



# Audit, Governance & Standards Committee

Thu 25 Apr 2019  
7.00 pm

Committee Room Two  
Town Hall  
Redditch



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

**If you have any queries on this Agenda please contact  
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# **Audit, Governance & Standards**

Thursday, 25th April, 2019

7.00 pm

Committee Room 2 - Town Hall  
Redditch

## **Agenda**

### **Membership:**

Cllrs:	John Fisher (Chair)	Mike Rouse
	Mark Shurmer	Yvonne Smith
	(Vice-Chair)	Craig Warhurst
	Salman Akbar	Pat Witherspoon
	Joanne Beecham	
	Michael Chalk	

**1.** Apologies and named Substitutes

**2.** Declarations of Interest

To invite Councillors to declare any Disclosable Pecuniary Interests and/or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

**3.** Minutes of the meeting held on 7 March 2019 (Pages 1 - 10)

**4.** Monitoring Officer's Report - Standards Regime (Pages 11 - 14)

**5.** Public Speaking at Committee meetings (Pages 15 - 18)

**6.** Grant Thornton External Audit Progress Report and Sector Update (Pages 19 - 42)

**7.** Internal Audit Progress Report (Pages 43 - 70)

**8.** Internal Audit Plan 2019-20 (Pages 71 - 82)

**9.** HRA S151 Update (Pages 83 - 110)

**10.** Accounting policies report (Pages 111 - 124)

**11.** Internal Audit of Health and Safety (Pages 125 - 132)

**12.** Independent Member - Verbal Update

**13.** Committee Work Programme (Pages 133 - 134)

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Thursday, 7 March 2019

## **Audit, Governance & Standards Committee**

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### **MINUTES**

#### **Present:**

Councillor John Fisher (Chair), Councillor Mark Shurmer (Vice-Chair) and Councillors Salman Akbar, Joanne Beecham, Michael Chalk, Yvonne Smith, Julian Grubb and Anthony Lovell

#### **Officers:**

Andy Bromage, Clare Flanagan, Chris Forrester and Richard Percival

#### **Committee Services Officer:**

Farzana Mughal

#### **28. APOLOGIES AND NAMED SUBSTITUTES**

Apologies for absence were received on behalf of Councillors Mike Rouse and Craig Warhurst. It was confirmed that Councillors Julian Grubb and Anthony Lovell were attending as their respective substitutes.

#### **29. DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **30. MINUTES**

The minutes of the Audit, Governance and Standards Committee held on 25<sup>th</sup> October, 2018 were submitted.

#### **RESOLVED**

**that the minutes of the Audit, Governance and Standards Committee held on 25<sup>th</sup> October, 2018 be approved as a correct record and signed by the Chair.**

.....  
Chair

# **Audit, Governance & Standards Committee**

Thursday, 7 March 2019

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

The Principle Solicitor presented the Monitoring Officer's report, and in doing so highlighted the following:

- Since the last meeting of the Committee in October 2018, there had been two complaints received from members of the public regarding the Borough's Councillors. Following investigation by the Monitoring Officer both complaints had been resolved locally;
- With regards to the Constitution Review Working Party meeting held on 12<sup>th</sup> February, 2019, the proposed changes to the Licensing Code of Practice had been considered at this meeting. Members had agreed that the updated Code of Practice in Relation to Licensing matters under the Licensing Act 2003 and the Gambling Act 2005 should be adopted. The Employment Appeals process was also considered at this meeting.

### **RESOLVED**

**that the Monitoring Officer's Report be noted.**

## **32. AUDITING STANDARDS - COMMUNICATION WITH THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

Grant Thornton presented the Committee with a report in respect of communication with the Audit, Governance and Standards Committee.

In accordance with Auditing Standards, Grant Thornton was required to ensure that robust systems were in place together with proactive communications with those charged with governance. In planning and performing their audit of the Council's financial statements, Grant Thornton needed to understand how the Audit, Governance and Standards Committee, supported by the Council's management, met its responsibilities in the following areas:

- Fraud
- Law and Regulation
- Going concerns
- Accounting for estimates; and
- Related parties.

# **Audit, Governance & Standards Committee**

---

Thursday, 7 March 2019

Detailed management responses in relation to the controls that were in place within Redditch Borough Council were included in the report. It was reported that the responses were consistent with the previous year and there were no concerns identified.

In response to Members' questions the following points were highlighted:

- It was clarified that management responses were consistent with expectations and similar to the previous year;
- Grant Thornton had no concerns and there was a clear understanding of the work that had been carried out;
- Grant Thornton were happy with the arrangements in place in preparation for the new finance system;
- Grant Thornton clarified that from 2018-19, local government bodies could appoint their own auditors. However, with the exception of nine local bodies, local authorities had opted into a collective procurement arrangement, operated by Public Sector Audit Appointments Ltd. (PSAA) in its new role as 'appointing person', which would continue to appoint local auditors. Any additional work that was required would be agreed with the Executive Director of Finance and Resources;
- Members were concerned that only a one year budget was proposed and expressed the view that it was prudent for the Council to set a three/four year budget going forward.

## **RESOLVED**

**that the Communication with the Audit, Standards and Governance Committee report and management responses be noted.**

### **33. GRANT THORNTON - EXTERNAL AUDIT PLAN 2018/19**

Grant Thornton presented the external Audit Plan for 2018/19 setting out the work that had been undertaken in respect of the financial accounts for 2018/19.

The report provided an overview of the plan which covered the key areas of challenge and opportunities facing the Council and the work the auditors would be doing:

- Significant risks -. These related to the management over-ride of controls, valuation of the pension fund net liability and valuation of property, plant and equipment.

# **Audit, Governance & Standards Committee**

---

Thursday, 7 March 2019

- Materiality – planning materiality to be £1.3m.
- Value for Money (VFM) arrangements – VFM risks were identified in respect of financial sustainability, procurement and contract management in the Housing Department; arrangements were in place to address the risks. Grant Thornton would monitor the progress made in the housing department as part of their work in order to reach a VFM conclusion;
- Improvements were required to ensure that the Council had a robust Medium Term Financial Plan (MTFP) which could effectively support the sustainable delivery of the Council's strategic purposes and enable the authority to maintain its statutory functions. This was a fundamental issue for Redditch Borough Council and it was identified that the Council needed a plan in place to ensure that the MTFP was protected and to ensure that reserves did not go below the minimum level agreed by Council.

Arising from Members' questions, the following points were made:

- There was uncertainty about the future position for local authority funding for 2020/21 onwards and about the implications of the outcomes of the Fair Funding Review for the Council;
- The Council had to ensure that procurement requirements were met and that the right contractors with appropriate skills were recruited to carry out work;
- It was noted that guidance for auditors on VFM work in November 2017 had been issued. The guidance stated that for Local Government, auditors were required to give a conclusion on whether the Authority had proper arrangements in place to secure VFM.

Members were advised that the Council's financial position and the external auditors' opinion in respect of this would be submitted in July 2019.

