paid. One customer was noted as not having paid for 3 months, but is still using the Community Centre room.</p> <p>In addition, manual invoices are monitored for payment individually by the Community Centres Development Manager. There are currently no issues with these invoices regarding non-payment, however any debt recovery actions taken would be done separately</p>	Failure to obtain timely payment of services, resulting in financial loss for the authority.	<p>To ensure monthly debt monitoring reports are obtained, reviewed and acted upon in accordance with a defined policy, e.g. refusal of use for the Centres until payments are received.</p> <p>To ensure all invoices are entered through the eFin system to enable centralised monitoring of all debts.</p>	<p><b>Management Comments:</b></p> <p>Community Centre Development Manager now on mailing list for report, and actively working with Debtors team to address debt.</p> <p><b>Responsible Manager:</b> Community Centre Development Manager</p> <p><b>Implementation Date:</b> December 2016</p>
2	Medium	<p><b><u>Displaying Insurance Documents</u></b></p> <p>The Public Indemnity cover for the authority was renewed in June 2016. It is a requirement for the Council to display what cover it has in each of the Council buildings in clear view. The insurance policy documents on display at the Community Centres relates to the policy ending in June 2016. The Community Centres Development Manager did not hold and had not been sent a copy of the most recent insurance policy.</p>	Failure to adhere to statutory requirements, resulting in reputational damage for the Council.	To ensure current Public Liability insurance documentation is clearly displayed for the public at each Community Centre.	<p><b>Management Comments:</b></p> <p>Certificates printed, laminated and displayed. Reminder set in calendar for 06/17 to update. The Community Centre Development Manager has emailed the Insurance Officer to get on his reminder email circulation.</p> <p><b>Responsible Manager:</b> Community Centre Development Manager</p> <p><b>Implementation Date:</b> November 2016</p>
3	Medium	<p><b><u>Manual Invoices</u></b></p> <p>At the time of the audit, invoices for one-off</p>	Incorrect procedure for raising	To ensure all staff are aware of correct	<p><b>Management Comments:</b></p> <p>The invoicing procedure was corrected during the</p>

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		usage of the Community Centres were being raised as manually created invoices, instead of being created through the eFin Debtors system.  20 of these manual invoices were created since June 2016 totalling approximately £1,000.  These manually created invoices do not contain sufficient information to be regarded as valid VAT invoices.  This practice was stopped during the time of the Internal Audit work.	invoices being followed, resulting in a potential failure to manage debts and issue suitable VAT invoices, which could result in some financial loss due to the monies involved, and also reputational damage to the authority.	financial procedures.  To assess whether action needs to be taken to address the issuing of invalid VAT invoices for these payments received.	audit process and is fully compliant.  <b>Responsible Manager:</b> Community Centre Development Manager  <b>Implementation Date:</b> December 2016
4	Medium	<b><u>Booking Forms</u></b>  The current venue booking process requires booking forms to be completed in every instance.  Of a random sample of 25 booking diary entries occurring between April 2016 and August 2016, booking forms could only be found on file for 13. Of these, 5 were not in the current document format which shows the updated terms and conditions.  Booking forms are generally held as paper copies in a file in the office. For 3 of the sample, electronic booking forms were held by the previous Community Centre Development Manager on their own personal workspace, which is not accessible by the current Community Centre Development Manager.	Failure to maintain an audit trail of booking requests, potentially resulting in mismanagement of bookings, which could result in reputational damage for the authority or a failure to correctly invoice for site usage.	To ensure copies of all booking forms are stored electronically on the departmental shared drive, or ensure they are linked by reference to the calendar booking system for ease of retrieval.	<b>Management Comments:</b>  New booking form has been created and is in the process of being rolled out. All forms to be stored in bookings folder and backed up on K drive. All party bookings to be stored in a party bookings folder and saved on team drive. To be implemented March 2017.  Consider moving to an online booking system for customers to access and make block bookings independently. Community Centre Development Manager has attended meeting with SportsBooker and Haven to assess relevance of their system to Community Centre demands. To be implemented June 2017.  <b>Responsible Manager:</b> Community Centre Development Manager  <b>Implementation Date:</b> June 2017
5	Medium	<b><u>Booking Cancellations</u></b>  There is no formal record of cancellations. There is a Performance Measure on the Measures Dashboard for cancellations but it is not known how this is to be documented and populated yet.	Failure to concisely record booking cancellations for accurate invoicing and performance monitoring, potentially resulting in a failure to	To identify a means for recording all booking cancellations that can be easily reported on.	<b>Management Comments:</b>  Spreadsheet to record cancellations and use data to input on measures dashboard.  <b>Responsible Manager:</b> Community Centre Development Manager