## **RESOLVED**

**that the report of the Grant Thornton Audit Opinion Plan for 2018/19 be noted and agreed.**



# **Audit, Governance & Standards Committee**

Thursday, 7 March 2019

---

## **34. GRANT THORNTON - EXTERNAL AUDIT - GRANT CLAIMS CERTIFICATION WORK REPORT 2017/18**

Members considered the Grant Thornton Certification Work Report 2017/18 for Redditch Borough Council in the year ending 31<sup>st</sup> March, 2018. Members' attention was drawn to the details of the Housing Benefit Subsidy claim for the financial year 2017/18, during which a subsidy of £21.7m had been claimed.

A number of issues had been identified from the certificate work as follows:

- There were eight lots of additional testing arising from the findings from the previous year;
- Errors were also found in one new area which had resulted in the need for additional testing; and
- 458 cases had been tested in the year and 35 errors had been identified which were related to under and over payments.

### **RESOLVED**

**that the Grant Thornton Certification Letter 2017/18 be noted.**

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

The Head of Internal Audit Shared Services presented a report that informed the Committee of the outcomes of the performance for 2018/19 of Internal Audit. Members noted that the report presented to them was prepared as at 31<sup>st</sup> December, 2018.

The Head of Worcestershire Internal Audit Shared Service provided a verbal update of the current position to date and highlighted the key issues as follows:

- Final reports with regard to the review of Universal Credit and Shopmobility, would be reported to the Committee in April 2019;
- There were ongoing reviews with regard to car parking, debtors, creditors and payroll. Reports summarising the outcome of these reviews would be presented to the Committee in April 2019;
- In addition, updates on reviews of transport and housing would be presented to the Committee at a future meeting for Members' consideration;
- There was ongoing work in relation to the National Fraud Initiative. There was a slight overspend with regard to the

# **Audit, Governance & Standards Committee**

---

Thursday, 7 March 2019

corporate audits. Due to the nature of some of the reviews, additional resources had been allocated resulting in additional days. Any variation would have been agreed with the Executive Director of Finance and Resources;

- Performance measures had been revisited as of 25<sup>th</sup> January, 2019 and it was confirmed that all action had been completed;
- Disability Facility Grants - follow up had taken place on 28<sup>th</sup> January, 2019 and the progress of this would be reported back to the Committee in April 2019;
- Robust action had been put in place to address the issues in regard to the transparency of the welfare budgets. A follow up audit would be implemented on 31<sup>st</sup> March, 2019 and subsequently reported back to the Committee;
- A follow up audit that took place in January 2019 with regard to homelessness had found that the one remaining medium priority recommendation had not yet been implemented as the Council was awaiting procurement of a new system. This had been recorded as a risk with the IT Housing Project Board. Assurance had been given to the Council that under GDPR data protection requirements, as Officers were procuring a new system; they were covered at this point in time. A follow up would be undertaken to ensure that this was being actioned;
- With regard to St David's House, a follow up took place in January 2019 which confirmed that all certification requirements had been satisfied and all recommendations had been implemented. No further follow up was therefore required.

The Committee was informed that there was better engagement between Internal Audit and the Corporate Management Team (CMT) and a clear action plan was in place to address any concerns going forward. Any outstanding actions would be signed off at the next CMT meeting.

Grant Thornton informed the Committee that Rubicon Leisure Limited was aware that the Audit, Governance and Standards Committee had responsibility for monitoring their work on behalf of the Council. The Head of Worcestershire Internal Audit Shared Service stated that the service was accountable for carrying out the audit work in respect of Rubicon Leisure Limited and Members would be provided with a limited internal audit provision for the company at the Committee meeting in April 2019.

## **RESOLVED**

**that the Internal Audit Progress Report be noted.**

# **Audit, Governance & Standards Committee**

Thursday, 7 March 2019

## **36. TREASURY MANAGEMENT STRATEGY AND CAPITAL STRATEGY REPORT**

The Committee considered the Capital Strategy and the Treasury Management Strategy reports 2019/20 as well as the mid year treasury report. The capital strategy report was a new report for 2019/20 due to the changes made by CIPFA and the Ministry of Housing, Communities and Local Government (MHCLG) to relevant guidance. The strategies were set against the Council's MTFP, UK economy and projected interest rates.

The Financial Services Manager highlighted the key points as follows:

- The Council planned to incur £20m of capital expenditure on investments over the next three years;
- Planned borrowing was forecast to increase significantly in order to support the planned expenditure;
- The Capital Financing Requirement (CFR) for general fund services was forecast to see a significant increase over the next five years due to planned expenditure on capital projects and investments;
- The Financial Services Manager highlighted a number of Key Performance Indicators, measures and controls related to the strategies;
- The half year treasury report highlighted three investments, two with local authorities and one with the Staffordshire Police and Crime Commissioner, which exceeded the £2m limit set in the treasury strategy. Their creditworthiness was viewed in the same light as that of central government, and as such these investments were deemed to be of a similar risk level.

Members were made aware that work would be carried to determine what impact, if any, Brexit might have on planned strategies and pension liabilities.

### **RECOMMENDED that**

- a) **the Capital Strategy (Appendix A) as an appropriate overarching strategy for the Council be recommended to Council for approval and the flexible use of capital receipts policy as per appendix E; and**

# **Audit, Governance & Standards Committee**

Thursday, 7 March 2019

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- b) **Council approve the Treasury Management Strategy for 2019/20 (Appendix B) and the associated limits, MRP policy and treasury management policy (appendences C and D) and specific indicators included in this report.**

## **RESOLVED**

**that the half year treasury management report be noted**

### **37. CORPORATE GOVERNANCE AND RISK UPDATE**

The Financial Services Manager presented the Corporate Governance and Risk Report to the Committee for consideration and the 'high' priority risks identified in the report. Members were asked to consider any further risks that they felt should be included in the 2019/20 risk register.

There were two significant risks identified in respect of managing the impact of national changes – financial / social economic or environmental which might have a detrimental impact on service delivery or quality (e.g. Brexit / Universal Credit) and non-adherence with the Statutory Inspection Policy.

Members noted that some of the risk indicators had not changed despite improvements having been put in place. Members noted that the risk indicator score would be lowered if changes were made.

No further risks were identified.

## **RESOLVED**

**that the Corporate Governance and Risk Report be noted.**

### **38. FINANCIAL SAVINGS MONITORING REPORT**

The Committee was presented with the Financial Savings Monitoring report for April to September 2018, setting out the delivery of the savings projected for the full year against the MTFP. This was detailed in the MTFP which was approved by the Council in February 2018.

The Financial Services Manager reported that projected savings of £721k for 2018/19 were on target to be delivered during the financial year.

# **Audit, Governance & Standards Committee**

---

Thursday, 7 March 2019

Members noted that a more detailed report was presented at the Executive Committee and requested that a verbal update be provided at future meetings.

## **RESOLVED**

**that the Financial Savings Monitoring Report for April to September 2018 be noted.**

### **39. REVIEW OF THE ROLE OF INDEPENDENT MEMBER**

Members were presented with a report and were asked to give consideration as to whether an Independent Member was required for the Audit, Governance and Standards Committee.

The Committee expressed the view that the role of the Independent Member should continue as s/he advised the Committee on the effectiveness of internal and external audits as well as risk management and systems of internal controls and therefore played an important role on the Committee.

Members commented that having an Independent Member previously had worked well as their contribution to the Committee meetings had been valued and they had had an opportunity to share their expertise at Committee meetings.