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
			correctly charge for the services provided and the reputational damage associated with an inaccurate system of recording.		<b>Implementation Date:</b> Complete
6	Medium	<p><b><u>Invoicing</u></b></p> <p>Of a randomly selected sample of 25 bookings between April and August 2016, 2 in June 2016 have not yet been invoiced.</p> <p>Invoices for these customers are raised to cover bookings over a monthly period. The specific bookings looked at during the audit had been accidentally missed by the Community Centres Development Manager.</p> <p>There is currently no reconciliation process in place to ensure all bookings have been correctly invoiced for.</p>	Failure to charge for all valid bookings in a timely manner, resulting in financial loss for the authority.	To identify an effective reconciliation process between bookings made and invoices raised, to ensure all charges have been levied correctly.	<p><b>Management Comments:</b></p> <p>New booking form has been created and is in the process of being rolled out.</p> <p>New booking form acts as effective reconciliation.</p> <p><b>Responsible Manager:</b> Community Centre Development Manager</p> <p><b>Implementation Date:</b> March 2017</p>
7	Medium	<p><b><u>Centre Security</u></b></p> <p>The security codes on the Community Centres' doors are not being changed on a periodic basis. The same security code is in use at multiple sites.</p> <p>Discussion with the Community Centres Development Manager indicates that the door code would be changed if there were issues with current/ previous customers, however they have not been changed for an estimated 12-18 month period.</p>	Reduced security at the centres resulting in potential unauthorised access, theft of customer belongings or vandalism inside the centres. This could result in reputational damage, and financial cost to the authority should the reduced security arrangements be challenged by the Insurance company in the event of a claim being made.	To develop a policy of routinely changing the security door codes at the centres.	<p><b>Management Comments:</b></p> <p>Key safe codes changed by Place Partnership on a scheduled and regular basis.</p> <p><b>Responsible Manager:</b> Community Centre Development Manager/</p> <p><b>Implementation Date:</b> March 2017</p>
<b>Audit: Post Contract Appraisal</b>					
<b>Assurance: Limited</b>					
<b>Summary: Full system audit</b>					
1	High	<p><b><u>Performance measures</u></b></p> <p>Whilst the Contract Procedure Rules clearly emphasises the need to monitor contractors performance not all contracts reviewed included</p>	Contracts are not effectively monitored leading to substandard performance	All contracts must include a meaningful set of measures that will allow contract performance to be effectively monitored.	<p><b>Accepted</b></p> <p>As a starting point we will review all larger contracts to provide an assurance that where performance measures are included then they are monitored</p>

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		meaningful performance measures e.g. Roofing Renewals (Housing), Sewer & Drain Clearance (Environmental Services)	resulting in financial loss, additional costs/reputational damage.		All new contracts will include meaningful performance measures and these will be monitored in conjunction with meetings scheduled with the contractor.  <b>Responsible Manager(s):</b> Head of Housing, Housing Capital & Repairs Maintenance Operations Manager Head of Environmental Services  <b>Implementation Date</b> 31 <sup>st</sup> May 2017
2	High	<b><u>Contract specification</u></b>  A review of contract specifications confirmed that goods and services were clearly identified together with the price to be paid.  However where goods and services were ordered under the Roofing Renewal contract (Housing), the individual instruction (job ticket) issued to the contractor did not specify quantities or measurements and this led to differing and excessive measurements being charged by the contractors to what were essentially the same property type e.g. 1 bed flat	Actual work required is not clearly identified leading to an inability to accurately monitor delivery of the work leading to inaccurate invoicing, financial loss and work not being done to specification.	Orders for work should clearly state what is required together with measurements/quantities i.e. a clear schedule of requirement in regard to the job.	<b>Accepted</b> Works carried out under the Roofing Renewals contract are subject to pre-measurement. A post inspection process is also in place and this will identify non adherence to the procedures.  <b>Responsible Manager:</b> Housing Capital & Repairs Maintenance Operations Manager  <b>Implementation Date:</b> Completed – 17 <sup>th</sup> August 2016
3	High	<b><u>Contract variations</u></b>  Whilst the Standard Terms and Conditions and the Financial Regulations were found to contain clear procedures for the treatment of variations, these were not routinely observed. In the case of the Roofing Renewals contract (Housing) a number of variations were identified during testing but none had been formally confirmed to the contractor in writing.	An uncontrolled process of contract variations will potentially lead to unnecessary expenditure, poor budgetary control, inconsistent specification delivery and increase the scope for fraud.	All variations to the contract must be confirmed in writing with the contractor.	<b>Accepted</b> All staff involved in contract management have been instructed to confirm contract variations in writing.  <b>Responsible Manager:</b> Housing Capital & Repairs Maintenance Operations Manager  <b>Implementation Date:</b> Completed – 17 <sup>th</sup> August 2016
4	High	<b><u>Contractor payments</u></b>  Audit testing confirmed that payments made	Adverse effect on cash flow	Payment terms to be in accordance with	<b>Accepted</b> The payment process will be reviewed in line with the Standard Terms and Conditions and, after

**REDDITCH BOROUGH COUNCIL**

**Date: 27<sup>th</sup> APRIL 2017**

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>under the Roofing Renewal contract were not always made in accordance with the contract.</p> <p>The Standard Terms and Conditions confirm payments are to be made monthly yet in the case of the Roofing Renewals contract up to three payments had been made during the month.</p>	<p>together with additional administrative effort processing invoices leading to unnecessary costs/efforts being incurred.</p>	<p>the contract and any variation investigated prior to payment.</p>	<p>discussions with the contractors.</p> <p><b>Responsible Manager:</b> Housing Capital &amp; Repairs Maintenance Operations Manager</p> <p><b>Implementation Date:</b> 30<sup>th</sup> April 2017</p>
5	High	<p><b><u>Tender evaluation</u></b></p> <p>It was confirmed that tender evaluation matrices are not routinely completed i.e. Plumbing and Heating Supplies contract (Environmental Services). It is sometimes the practice to complete only if a tenderer asks why they have been unsuccessful.</p>	<p>The tender evaluation matrix must be completed as part of the tender evaluation process to demonstrate that the award has been based against criteria stated. Failure to do this does not demonstrate full transparency in the process leading to potential challenges from unsuccessful tenderers which could lead to litigation, reputation damage and financial loss.</p>	<p>Tender evaluation processes should be observed to maintain transparency in the process.</p>	<p><b>Accepted</b></p> <p>Tender evaluation matrices must be completed to confirm that the contract award has been made in accordance with the award criteria.</p> <p>All officers involved with contract evaluation will be reminded of the need to follow this process.</p> <p><b>Responsible Manager:</b> Head of Environmental Services</p> <p><b>Implementation Date</b> 1<sup>st</sup> April 2017</p>
6	Medium	<p><b><u>Insurance</u></b></p> <p>The Councils Standard Terms and Conditions confirm that on each anniversary of the contract, the contractor will provide evidence of current insurance. Audit testing confirmed that this is not consistently done and that this is not routinely followed up by contract monitoring staff i.e. Roofing Renewal (Housing), Drain Clearance (Environmental Services)</p>	<p>No or inadequate insurance cover could potentially lead to financial loss and/or reputational damage to the council and potential liability.</p>	<p>A checklist to be devised for each contract to ensure the contract monitoring covers all aspects when it relates to renewables e.g. insurance and that products remain up to specification and standard.</p>	<p><b>Accepted</b></p> <p><b>Housing</b></p> <p>This is now in place for our Capital contracts and reviews are scheduled to be carried out as part of the frequent meetings with the contractors. Evidence is retained on the shared network drive.</p> <p><b>Responsible Manager:</b> Housing Capital &amp; Repairs Maintenance Operations Manager</p> <p><b>Implementation date:</b> Completed date – 17<sup>th</sup> August 2016</p> <p><b>Environmental Services</b></p> <p>Contract Administrators will be asked to set up diary dates to review insurance and to retain evidence.</p>



**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					<p><b>Responsible Manger:</b> Head of Environmental Services</p> <p><b>Implementation Date:</b> 1<sup>st</sup> April 2017</p>
7	Medium	<p><b><u>Contract documents</u></b></p> <p>Signed contract documents are not routinely forwarded to Legal Services as confirmed by the Contract Procedure Rules. The Roofing Renewals contract which exceeded £49,999.00 was not held by Legal Services.</p>	<p>The Contract Procedure Rules are not being observed leading to the potential loss of prime documents and an inability to enforce contractual requirements potentially leading to missed opportunity to enforce penalty payments, financial loss and reputation damage.</p>	<p>The Contract Procedure Rules should be followed regarding the retention of signed contracts.</p>	<p><b>Accepted</b></p> <p>All staff will be advised to ensure that signed contract documents meeting this criterion will be passed to Legal Services for safe keeping.</p> <p>However to assist in this process, it is important that all procedures relating to contracts are readily and easily available to staff.</p> <p><b>Responsible Manager:</b></p> <p>Head of Environmental Services Head of Housing Housing Capital &amp; Repairs Maintenance Operations Manager</p> <p><b>Implementation date:</b> 31<sup>st</sup> May 2017</p>
8	Medium	<p><b><u>Contract meetings</u></b></p> <p>Audit testing confirmed an inconsistent approach to client contractor meetings. Some contracts had no formal meetings confirmed e.g. monthly while others had more formalised meetings.</p> <p>The Standard Terms and Conditions and the Framework Conditions do not specify frequencies of meetings.</p>	<p>Contact between the Council and contractor is not regularised leading to contractor performance not being formally discussed or monitored potentially leading to substandard workmanship, financial loss and reputational damage.</p>	<p>Whilst accepting that some contracts will lend themselves to more regularised meetings all contracts should include planned meeting frequencies (e.g. monthly, quarterly, six monthly) to ensure performance is effectively monitored. All meetings should be minuted with action points agreed and, where appropriate, contractors held to account.</p>	<p><b>Accepted</b></p> <p><b>Environmental Services</b></p> <p>In instances where there are no scheduled meetings e.g. Drain Clearance, there is regular contact with the contractor and a review of his work. However for all contracts there should be at least a minimum of an annual meeting to review performance and contract administrators will be asked to do this.</p> <p>All new contracts will stipulate the meeting frequency in the documentation.</p> <p><b>Responsible Manager:</b></p>

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					Head of Environmental Services  <b>Implementation date:</b> 1 <sup>st</sup> April 2017  <b>Housing</b>  Regular meetings are now held with contractors. The Housing Capital & Repairs Maintenance Operations Manager is included in the circulation list for minutes and these are retained on the shared network drive.  <b>Responsible Manager:</b>  Housing Capital & Repairs Maintenance Operations Manager  <b>Implementation Date:</b>  Completed – 17 <sup>th</sup> August 2016
<b>Audit: Payroll 2015/16</b>					
<b>Assurance: Moderate</b>					
<b>Summary: Full system audit</b>					
1	Medium	<b>Assessing of Risks</b>  The Payroll section has experienced a high turnover of Managers over the last 12 months along with issues regarding the upgrade of the system.  However there is a risk relating to this recorded on the 4risk system but only as a low risk.	Potential for reputation damage and financial loss if an accurate payroll run cannot be undertaken to meet payroll deadlines.	The risks associated with the payroll section staff turnover and the reliability of the payroll system be reassessed and updated on the 4risk system along with any associated mitigation and action plans.  The risk assessment to consider the robustness of any business continuity plans.	<b>Responsible Manager:</b>  Financial Services Manager  <b>Implementation date:</b>  30 <sup>th</sup> April 2017
end					

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 27<sup>th</sup> APRIL 2017**THE 2017/18 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	Paul Field, Interim 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 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: 27<sup>th</sup> APRIL 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 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 was brought before Committee in February 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: 27<sup>th</sup> APRIL 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 before 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 outturns from certain reviews e.g. Post Contract Appraisal. 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 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 partner organisations, on a quarterly basis and to the Audit and Governance Committee on a quarterly basis.