Questions were raised in relation to the recruitment process and what this would involve, such as, shortlisting and the interview process.

Members noted the role of the Independent Member was voluntary and would only be reimbursed for their travel expenses. However, Members requested that officers look into the potential to provide remuneration for this role. Members requested that a report be presented to the Committee on 25<sup>th</sup> April, 2019 detailing the recruitment process of the Independent Member.

## **RESOLVED**

**that an Independent Member for the Audit, Governance and Standards Committee be recruited, subject to further information being provided in relation to the remuneration for the role.**

# **Audit, Governance & Standards Committee**

---

Thursday, 7 March 2019

## **40. COMMITTEE'S WORK PROGRAMME**

Members considered the Audit, Governance and Standards Committee's Work Programme for 2018/19. It was noted that the next meeting of the Committee was scheduled to take place on 25<sup>th</sup> April, 2019.

Members asked for the following items to be included in the work programme as follows:

- Verbal update on Brexit (the Council's plans going forward)
- Independent Member to the Committee report.

### **RESOLVED**

**that the Audit, Standard and Governance Committee Work Programme for 2018/19 be noted.**

The Meeting commenced at 7.00 pm  
and closed at 8.35 pm

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE**25<sup>th</sup> April 2019**MONITORING OFFICER'S REPORT – STANDARDS REGIME**

Relevant Portfolio Holder	Councillor Matthew Dormer, Portfolio Holder for Planning, Governance and Partnerships
Portfolio Holder consulted	
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 January 2019.
- 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 Representative(s), will be reported by the Monitoring Officer (MO) 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 standards regime effective from 1st July 2012. The Act places a requirement on authorities to promote and

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

**25<sup>th</sup> April 2019**

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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 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 came into force on 1st July 2012

### **Service / Operational Implications**

#### Member Complaints

- 3.3 There has been one complaint since the previous meeting of the Audit, Governance and Standards Committee. The Monitoring Officer is currently in the process of investigating this complaint.

#### Member Training

- 3.4 At a meeting of the Member Support Steering Group held in February 2019 Members reviewed and agreed the content of the new Member Induction Pack and Training Programme. This contains a comprehensive list of training for Members covering subjects including:
- The Licensing process
  - Overview and Scrutiny
  - Safeguarding, equalities and health and safety
  - Data protection and the Council's measures dashboard
  - Training for new Members of the Planning Committee.
  - Refresher training for Members who have previously served on the Planning Committee.
  - Training in respect of the new grants process.
- 3.5 Officers and Members continue to explore ways in which to both reduce the amount of paper used for agendas and to enhance the use of Member IT equipment. As a result of this work in the period August 2018 to February 2019 the amount of printing generated for Committee meetings declined by 61 per cent.



REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE**25<sup>th</sup> April 2019

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Constitution Review Working Party

- 3.6 The Constitution Review Working Party has been working very effectively in enabling constructive changes to the constitution to be made and in keeping all Members informed.
- 3.7 At the latest meeting of the Constitutional Review Working Party Members considered a new Licensing Code of Practice, proposed changes to the employment appeals process, the possibility of introducing an Electoral Matters Committee and a complaint in respect of opportunities for public speaking at public committee meetings. The recommendations arising from this meeting were approved by the Council at a meeting on 25<sup>th</sup> February 2019.

**Customer / Equalities and Diversity Implications**

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

**4. RISK MANAGEMENT**

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

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

**5. APPENDICES**

None

**6. BACKGROUND PAPERS**

Chapter 7 of the Localism Act 2011.

Confidential complaint papers (where applicable).

**AUTHOR OF REPORT**

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**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE****25th April 2019****PUBLIC SPEAKING AT MEETINGS OF THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

Relevant Lead Member	Councillor John Fisher, Chair of the Audit, Governance and Standards Committee
Relevant Head of Service	Claire Felton, Head of Legal, Equalities and Democratic Services
Ward(s) Affected	All
Ward Councillor(s) Consulted	N/A

**1. SUMMARY OF PROPOSALS**

The report outlines the background to the Council's recent decision to introduce public speaking arrangements for a number of Committees and invites Members to consider which public speaking arrangements to put in place for the Audit, Governance and Standards Committee.

**2. RECOMMENDATIONS**

**The Committee is asked to RESOLVE on the following arrangements for public speaking at Audit, Governance and Standards Committee meetings:**

- 1) to require members of the public to register in advance of a meeting, *(with the length of time in advance to be determined by the Committee)* in order to speak at the Audit, Governance and Standards Committee;**
- 2) to set a limit of three or five minutes for each member of the public to speak at meetings of the Audit, Governance and Standards Committee;**
- 3) to set a limit of a maximum of 15 minutes to be dedicated to public speaking at the start of the meeting; and**
- 4) to specify any other arrangements considered necessary to enable public speaking at meetings of the Audit, Governance and Standards Committee.**

**3. KEY ISSUES****Background**

- 3.1 At a meeting of the Constitutional Review Working Party (CRWP) on 12<sup>th</sup> February 2019 Members considered a complaint with regard to the potential for the public to speak at public Committee meetings. Some Committees, including Council, the Executive Committee and Planning Committee, already have

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE****25th April 2019**

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arrangements in place which permit Members of the public to speak at Committee meetings, subject to providing appropriate notice in accordance with the Council's constitutional requirements. However, public speaking arrangements are not formalised for some other Committees which meet in the public arena, including the Audit, Governance and Standards Committee. At these meetings the public can only speak at the discretion of the Chair. The complaint called for residents to be provided with an opportunity to speak at all public Committee meetings.

- 3.2 The CRWP noted that at other local authorities the public are sometimes provided with an opportunity to speak at Committee meetings held in the public. Often a public speaking item will be included early on the agenda and residents can speak at Committee meetings during this item, subject to providing sufficient notice to the Council. Members agreed that a similar arrangement should be introduced at Redditch Borough Council for all Committees which held meetings that were open to the public and which did not already have arrangements in place that would enable the public to speak at those meetings.
- 3.3 The Licensing Committee, which considers and agrees changes to Licensing policies, recently considered a report in respect of public speaking. During this meeting Members agreed that each speaker should be allocated a maximum of three minutes to speak and a total of fifteen minutes would be dedicated to public speaking at the meeting. The Licensing Committee also agreed that members of the public should register to speak by 12 noon on the day of the meeting. Similarly, the Overview and Scrutiny Committee agreed to adopt exactly the same public speaking arrangements as the Licensing Committee at a recent meeting held on 21<sup>st</sup> March 2019. For consistency the Audit, governance and Standards Committee may want to consider agreeing a similar approach to public speaking.

Registration and Public Speaking Content

- 3.4 The Council requires members of the public to register in order to speak at Committee meetings where public speaking arrangements have been in place for some time. For Planning, Licensing and Overview and Scrutiny Committee meetings residents are asked to register to speak on a particular item by 12 noon on the day of the Committee meeting.
- 3.5 Officers have reviewed public speaking arrangements for Audit, governance and Standards Committees in other parts of Worcestershire. The following arrangements are in place:
- Bromsgrove District Council – The public may speak at the discretion of the Chairman of the Overview and Scrutiny Board.
  - Malvern Hills District Council – A maximum of 30 minutes is set aside for public speaking at the start of the meeting. Each resident can speak for a maximum of five minutes. Those wishing to speak must notify the Council by 9.00am on the day before the meeting.