The success or otherwise of the Internal Audit Shared Service will be determined by the outturn against certain 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: 27<sup>th</sup> APRIL 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**

Name: Andy Bromage  
Head of Internal Audit Shared Service - Worcestershire Internal  
Audit Shared Service  
E Mail: andy.bromage@worcester.gov.uk  
Tel: 01905 722051

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 27<sup>th</sup> APRIL 2017**APPENDIX 1**

## Detailed Programme of Work for 2017/18

Audit Area	Planned Days 2016/17	Planned Days 2017/18	Difference = + or -	Comment
<b>CHARGEABLE AND PRODUCTIVE</b>				
<b>Core Financial Systems</b>				
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
<b>CORE FINANCIAL TOTAL</b>	<b>104</b>	<b>108</b>	<b>4</b>	
<b>Corporate</b>				
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: 27<sup>th</sup> APRIL 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
<b>CORPORATE TOTAL</b>	<b>66</b>	<b>81</b>	<b>15</b>	
<b>Other Systems Audits</b>				
<b>2017/18</b>				
<b>Service Area:</b> <b>Planning and Regeneration</b>	20	10	-10	Decreased as reasonable coverage in this area during 2016/17 and risk deemed to be elsewhere
Building Control				
<b>Service Area:</b> <b>Housing</b>	35	40	5	Increased due to recent review findings and broader coverage
Statutory Compliance				
St David's House				
Contract Management (Health Check)				
<b>Service Area:</b> <b>Community Services</b>	14	12	-2	Decreased as single focus and reasonable coverage during 2016/17
Disabled Facilities Grants				



REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 27<sup>th</sup> APRIL 2017

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

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 27<sup>th</sup> APRIL 2017

Summary of Days per Overall Audit Group for 2017/18.

<b>Planned Days for 2017/18</b>	<b>2016/17</b>	<b>2017/18</b>
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
<b>TOTAL Audit Days</b>	<b>400</b>	<b>400</b>

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE**Date: 27<sup>th</sup> APRIL 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. governance indicators. The position will be reported on a cumulative basis throughout the year.

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

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



## Audit, Governance and Standards Committee Action List – 27th April 2017 Meeting

Ref	Action / Issue	Discussed	Lead Officer(s) / Member(s)	Priority / timescale	Latest Officer / Member Response & Action Status
1	<p><b>Statement of Accounts 2014/15</b></p> <p><b>Inventories</b> Request for further details in relation to £27k Inventories.</p>	<p>Minute No's: 32 of 28.01.16 62 of 21.04.16 12 of 07.07.16 37 of 02.02.17 meetings</p>	<p>Dave Jones Kevin Hirons Guy Revans</p>	<p>27.04.17 meeting</p>	<p>Mr Jones reported at the 02.02.17 meeting that he had met with Officers in late April 2016 to discuss the inventories position and detailed his findings in this regard. A delay had arisen with the reporting of this information as Mr Jones had not been able to attend the previous two meetings of the Committee. In light of the feedback provided the Committee requested that Kevin Hirons, Environmental Services Manager, be invited to attend the April meeting to discuss the issues raised by Mr Jones.</p> <p><b>SEE APPENDIX 'A' ATTACHED – COMMITTEE TO DETERMINE NEXT COURSE OF ACTION.</b></p>
2	<p><b>Debt Recovery Update – Quarters 1 and 3 2015/16</b></p> <p><b>Write-offs / Measures Dashboard</b> Request for levels of debts written off for 2014/15.</p>	<p>Minute No's: 43 of 28.01.16 62 of 21.04.16 12 of 07.07.16 37 of 02.02.17 meeting</p>	<p>Jayne Pickering Dave Jones</p>	<p>27.04.17 meeting</p>	<p>Mr Jones reported at the 02.02.17 meeting that he had met with Officers to review the Measures Dashboard. In light of the feedback provided it was agreed that Mr Jones would arrange to meet with Jayne Pickering to discuss the position, and that a further update on this would be given at the April meeting.</p> <p><b>UPDATE TO BE PROVIDED AT APRIL MEETING</b></p>

## Audit, Governance and Standards Committee Action List – 27th April 2017 Meeting

<b>3</b>	<p><b>Grant Thornton – Progress Report and Update</b></p> <p><b>Brexit – Migrant Workers</b> Request for confirmation of number of migrant workers (defined as those who do not hold a British passport) employed by the Council.</p>	Minute No. 30 of 02.02.17 meeting	Becky Talbot	27.04.17 meeting	<p>Officers have confirmed that Human Resources (HR) do not hold details of the type of passports held by employees, but that this is something the Council could look to record in future should Members so wish. Eligibility checks are carried out by HR as required to ensure that employees are eligible to work. Above information emailed to Members on 31.03.17.</p> <p><b>SUBJECT TO MEMBERS' CONFIRMATION AT APRIL MEETING AS TO WHETHER THEY WISH FOR HR TO LOOK TO BEGIN RECORDING EMPLOYEES' PASSPORT DETAILS, ACTION COMPLETED – REMOVE FROM ACTION LIST.</b></p>
<b>4</b>	<p><b>Grant Thornton – Annual Audit Letter 2015/16</b></p> <p><b>(i) Final Accounts Closedown Timetable</b> Request for copy timetable to be sent to Members. Hard copy requested for Cllr Chalk.</p> <p><b>(ii) Committee's Terms of Reference and Procedure Rules</b> Copy to be sent to Members</p>	Minute No. 31 of 02.02.17 meeting	Sam Morgan Debbie Parker-Jones	27.04.17 meeting	<p>(i) Information emailed / sent to Members on 09.02.17.</p> <p>(ii) Information emailed to Members on 31.03.17.</p> <p><b>ACTION COMPLETED – REMOVE FROM ACTION LIST</b></p>