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE****25th April 2019**

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- Worcester City Council – Members of the [public may each speak for five minutes and a maximum of fifteen minutes is dedicated to public speaking at Committee meetings. Any resident registering to speak must notify the council by 4.30pm the working day before the meeting.
  - Wychavon District Council – There is no formal procedure for public speaking at meetings of the Council's Audit Committee.
  - Wyre Forest District Council – There is no formal procedure for public speaking at meetings of the Council's Audit Committee.
- 3.6 In Redditch public speaking could entail residents addressing the Committee regarding their views in respect of a particular item on the agenda. Should this occur Members may wish to agree a short notice period for the registration, potentially similar to that for the Planning, Licensing and Overview and Scrutiny Committees.
- 3.7 At the Planning Committee residents are permitted to speak for three minutes on an application and where there are a group of supporters or objectors they are allowed no more than ten minutes in which to address the Committee. The Licensing and Overview and Scrutiny Committees recently agreed to allocate a total of fifteen minutes to public speaking at each meeting.
- 3.8 Officers would suggest that, to ensure consistency across the Council for public speaking arrangements, Members should consider introducing time limits for the Audit, Governance and Standards Committee that are similar to those that are already in place for the Planning, Licensing and Overview and Scrutiny Committees.
- 3.9 To avoid disrupting the flow of the meeting, officers would recommend that the public speaking item be placed on the agenda at the start of the meeting before discussion of the individual reports. As with public speaking at Council, Members would not enter into any discussion with the speaker about their comments at the time, but would be able to refer to them in the course of consideration of the relevant item.

**Financial Implications**

- 3.10 No specific financial implications have been identified.

**Legal Implications**

- 3.11 No specific legal implications have been identified.

**Service / Operational Implications**

- 3.12 There are no specific service or operational implications.

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE & STANDARDS COMMITTEE****25th April 2019**

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**Customer / Equalities and Diversity Implications**

- 3.13 The introduction of public speaking arrangements at meetings of the Audit, governance and Standards Committee will enable the public to engage more effectively with the local democratic process.

**4. RISK MANAGEMENT**

No specific risks have been identified.

**AUTHOR OF REPORT**

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REDDITCH BOROUGH COUNCILAUDIT, GOVERNANCE AND STANDARDS COMMITTEE25/4/19GRANT THORNTON – Sector report and audit progress update

<b>Relevant Portfolio Holder</b>	Councillor Tom Baker Price
<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**

- 1.1 To present a sector update report from Grant Thornton relating to emerging public sector national issues and audit progress to date.

**2. RECOMMENDATIONS**

- 2.1 That the Committee note the update.

**3. KEY ISSUES**

- 3.1 This report attached at Appendix 1 details a number of key issues that are emerging in the public sector environment that Grant Thornton feel the Council should be aware of. These include:

**3.2 Public sector audit appointments**

This report is the fourth published by the Public Sector Audit appointments (PSAA) and summarises the results of the auditor's work at 495 principal Local Government and Police bodies for 2017/18. It covers the timeliness and quality of financial reporting, auditors' local value for money work and the extent to which auditors used their statutory reporting powers.

**3.3 National Audit Office – Local auditor reporting in England 2018**

This report describes the roles of auditors and relevant bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017/18. It also considers how issues reported have changed since the Comptroller and Auditor General (C&AG) took up the new role in 2015 and highlights differences between Local Government and NHS sector.

REDDITCH BOROUGH COUNCIL**AUDIT, GOVERNANCE AND STANDARDS COMMITTEE****25/4/19**

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**3.4 National Audit Office – Local authority governance**

This report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and also determines whether authorities are financially sustainable.

**3.5 Planning for new Homes**

The national audit office recently published a report on “Planning for new homes in England”. The report focuses on the Ministry of Housing, Communities and Local Government’s (MHCLG’s) objectives for housing in England; namely delivering a million homes by the end of 2020, half a million more by the end of 2022 and to deliver 300,000 net additional homes a year on average.

**3.6 CIPFA – Financial Resilience Index plans revised**

CIPFA has proposed a financial resilience index to provide reassurance to councils who are financially stable and to highlight areas that may need further consideration in relation to financial modelling and funding.

Since the initial report, following a consultation with the sector, CIPFA has refined its plans and is poised to rate bodies on a “suite of indicators”.

**3.7 ICAEW Report: expectations gap**

This report highlights the difference between what auditors actually deliver and what stakeholders expect them to deliver. It suggests greater debate is needed and highlights a number of key areas where this difference in expectations is most stark.

**3.8 Progress Report  
Financial Statements Audit**

A detailed audit plan has been issued, and an interim audit has taken place in January 2019. This interim audit covered areas such as the control environment, core financial systems understanding and early substantive testing. The scope has been adjusted in light of the Council deciding to consolidate Rubicon Leisure Ltd into the financial statements. This will necessitate the production of additional statements and disclosure notes and may require a fee variation in light of the additional audit work required.

**3.9 Value For Money**

There are two significant value for money risks highlighted at present, which are the financial sustainability of the Council and the procurement and contract management in the Housing Department. Audit work is currently being undertaken on these.

**3.10 Other areas**

Regular meetings with finance staff are underway to ensure emerging issues can be identified early. The Housing Benefit subsidy Claim work has not started as yet.

**3.11 Results of Interim Audit Work**

The areas reviewed to date are internal audit, entity level controls, information technology controls, walkthrough testing, journal entry controls and early substantive testing – no weaknesses or issues have been identified to date.



**3.12 Legal Implications**

None as a direct result of this update

**3.13 Service/Operational Implications**

The impact of any changes would be managed by services delivered by the Council

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

None as a direct result of this report.

**5. RISK MANAGEMENT**

The Corporate Risk register includes risk associated with changes to national policy

**6. APPENDICES**

Appendix 1 – Sector Update and audit progress report

**7. BACKGROUND PAPERS**

Available from Financial Services

**AUTHOR OF REPORT**

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# Audit Progress Report and Sector Update

Redditch Borough Council  
Year ending 31 March 2019

25 April 2019



# Contents

Section	Page
Introduction	03
Progress at March 2019	04
Audit Deliverables	05
Results of Interim Audit work	06
Group audit scope and risk assessment	08
Sector Update	09
Links	16
Appendix A	17

# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



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

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

## PSAA Contract Monitoring

Redditch Borough Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Progress at March 2019

## Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

There has been a change in the scope of our audit as Officers have now decided to consolidate Rubicon, the wholly owned Council subsidiary, into the financial statements. This will necessitate the production and audit of additional statements and disclosure notes. Once we have completed our work in this area we may need to agree a fee variation with Officers as the fee set by PSAA is for the audit of the Council accounts only.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 28 May with findings reported to you in our Audit Findings Report. We will present our report at the July Audit, Governance & Standards Committee meeting and issue our audit opinion by the 31 July deadline.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified two significant Value for Money Risks:

- Financial sustainability.
- Procurement and contract management in the Housing Department.

We are currently carry out our audit work on these.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We will agree our overall project plan for completing this work with officers.