## Audit, Governance and Standards Committee Action List – 27th April 2017 Meeting

<b>5</b>	<p><b>Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20</b></p> <p><b>(i) Yield Benchmark Data</b> Request from Mr Jones for yield benchmark data showing how the Authority invested its funds to be included in report.</p> <p><b>(ii) Interest Payments for Housing Revenue Account (HRA)</b> Request for details of current interest payments for the HRA to be sent to Members.</p>	Minute No. 32 of 02.02.17 meeting	Jayne Pickering	27.04.17 & 01.02.18 meetings	<p>(i) Officers have confirmed that they will look into providing this information as part of the 2018 Treasury Management Strategy report.</p> <p>(ii) Information emailed to Members on 09.02.17.</p> <p><b>RETAIN (i) ON ACTION LIST FOR FEBRUARY 2018 MEETING</b></p>
<b>6</b>	<p><b>Compliance Team Update</b></p> <p><b>Monies Recovered and Repayment Timescales</b> Request for details of actual monies recovered and agreed repayment timescales to be included in next report.</p>	Minute No. 33 of 02.02.17 meeting	Mandy Singleton Paul Stephenson	21.09.17 meeting	<p>Officers have confirmed that they will look to see whether it is possible to include details of monies recovered and repayment timescales in the next report to the Committee in September 2017.</p> <p><b>RETAIN ON ACTION LIST FOR SEPTEMBER 2017 MEETING</b></p>

**Audit, Governance and Standards Committee Action List – 27th April 2017 Meeting**

7	<p><b>Internal Audit – Progress Report</b></p> <p><b>Planned Follow Ups</b>                  Discussion regarding possible Corporate / Senior Management Team involvement in Planned Internal Audit Follow Ups as part of escalation process.</p>	Minute No. 34 of 02.02.17 meeting	Jayne Pickering Andy Bromage	27.04.17 meeting	Officers to look into position and report back on this at April meeting.  <p><b>UPDATE TO BE PROVIDED AT APRIL MEETING</b></p>
---	---	-----------------------------------	---------------------------------	------------------	--



**Audit, Governance and Standards Committee Action List**  
**27th April 2017 Meeting – Appendix A**

**Update on Ref 1 – Statement of Accounts 2014/15 – Inventories**

Further to the Committee's request for Kevin Hirons to attend the April 2017 meeting, Mr Hirons has confirmed that he is unfortunately unable to do so as he will be on leave. The relevant Head of Service had indicated that he could attend but that he would not in a position to answer any questions raised by the Committee, which would not be helpful.

Mr Hirons has suggested that as the Committee do not meet very often, and as Mr Jones is unable to attend the September meeting and to avoid any further delay in resolving the Inventories issue originally raised by Mr Jones a year ago, Mr Jones possibly meet with relevant Officers again to discuss the feedback which he gave to the Committee in February this year.

Mr Jones has confirmed that whilst he is happy to meet with Officers again, perhaps with Councillor Thain (as Chair of the Committee) in attendance as well, he feels there is no real need for another meeting unless things have changed over the last 12 months. Mr Jones has advised that his previous meeting and subsequent report back to the Committee was to note the fact that there was no formal Inventory Management Policy (IMP) in existence. His concerns around the risks with this are:

- Lean Process;
- Optimise Supply Chain;
- Continual Improvement;
- Measures around Stock Turns;
- Optimum Inventory Levels and write-off control; and
- Understanding quality and the cost of poor quality (7 wastes).

Mr Jones had added that whilst some of the above may be collated and the risk on the others may be minimal and mitigated elsewhere, he did not see any signs of this. His recommendation to the Committee therefore would be to note that there is no formal IMP in existence and for Members to perhaps scrutinise the need for one, given that such a policy may or may not be of benefit to the Council.

**The Committee is asked to determine how it wishes to proceed in this regard.**



**AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE**

27th April 2017

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

Copies of the unaudited financial statements and the Annual Governance Statement are sent to 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 will take place on 5th September 2017, prior to the Committee's formal consideration of the audited financial statements at the 21st September 2017 meeting.

**Earlier closedown of Accounts**

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.

**6th July 2017 meeting****Standards**

- Monitoring Officer's Report (including any updates from the Parish Council's Representative(s) and Hearing Sub-Committee memberships if any changes to main Committee membership for the 2017/18 Municipal Year)

**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, annual Corporate Risk Register report normally to April meeting going in July in 2017, 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

## **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

27th April 2017

---

### **21st September 2017 meeting**

#### **Standards**

- Monitoring Officer's Report (including any updates from the Parish Council's Representative(s))

#### **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**

- Compliance Team Update
- 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)
- 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

### **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

## **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

27th April 2017

---

### **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

### **26th April 2018 meeting**

#### **Standards**

- Monitoring Officer's Report

#### **Governance**

- External Audit – Update Report
- External Audit – Audit Plan 2017/18
- External Audit – Audit Fee Letter 2018/19
- External Audit – Auditing Standards 2017/18 (Communication with the Audit, Governance and Standards Committee)
- Proposed Accounting Policies 2017/18 (Statement of Accounting Policies)
- Internal Audit – Progress Report
- Internal Audit – Final Audit Plan 2018/19