### Meetings

We met with Finance Officers in February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We are scheduled to meet with your Chief Executive in May to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit, Governance & Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit, Governance & Standards Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due

## Council responsibilities

In our Audit Plan presented to the Audit, Governance & Standards Committee in March 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

# 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	Conclusions and recommendations
Internal audit	We have 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.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <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>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.



	Work performed	Conclusions and recommendations
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<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 – net pension liability, property valuations and journals. The walkthroughs on the net pension liability and property valuations are to be completed after the year end.</p> <p>Our work to date 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>	Our work to date has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	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.	Our work has not identified any weaknesses which impact on our audit approach. As part of our audit of the Council financial statements we will undertake testing of journals which we deem to be of higher risk.
<b>Early substantive testing</b>	<p>We have completed early testing in relation to:</p> <ul style="list-style-type: none"> <li>• Operating Expenses</li> <li>• Revenue</li> <li>• Housing Benefit payments</li> <li>• Shared Services payments</li> </ul>	We have not identified any issues to report in any of the areas where we have undertaken early substantive testing.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Rubicon	No	Analytical procedures at group level.	None	Analytical review performed by Grant Thornton UK LLP.

**Key changes within the group:**

- This is the first year that Redditch Borough Council will prepare group accounts.
- We will need to:
  - obtain sufficient appropriate assurance over the material figures that are consolidated into the group financial statements.
  - test that the consolidation process has been completed correctly.
  - review the group primary statements and additional disclosures to ensure that they comply with the CIPFA Code requirements.

# Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

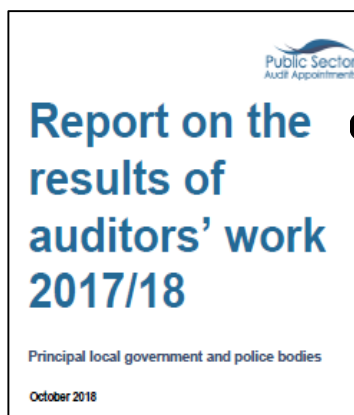
The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

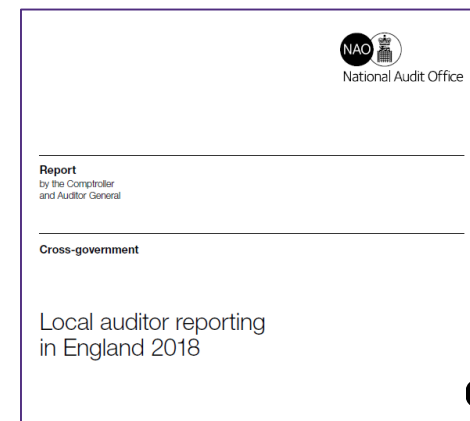
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

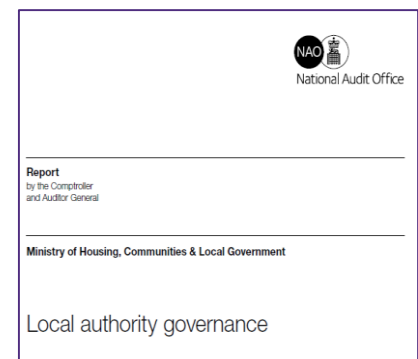
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

## NAO Report

### Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



# National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



## NAO Report

### Challenge question:

Has your Authority got a robust plan in place to deliver the additional houses needed over the next five years?





# CIPFA – Financial Resilience Index plans revised

## The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

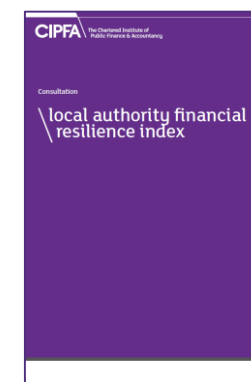
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

### CIPFA Consultation

#### Challenge question:

Has your Director of Finance briefed members on the Council’s response to the Financial Resilience Index consultation?





# ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

### • Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures

### • Limited usefulness of auditors reports: 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

### • Other powers and duties: implementing public interest reports in addition to VFM

### • Restricted role of questions and objections: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

### • Audit qualification not always acted on by those charged with governance: 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

### • Audit committees not consistently effective: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

### • Decreased audit fees: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

### • Impact of audit independence rules: new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

### • Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

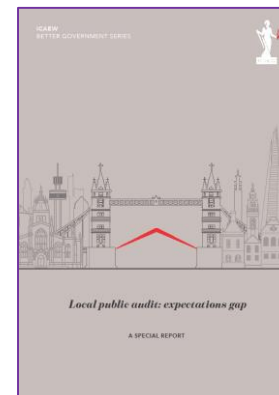
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?

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# Links

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## Grant Thornton

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

## Ministry of Housing, Communities and Local Government

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## Local Government audits 2018/19 and beyond

### Grant Thornton's External Audit commitment

Audit 2018/19

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*"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".*

*Director of Finance, local audited body*

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council

## Our relationship with our clients—why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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Date: 25<sup>th</sup> April 2019

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**THE INTERNAL AUDIT PROGRESS REPORT OF THE HEAD OF INTERNAL AUDIT SHARED SERVICE; WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor Tom Baker-Price
Portfolio Holder Consulted	Yes
Relevant Head of Service	Chris Forrester, 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 2018/19 as at 31<sup>st</sup> March 2019.

**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: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**Service / Operational Implications**

- 3.3 The involvement of Member's 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 to 31<sup>st</sup> March 2019 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 (7<sup>th</sup> March 2019):

**2018/19 AUDIT SUMMARY UPDATES:****Creditors**

A light touch audit was used to review Creditors as there has been no recent or planned change in the system used or with the key responsible officer for this area.

There were no significant issues highlighted using a rolling programme over a 9 months period and applying a statistical analysis to analyse the Creditors data.

Testing identified one potential risk area which was where invoices were paid outside the 30 days. Further testing found that where invoices were paid outside of the 30 days there were notes on the system to show the action taken in order to resolve any issues.

We have given an opinion of full assurance in this area because there is a sound system of internal control in place with controls working as expected. Internal Audit testing has not identified any material risks against the scope of the review.

There were no recommendations reported.

Type of Audit: Light Touch Audit

Assurance: Full

Final Report Issued: 5<sup>th</sup> March 2019

**Debtors**

A light touch audit was used to review Debtors as there has been no recent or planned change in the system used or with the key responsible officer for this area.



Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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15 Aged Debtors were selected randomly from across the period and tested to ensure that the debts had been chased in line with the Council's Debt Management Policy. There were no significant issues highlighted by using a rolling programme over a 9 month period to analyse the Debtor data.

We have given an opinion of full assurance in this area because there is a generally sound system of internal control in place with controls working as expected. Internal Audit testing has not identified any material risks against the scope of the review.

There were no recommendations reported.

Type of Audit: Light Touch Audit

Assurance: Full

Final Report Issued: 5<sup>th</sup> March 2019

**Shop Mobility**

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

- The general accessibility of registration for customers, as well as the accuracy and timeliness of processing.
- Cash handling arrangements, including secure and accurate banking of monies.
- Arrangements for the accurate and timely charging of customers.
- The schedule and arrangements for maintaining Shopmobility equipment.

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

- Transparency of the conditions of use for all services offered.
- Ensuring suitable maintenance contract arrangements are in place.
- Ensuring suitable access rights for employees.
- Ensuring the transparency of insurance arrangements at the site.