#### **Monitoring**

- Compliance Team Update
- 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 (subject to timings 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 2018/19

**Details of reports for subsequent meetings will be added to the Work Programme in due course, as part of the rolling year programme.**

**AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE**27th April 2017

---

- **July 2018 – meeting date yet to be determined** (General Dispensations Report required as first meeting of the Committee following the 2018 Borough Council elections – note: there are no local elections taking place in 2017)

**AUDIT, GOVERNANCE AND STANDARDS COMMITTEE TERMS OF REFERENCE**

Number of members	9 Councillors
Number of Co-opted, non-voting members	1 Independent non-voting Member for the purpose of Audit and Governance.  1 Parish Representative, who may not also be a Borough Councillor, for the purpose of Standards.
Politically Balanced Y/N	Y
Quorum	4 (to include at least one member of the Majority Group)
Procedure Rules applicable	Council Procedure Rules (with the exception of Council Procedure Rules 1-4, 10, 14, 18.2, 20.1 and 22)
Chair	The Chair and Vice-Chair of the Committee and any of its Sub-Committees will be a Borough Councillor.
Special provisions as to the Chair	For the sake of independence, the Chair and Vice-Chair shall not be a member of the controlling political group.
Terms of Reference	<u>Audit and Governance</u> <u>Internal and External Audit</u>  a. To review and monitor the annual audit plans of both the internal and external auditors.  b. To receive and comment upon the external auditors' reports.  c. To monitor the adequacy and effectiveness of the Council's system of internal control by

	<p>ensuring that an adequate and effective system of internal financial controls is maintained, that financial procedures are regularly reviewed.</p> <p>d. To consider, monitor and review the Council's overall corporate governance arrangements.</p> <p>e. To enhance the profile, status and authority of the internal audit function which will demonstrate its independence.</p> <p>f. To focus audit resources by agreeing, and periodically reviewing, audit plans and monitoring delivery of the audit service.</p> <p>g. To receive and consider such internal audit reports that the Chair and/or Deputy Chief Executive considers necessary.</p> <p><u>Risk</u></p> <p>h. To consider, monitor and review the effectiveness of the Council's risk strategies, policies and management arrangements and seek assurances that action is being taken to address identified risk related issues.</p> <p><u>Finance and Value for Money</u></p> <p>i. To consider and approve the Council's Annual Statements of Accounts.</p> <p>j. To consider any report from the Internal Audit Manager in pursuance of Financial Regulations.</p> <p>k. To ensure good stewardship of the Council's resources and assist the Council to achieve value for money in the provision of its services.</p> <p>l. To keep under review, and make recommendations on, proposed amendments to Financial Regulations.</p> <p>m. To consider and make recommendations if appropriate on, the Annual Governance Statement.</p> <p><u>Standards</u></p> <p>n. To promote and maintain high standards of conduct by Councillors and any co-opted members of Council bodies.</p> <p>o. To assist the Councillors and co-opted members to observe the Members' Code of</p>
--	--



	<p>Conduct.</p> <ul style="list-style-type: none"> <li>p. To advise the Council on the adoption or revision of the Members' Code of Conduct.</li> <li>q. To monitor the operation of the Members' Code of Conduct.</li> <li>r. To advise, train or arrange to train Councillors and co-opted members on matters relating to the Members' Code of Conduct.</li> <li>s. To grant dispensations to Councillors and co-opted members from requirements relating to interests set out in the Members' Code of Conduct.</li> <li>t. To deal with any report from the Monitoring Officer following an investigation into a complaint concerning the Members' Code of Conduct.</li> <li>u. To consider and determine allegations that a Councillor or co-opted Councillor may have failed to follow the Code of Conduct and where a breach of the Code is established making recommendations as to any sanctions to the appropriate person or body.</li> <li>v. The exercise of t – u above in relation to the Parish Councils in the Council's area and the members of those parish Councils.</li> <li>w. To monitor and review the operation of the Member Officer Relations Protocol.</li> </ul>
Special provisions as to membership	<p>The Committee to comprise elected Members representing all interests of the Authority, preferably with relevant areas of expertise, where possible (such areas as accountancy, audit, business and commerce.)</p> <p>Can be members of the Executive Committee, but Party Group Leaders may not be, or act as substitutes for, members of the Committee.</p>



## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE PROCEDURE RULES

### **1. Role of the Audit, Governance and Standards Committee**

- 1.1 The Council has established an Audit, Governance and Standards Committee.
- 1.2 The Audit, Governance and Standards Committee will work in partnership with the Executive Committee and Officers to ensure good stewardship of the Council's resources and deliver better outcomes for the people of the Borough.
- 1.3 The ultimate responsibility for Audit rests with the Council's Section 151 Officer. Therefore the Audit, Governance and Standards Committee can make informed recommendations but it is not the role of the Audit, Governance and Standards Committee to be a substitute for management of Internal Audit.
- 1.4 The Audit, Governance and Standards Committee does not have the power to make decisions with regard to Internal Audit or to direct Officers with regard to Internal Audit.

### **2. Terms of Reference**

- 2.1 The Terms of Reference of the Audit, Governance and Standards Committee are as follows:

#### Audit and Governance Internal and External Audit

- a. To review and monitor the annual audit plans of both the internal and external auditors;
- b. To receive and comment upon the external auditors' reports;
- c. To monitor the adequacy and effectiveness of the Council's system of internal control by ensuring that an adequate and effective system of internal financial controls is maintained, that financial procedures are regularly reviewed;
- d. To consider, monitor and review the Council's overall corporate governance arrangements;
- e. To enhance the profile, status and authority of the internal audit function which will demonstrate its independence;

- f. To focus audit resources by agreeing, and periodically reviewing, audit plans and monitoring delivery of the audit service;
- g. To receive and consider such internal audit reports that the Chair and/or Deputy Chief Executive considers necessary;

#### Risk

- h. To consider, monitor and review the effectiveness of the Council's risk strategies, policies and management arrangements and seek assurances that action is being taken to address identified risk related issues;

#### Finance and Value for Money

- i. To consider and approve the Council's Annual Statements of Accounts;
- j. To consider any report from the Internal Audit Manager in pursuance of Financial Regulations;
- k. To ensure good stewardship of the Council's resources and assist the Council to achieve value for money in the provision of its services;
- l. To keep under review, and make recommendations on, proposed amendments to Financial Regulations;
- m. To consider and make recommendations if appropriate on, the Annual Governance Statement;

#### Standards

- n. To promote and maintain high standards of conduct by Councillors and any co-opted members of Council bodies;
- o. To assist the Councillors and co-opted members to observe the Members' Code of Conduct;
- p. To advise the Council on the adoption or revision of the Members' Code of Conduct;
- q. To monitor the operation of the Members' Code of Conduct;
- r. To advise, train or arrange to train Councillors and co-opted members on matters relating to the Members' Code of Conduct;
- s. To grant dispensations to Councillors and co-opted members from requirements relating to interests set out in the Members' Code of Conduct;
- t. To deal with any report from the Monitoring Officer following an investigation into a complaint concerning the Members' Code of Conduct;

- u. To consider and determine allegations that a Councillor or co-opted Councillor may have failed to follow the Code of Conduct and where a breach of the Code is established making recommendations as to any sanctions to the appropriate person or body;
  - v. The exercise of t – u above in relation to the Parish Councils in the Council's area and the members of those parish Councils; and
  - w. To monitor and review the operation of the Member Officer Relations Protocol.
- 2.2 Within those Terms of Reference, the Audit, Governance and Standards Committee will:
- a. agree annual and strategic audit plans;
  - b. review Internal Audit's progress against the audit plan and consider Internal Audit performance measures;
  - c. receive and consider a summary of work undertaken by Internal Audit since the last meeting, plus current status;
  - d. receive and consider executive summaries of financial process / procedures;
  - e. receive and consider executive summaries of Value For Money reports;
  - f. receive and consider executive summaries of contract audit reports;
  - g. receive and consider executive summaries of any special investigations undertaken by Internal Audit;
  - h. receive and consider a chronological summary of Internal Audit reports awaiting departmental response and address any evident problems;
  - i. monitor the proportion of key recommendations actioned since the previous meeting; and
  - j. consider all external audit reports including the Annual Audit Letter.

### **3. Composition**

The Audit, Governance and Standards Committee will comprise such number of Councillors as are determined at the Council's Annual Meeting. All Councillors except for Party Group Leaders may be members of the Audit, Governance and Standards Committee or act as substitutes for members of the Committee.

**4. Co-optees**

The Audit, Governance and Standards Committee shall be entitled to appoint a number of people as non-voting co-optees.

**5. Chair**

- a. The Committee's Chair and Vice-Chair will normally be appointed at the Council's Annual Meeting.
- b. If the Chair / Vice-Chair are not so appointed, they shall be appointed at the first meeting of the Audit, Governance and Standards Committee.

The Chair and Vice-Chair shall not be members of the controlling political group.

**6. Meetings of the Audit, Governance and Standards Committee**

- 6.1 There shall be at least 4 ordinary meetings of the Audit, Governance and Standards Committee in each year.
- 6.2 Extraordinary meetings may be called from time to time as and when appropriate.
- 6.3 A meeting of the Audit, Governance and Standards Committee may be called by the Chair of the Audit, Governance and Standards Committee, by any 3 members of the Audit, Governance and Standards Committee or by the Chief Executive if s/he considers it necessary or appropriate.

**7. Quorum**

The quorum for a meeting of the Audit, Governance and Standards Committee shall be 4 members (to include at least one member of the Majority Group).

**8. Attendance of Officers at meetings**

- 8.1 The Section 151 Officer or his/her deputy shall be expected to attend each meeting of the Audit, Governance and Standards Committee.
- 8.2 The Audit Services Manager shall be expected to attend each meeting of the Audit, Governance and Standards Committee.

- 8.3 The Monitoring Officer shall be expected to attend each meeting of the Audit, Governance and Standards Committee when Standards issues are included on the agenda.

**9. Participation in Meetings**

No member of the Audit, Governance and Standards Committee may be involved in the consideration of a decision in which s/he has been directly involved. If any member of the Audit, Governance and Standards Committee finds that a decision in which s/he has been directly involved is to be considered, s/he shall declare the fact to the Audit, Governance and Standards Committee and take no part in the discussion and voting in the part of the meeting which relates to that decision.

**10. Work Programme**

The Audit, Governance and Standards Committee will be responsible for setting its own work programme and in doing so shall take into account of:

- a. the views of members of the Audit, Governance and Standards Committee who are not members of the largest political group on the Council;
- b. suggestions of matters for consideration made by the Executive Committee; and
- c. suggestions of matters for consideration made by the Council.

**11. Procedure at Audit, Governance and Standards Committee meetings**

The Audit, Governance and Standards Committee shall at each meeting consider the following business:

- a. consideration of the accuracy of the minutes of the previous meeting;
- b. declarations of interest;
- c. responses of the Executive Committee to reports of the Audit, Governance and Standards Committee; and
- d. matters set out on the agenda for the meeting in accordance with paragraph 12 below.