There were 3 'medium' and 1 'low' priority recommendations reported.

Type of Audit: Full System

Assurance: Significant

Final Report Issued: 25<sup>th</sup> January 2019

**Treasury Management**

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

- The general transparency of treasury activities during the financial period in achieving best value;

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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- General IT controls in relation to the segregation of duties;
- Regular monitoring of cash flow and treasury activities to determine on-going cash requirements.

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

- Ledger coding and reconciliation
- User access
- Procedures for borrowing/ lending between Authorities
- Benchmarking

There were 2 'medium' and 2 'low' priority recommendations reported.

Type of Audit: Full System

Assurance: Significant

Final Report Issued: 17<sup>th</sup> January 2019

**Main Ledger**

A light touch audit was used to review the Main Ledger as there has been no recent or planned change in the system used or with the key responsible Officer for this area.

There were no significant issues highlighted by using a rolling programme over a 9 month period to analyse the Main Ledger.

We have given an opinion of significant assurance in this area because there is a generally sound system of internal control in place but due to the known issues with the system some of the reconciliations have not been completed in a timely manner throughout the year (but will be completed for the year end due to resources being allocated) and the clearance of the old cashiers suspense account. Management are currently putting a proposal forward for the purchase of a new finance system to address these historical issues within the current system.

There were no recommendations reported.

Type of Audit: Light Touch Audit

Assurance: Significant

Final Report Issued: 19<sup>th</sup> March 2019

**GDPR**

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

- The implementation of the process of compliance with the GDPR is being closely monitored.

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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- The Information Audits carried out have provided a detailed picture of the data held by individual services.
- Information and advice is readily available to management and staff regarding the GDPR.

The review found that the following areas were not yet demonstrating compliance but that progress is being monitored in order to mitigate the risks until compliance is achieved:

- Information Audits – There are a number of Services that have yet to return a completed Information Audit.
- Third Party Assurance – The Councils are still seeking assurance from some third parties that they are GDPR compliant.
- Legacy Data – The Council is yet to achieve a solution regarding the removal of legacy data on older systems.

There is to be ongoing training including special category data for those Services that require it. The overall direction of progress is positive, with progress made in all areas covered by the scope of this audit.

There were 2 'high' and 2 'medium' priority recommendations reported.

Type of Audit: Full System

Assurance: Moderate

Final Report Issued: 13<sup>th</sup> March 2019

**Payroll**

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

- The Procedures, including correct authorisation in relation to expenses and monthly pay.
- Statutory deductions e.g. PAYE and NIC
- Payslips are accurate and access is by authorised means only.
- Key Performance Indicators
- Reconciliation to the financial system has a process in place.

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

- GDPR
- Foundation Living Wage
- Random Sample Generation
- Version Control
- Business resilience - long term sick

There were 2 'high', 2 'medium' and 1 'low' priority recommendations reported.

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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Type of Audit: Full System  
 Assurance: Moderate  
 Final Report Issued: 5<sup>th</sup> March 2019

**Car Parking**

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

- The receipts for the Penalty Charge Notices (PCNs) are received in line with the contract
- Wychavon District Council invoices are received on a quarterly basis and are paid in a timely manner.
- Although not on a standardised timetable meetings do take place between Wychavon District Council and Redditch Borough Council. If additional meetings are required then these can be called at any time.
- Breakdown information e.g. where patrols have taken place and at what times can be produced upon request.

There is a good working relationship with Wychavon District Council that means that small changes can be made to the contract without additional costs being incurred. The goodwill that has been built up over the years cannot be quantified but does need to be taken into account in any decisions that are made.

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

- On street parking cost to the Council
- Value for money

There was 1 'high' and 1 'medium' priority recommendation reported.

Type of Audit: Full System Audit  
 Assurance: Moderate  
 Final Report Issued: 12<sup>th</sup> March 2019

Summary of assurance levels:

<b>2018/19</b>	
• Creditors	Full
• Debtors	Full
• Shop Mobility	Significant
• Treasury Management	Significant
• Main Ledger	Significant

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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• GDPR	Moderate
• Payroll	Moderate
• Car Parking	Moderate

2018/19 reviews which were at draft stage as at the 31<sup>st</sup> March 2019 included:

- National Non Domestic Rates
- Council Tax
- Transport

2018/19 reviews which were at clearance or nearing completion as at the 31<sup>st</sup> March 2019 included:

- Universal Credit (clearance)
- Housing Benefits (clearance)
- Procurement (clearance)
- Leisure (clearance)
- Stores
- Risk Management

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

Critical review audits 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.

A review was undertaken in regard to the Health and Safety. The Health and Safety Board have taken ownership of the report and are in the process of formulating an action plan to address the identified issues in conjunction with the transfer of Property Services that returned in house on the 1<sup>st</sup> April 2019.

Date: 25<sup>th</sup> April 2019

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**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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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 continues to be developed 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 to confirm the recommendations have been satisfied.

**3.4 AUDIT DAYS**

Appendix 1 shows the progress made towards delivering the 2018/19 Internal Audit Plan and achieving the targets set for the year. As at 31<sup>st</sup> March 2019 a total of 351 days had been delivered against an overall target of 400 days for 2018/19.

Appendix 2 shows the performance indicators for the service. Performance and management indicators were agreed by the Committee on the 26<sup>th</sup> April 2018 for 2018/19.

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

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**National Fraud Initiative**

- 3.6 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. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Redditch Borough Council. The data requirements were uploaded during October and December 2018 with any queries dealt with accordingly. Matches are now being returned to the Authority for investigation.

**Customer / Equalities and Diversity Implications**

- 3.7 There are no implications arising out of this report.
- 3.8 The Worcestershire Internal Audit Shared Service (WIASS) is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards.
- 3.9 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.
- 3.10 WIASS confirms it acts independently in its role and provision of internal audit.
- 3.11 Due to changing circumstances and after consultation a small variation in the plan has been agreed on a risk priority basis with the s151 Officer e.g. shared services which was joint with Bromsgrove District Council. Additional days have been used in a couple of review areas to ensure a comprehensive review was completed which has resulted in an increase in certain budgets. A piece of work in connection with Housing which presented very late in the financial but was commenced due to its nature will continue as part of the 2019/20 plan and be reported as a 2019/20 report. Also, a contingency budget that was included in the 2018/19 plan for the transferal of the Leisure Service was not fully utilised providing an underspend against the plan budget as a whole. With the adjustment to the plan there remained a wide audit coverage during 2018/19 which is reflected in the reports indicated in paragraph 3.3.

**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.

Date: 25<sup>th</sup> April 2019

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**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**5. APPENDICES**

Appendix 1 ~ Internal Audit Plan delivery 2018/19  
Appendix 2 ~ Performance indicators 2018/19  
Appendix 3 ~ Tracking analysis of previous audits  
Appendix 4 ~ 'High' and 'Medium' priority recommendations

**6. BACKGROUND PAPERS**

Individual internal audit reports which are held in the internal audit service.

**7. KEY**

N/a

**AUTHOR OF REPORT**

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REDDITCH BOROUGH COUNCILDate: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE****APPENDIX 1****Delivery against Internal Audit Plan for 2018/19**  
**1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019**

<b>Audit Area</b>	<b>2018/19 PLAN DAYS</b>	<b>Forecasted days to the 31<sup>st</sup> March 2019</b>	<b>Actual Days used to 31<sup>st</sup> March 2019</b>
Core Financial Systems (see note 1)	67	67	67
Corporate Audits(see note 2)	47	47	59
Other Systems Audits(see note 3)	232	215	171
<b>SUB TOTAL</b>	<b>346</b>	<b>329</b>	<b>297</b>
Audit Management Meetings	20	20	20
Corporate Meetings / Reading	9	9	9
Annual Plans, Reports and Audit Committee Support	25	25	25
Other chargeable	0	0	0
<b>SUB TOTAL</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>TOTAL (Note 4)</b>	<b>400</b>	<b>383</b>	<b>351</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

Due to the nature of some of the reviews additional resource was allocated resulting in additional days.

Note 3

A number of the budgets in this section are 'on demand' (e.g. consultancy, investigations) so the requirements can fluctuate throughout the quarters. If there is little demand for certain budgets this is reflected in the overall usage, however, it does not necessarily reduce the coverage of the overall plan.

Note 4

The overall figure is below the expected 90% due to a combination of factors (see note 2 and 3 above) including a contingency budget of 40 days that was predominantly unused but included in the plan for the Leisure Services transfer. In addition there were some small underspends on several other draw down budgets which totalled overall to the 49 day difference. The overall underspend did not compromise the plan delivery with a wide variety of coverage during the year as indicated in the report at paragraph 3.3 and Appendix 2.

Date: 25<sup>th</sup> April 2019

## **AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

### **Appendix 2**

#### **PERFORMANCE INDICATORS 2018/19**

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2018/19. Other key performance indicators link to overall governance requirements of Redditch Borough Council e.g. KPI 4 to KPI 6. The position will be reported on a cumulative basis throughout the year.

	KPI	Trend/Target requirement/Direction of Travel	2018/19 Position (as at 31 <sup>st</sup> March 2018)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 16 Delivered = 9 A further 3 @ draft report 4 @ clearance 2 nearing completion	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	88%	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	*76%	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	5	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	4	When Audit Committee convene
6	'Follow Up' results (2017/18 onwards)	Management action plan implementation date exceeded (<5%)	0	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	3	When Audit Committee convene

WIASS conforms to the Public Sector Internal Audit Standards (as amended).

Date: 25<sup>th</sup> April 2019**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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\* For much of the year this was below target due to 4 new starters in April 2018 and a period of settling in and training. Training is continuing, however, the overall productivity figure has been steadily improving throughout the year from a quarterly average of 60% in quarter 1 to 76% in quarter 4.

**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**APPENDIX 3**

**Planned Follow Ups:**

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action 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: 25<sup>th</sup> April 2019

## 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>
Performance Measures	3rd May 2017	Corporate	Limited	This audit report made 3 high priority recommendations and 1 medium priority recommendation relating to resilience, timeliness, integrity of information and other aspects of performance. A follow up will take place in 3 months time.	A new system is being put in place to change reporting measures this is currently awaiting agreement to the new approach but should be in place for reporting in March 2018. A follow up to be carried out in May 2018 to look at what is now in place and if it is working	A follow up in May 2018 found that 2 high priority recommendations in relation to resilience and timeliness and the 1 medium priority recommendation in relation to additional information had been implemented. The high priority recommendation in relation to integrity of information was in progress. <b>Follow up February 2019</b>	Follow up undertaken on the 25 <sup>th</sup> January 2019 confirmed all actions had been taken and the outstanding recommendation had been satisfactorily implemented. <b>No further follow up required.</b>
Procurement	30th August 17	Finance/Legal	Moderate	This audit report made 5 medium priority recommendations relating to the strategy, training, procuring of agency staff, frameworks and resilience of e-procurement system.	Follow Up undertaken during March 2019. 4 medium priority recommendations have been satisfied. 1 remains in progress. <b>Further follow up June 2019.</b>		
Homelessness	6th November 2017	Housing	Significant	One medium priority recommendation was made relating to data protection and access to the Arbitras system.	The follow up in June 2018 found that the one medium priority recommendation is in progress.	A follow up in Jan 19 found that the one remaining medium priority recommendation was awaiting procurement of a new system which is a council wide project. This has been recorded as a risk with the IT Housing Project Board. Assurance has been given to the Council that under GDPR as they are procuring a new system they are covered at this point in time. <b>A follow up will be undertaken in April 2019 to ensure that this is being actioned.</b>	April 19 <i>Planned audit during 2019/20 therefore audit scoping may be looking at the system. If so this follow up will be covered in the audit.</i>
Cash Collection	14th November 2017	Cash Collection	Moderate	The report found four recommendations; 1 high and 3 medium relating to the suspense account,	The follow up in May 2018 found that the three medium recommendations had been implemented and the one high	The follow up in March 2019 found that approval is being sought for the purchase of a new finance system as historical	June 19 <i>The new system needs to be implemented before the</i>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## 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>
				refund checks, over and under investigations and administrative errors.	recommendation in relation to the suspense account was in progress.	issues with the current system means that there have been difficulties with clearance of suspense accounts. A report is going to Council for approval before the end of the financial year. <b>A follow up will be undertaken in June 19 to see what progress has been made on this in regard to procurement.</b>	<i>follow up can take place. If the system is not in place at the date of follow up the follow up will be moved to a later date.</i>
Disabled Facility Grants	28th September 2017	Community Services	Moderate	The report found 1 high priority and 2 medium priority recommendations in relation to Records retention and security, Registration of Land Charges and Private Sector Home Repairs Assistance policy.	The follow up in February 2018 found that the three recommendations are in progress. The amount of work required to fully implement two of the recommendations means that this work although progressing is taking time in order to get it correct. The other recommendation needs to be placed before Members before it is fully implemented. Follow up planned 28 <sup>th</sup> January 2019.	Follow up undertaken on the 9 <sup>th</sup> February 2019 confirmed record retention and land charges have been satisfactorily completed but Home Repairs Assistance Policy is still to go before Members therefore remained outstanding. <b>Follow up required June 2019.</b>	
Environmental Waste	27 <sup>th</sup> November 2017	Environmental Services	Moderate	The report found 1 high and 4 medium priority recommendations in relation to Bulky Waste Receipt Books, Business Waste Charges, Fees and Charges, Bulky Waste quotes and Garden Waste Invoices.	Follow up January 2019 found the 4 medium priority recommendations were satisfied and the high priority recommendation was in progress pending further transformation of the Business Support Team re. reconciliation and controlled stationery. <b>To be followed up in April 2019.</b>		
Records Management	5th January 2018	Corporate	Limited	Reported 5 high and 1 medium priority recommendations; Implementation of the	<b>Being followed up as part of the 2018/19 GDPR audit scheduled for June 2019.</b>		