**12. Agenda items**

- 12.1 Any member of the Audit, Governance and Standards Committee shall be entitled to give notice to the Section 151 Officer that s/he wishes an item relevant to the functions of the Audit, Governance and Standards Committee to be included on the agenda for the next available meeting of

the Committee. On receipt of such a request the Section 151 Officer will ensure that it is included on the next available agenda.

- 12.2 Where a matter is referred to the Audit, Governance and Standards Committee by the Council (including a matter referred by the Monitoring Officer under Council Procedure Rule 11.10), it shall be considered at either the first or second ordinary meeting of the Audit, Governance and Standards Committee following the referral.
- 12.3 The Audit, Governance and Standards Committee shall also respond, as soon as its work programme permits, to requests from the Council or the Executive Committee to review particular areas of Council activity. The Audit, Governance and Standards Committee shall report its findings and any recommendations back to Council or Executive Committee (as appropriate).

### **13. Investigations and Enquiries**

The Audit, Governance and Standards Committee may:

- a. hold enquiries and investigate the available options for the future direction of Internal Audit and may appoint advisers and assessors to assist them in this process;
- b. conduct site visits, conduct public surveys, hold public meetings, commission research and do all other things that it reasonably considers necessary to inform the Audit, Governance and Standards Committee in its deliberations;
- c. invite witnesses to attend to address the Audit, Governance and Standards Committee on any matter under consideration; and / or
- d. pay to any advisers, assessors and witnesses a reasonable fee and expenses for doing so, provided that any such budget set by the Council each year for such purposes is not exceeded.

### **14. Members and Officers giving account**

- 14.1 The Audit, Governance and Standards Committee may review internal control mechanisms and systems that exist in any Council Department. As well as reviewing documentation, in fulfilling its Terms of Reference, it may require any member of the Executive Committee, the Chief Executive and/or any senior Officer to attend before it to explain in relation to matters within their remit:
- a. any particular decision or series of decisions;
  - b. the extent to which the actions taken implement Council policy; and /or



- c. his/her performance,
- and it is the duty of those persons to attend if so required.
- 14.2 If any Councillor or Officer is required to attend meetings of the Audit, Governance and Standards Committee under this provision, the Councillor or Officer will be given reasonable notice in writing of the meeting at which s/he is required to attend. The notice will state the nature of the item on which s/he is required to attend to give account and whether any papers are required to be produced for the Audit, Governance and Standards Committee. Where the account to be given to the Audit, Governance and Standards Committee will require the production of a report, then the Councillor or Officer concerned will be given sufficient notice to allow for preparation of that documentation.
  - 14.3 If the Councillor or Officer is unable to attend on the required date, the Audit, Governance and Standards Committee shall in consultation with the Councillor or Officer arrange an alternative date for attendance.
- 15. Attendance by others**
- 15.1 The Audit, Governance and Standards Committee may invite people other than those people referred to in paragraph 14 above to address it, discuss issues of local concern and/or answer questions. It may for example wish to hear from residents, stakeholders and Members and Officers in other parts of the public sector and shall invite such people to attend. Any such person invited will be given reasonable notice and the notice will state the nature of the item on which he/she is invited to attend and whether any papers are requested.
  - 15.2 If the Audit, Governance and Standards Committee is to consider a motion referred to it by the Council meeting, the proposer and seconder of the motion shall (if they are not members of the Audit, Governance and Standards Committee) have the right to attend the relevant meeting and to explain the reasons for their motion, although they may not propose, second or vote on recommendations by the Audit, Governance and Standards Committee which arise from that motion.
  - 15.3 If the Audit, Governance and Standards Committee invites a person to address a meeting or to give evidence, the following principles will be observed:
    - a. the investigation will be conducted fairly and all members of the Audit, Governance and Standards Committee will be given the opportunity to ask questions of attendees, and to contribute and speak;

- b. those assisting the Audit, Governance and Standards Committee by giving evidence will be treated with respect and courtesy; and
- c. the investigation will be conducted so as to maximise the efficiency of the investigation or analysis.

**16. Reports from the Audit, Governance and Standards Committee**

- 16.1 Once it has formed recommendations on proposals for development, the Audit, Governance and Standards Committee will make its findings public and will report to the Executive Committee.
- 16.2 The Audit, Governance and Standards Committee may report directly to full Council where the Section 151 Officer and/or Audit Services Manager advises the Audit, Governance and Standards Committee that it is appropriate to do so.
- 16.3 If the Audit, Governance and Standards Committee cannot agree on one single final report to the Council or Executive Committee as appropriate, then no more than one minority report may be prepared and submitted for consideration by the Council or Executive Committee with the majority report.
- 16.4 The Council or the Executive Committee shall consider the report of the Audit, Governance and Standards Committee within two months of it being submitted.

**17. Consideration of Audit, Governance and Standards Committee Reports by the Executive Committee**

The agenda for Executive Committee meetings shall (when appropriate) include an item at which minutes and/or reports of the Audit, Governance and Standards Committee will be considered. The minutes and/or reports of the Audit, Governance and Standards Committee referred to the Executive Committee shall be included at this point in the agenda (unless they have been considered in the context of the Executive Committee's deliberations on a substantive item on the agenda).

**18. The party whip**

The party whip must not be applied at Audit, Governance and Standards Committee meetings.

**19. Finance**

The Audit, Governance and Standards Committee may exercise overall responsibility for any finances made available to it.