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## 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>
				information security policy, inventory of IT equipment, retention and disposal schedule, confidential waste collection, storage of documents on the Orb, and GC Sx email accounts			
<b>2018/19</b>							
Welfare benefits	23rd November 2018	Benefits	Moderate	Reported 4 Medium and 2 Low Priorities. Recommendations; Transparency of the Welfare Budgets, Accuracy of recording expenditure and reporting, Current expenditure of the Welfare Benefits, Record Keeping, System, Policies.	<b>Follow up May-19</b>		
Shopmobility	25th January 2019		Significant	Reported 3 medium priorities in Conditions of Use – Shopmobility Equipment, Maintenance Contract and User Access. <b>Follow-up to be completed in 6 months</b>	<b>Follow up Jul-19</b>		
Treasury Management	17th January 2019		Significant	Reported 2 medium priorities in Ledger Coding and & Reconciliation and User Access. <b>Follow up to be completed in 6 months</b>	<b>Follow up Jul-19</b>		
GDPR	13th March 2019		Moderate	Reported 2 high and 2 medium (only 1 med in BDC) priorities in;	<b>Follow up Jun-19</b>		

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

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<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Results of follow Up 1<sup>st</sup></u>	<u>Results of follow Up 2<sup>nd</sup></u>	<u>Results of follow Up 3<sup>rd</sup> &amp; 4<sup>th</sup></u>
				Awareness, Data Protection Officer, Individual's Rights (RBC only) and Third Party Data Processes. <b>Follow up to be completed in 3 months</b>			
On Off Street Parking	12th March 2019		Moderate	Reported 1 high and 1 medium priority in On Street Parking Cost to the Council and Value for Money. <b>Follow up to be completed in 3 months</b>	Follow up Jun-19		
Payroll	5th March 2019		Moderate	Reported 2 high and 2 medium priorities in; GDPR, Foundation Living Wage Implementation, Random Sample Generation and Version Control New starter/Self-system procedure manual. <b>Follow up to be completed in 3 months</b>	Follow up Jun-19		
end							



**AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

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**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**

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<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>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
<b>Audit: GDPR</b>					
<b>Assurance: Moderate</b>					
1	High	<p><b><u>Awareness</u></b></p> <p>A significant proportion of elected Members across both Councils have not attended the sessions offered by the Councils for the purpose of informing them of the GDPR and their role in ensuring compliance.</p>	<p>Any Councillors who have not received the appropriate guidance and information relating to GDPR put the Councils at greater risk of a breach and the substantial financial penalties and reputational damage that could follow.</p>	<p>Ensure that receiving the necessary training and registering with the ICO is a compulsory part of Member induction for all new Councillors.</p> <p>Remind those Councillors who have not yet attended training sessions that the Council requires them to attend - and remind them of the risks and consequences of a breach to both the Council and the Individual.</p> <p>Provide a refresher course for Members relating to GDPR and Data Protection. Offer multiple dates for each Authority to maximise attendance.</p>	<p><b>Responsible Manager:</b></p> <p>Head of Legal, Equalities and Democratic Services</p> <p><b>Implementation Date:</b></p> <p>December 2018</p> <p><b>RBC:</b></p> <p>During the municipal year there have been two GDPR sessions delivered with a number of Members attending (12). A briefing note and an A4 guidance sheet for information have also been produced and distributed.</p> <p><b>BDC:</b></p> <p>During the municipal year there have been two GDPR sessions delivered with a number of Members attending (12). The GDPR and Data Protection training has been discussed at all of the Member Development Steering Group meetings. A briefing note was issued to group leaders for them to discuss on 30<sup>th</sup> August 2018 along with subsequent copies and reminders at the Member Development meeting on 8<sup>th</sup> October 2018.</p>
2	High	<p><b><u>Data Protection Officer</u></b></p> <p>There is a potential conflict of interest issue relating to the Data Protection Officer (in line with the EU Article 29 Working Party directive).</p> <p>As the current Data Protection Officer in question has responsibility over ICT and HR, this potentially results in a conflict of interest.</p>	<p>As the role of the Data Protection Officer is to monitor internal compliance in addition to providing advice and information on data protection compliance, any conflict of interest within the role of the Data Protection Officer could result in challenge leading primarily to reputational damage, and also financial penalty in the event of a data breach.</p>	<p>Assess the potential for any conflicts of interest relating to the current post holding the role of Data Protection Officer.</p> <p>Ensure that there are sufficient safeguards in place so that the current position of Data Protection Officer is not compromised with regards to any potential conflict of interest.</p>	<p><b>Responsible Manager:</b></p> <p>Head of Transformation &amp; Organisational Development</p> <p><b>Implementation Date:</b></p> <p>November 2018</p> <p>The Head of Legal &amp; Democratic Services or an appropriate substitute will be called upon to provide support in the event that the current Data Protection Officer is involved in an issue that is likely to result in a conflict of interest.</p>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
3	Medium	<p><b><u>RBC ONLY</u></b></p> <p><b><u>Individual's Rights</u></b></p> <p>There has not been sufficient progress with regards to the removal of personal data held on some of the Council's legacy systems.</p> <p>If challenged, the Council would find it difficult to justify holding this information.</p>	<p>Failure to provide a solution to the retention of old personal data on legacy systems could result in challenge leading to criticism and damage to the Council's reputation.</p> <p>If a data breach were to occur relating to this data the Council could face severe financial penalties.</p>	<p>Assess the data held on the Council's legacy systems according to GDPR requirements and implement a plan for the removal of all obsolete data and systems.</p>	<p><b>Responsible Manager:</b> ICT Manager</p> <p><b>Implementation Date:</b> 2 Years</p> <p>All legacy data on M3 has been moved and the system decommissioned.</p> <p>There is a plan in place to move and decommission the data on Saffron and Arbitras – This process will take at least 2 years and the risk is recorded on the corporate risk register as 'Serious'</p> <p>Currently no other systems have been identified as being incompatible with data protection</p>
4	Medium	<p><b><u>Third Party Data Processes</u></b></p> <p>Not enough has been done to ensure that existing partners have been asked to provide assurance on how they safeguard and process data on the Council's behalf. To date, very few responses have been received.</p> <p>Under GDPR both the Data Controller and Data Processor can have penalties imposed upon them in the event of a data breach.</p>	<p>Existing partners who process data on the Council's behalf may potentially not be compliant with the GDPR thereby increasing the risk of penalty in the event of a data breach.</p>	<p>Undertake an exercise to seek assurances from existing third party partners over their safeguarding and data processing arrangements.</p>	<p><b>Responsible Manager:</b> Procurement Manager</p> <p><b>Implementation Date:</b></p> <p>All Information Asset Owners (managers) were trained on their responsibilities with regards their data and given advice on contacting third party processors and ensuring all documentation (data processing agreements/contracts) were up to date. This was done in conjunction with the contracts team who assisted with contract wording and amendments.</p> <p>The procurement process now includes a security questionnaire to help procuring managers understand the third parties competence with regards data protection.</p> <p>DPIA's are also required to be completed and signed off for all new projects involving personal data.</p>

## **AUDIT, GOVERNANCE & STANDARDS COMMITTEE**

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
<b>Audit: Shop Mobility</b>					
<b>Assurance: Significant</b>					
1	Medium	<p><b><u>Conditions of Use – Shopmobility Equipment</u></b></p> <p>The Conditions of Usage do not currently include information on usage for equipment on long-term hire, and the acceptable level of usage in terms of travel locations, storage at home, etc.</p>	Lack of transparency of service terms and conditions leading to misunderstanding and challenge by the public, resulting in reputational damage for the Council.	To update the Conditions Of Use to include the long-term hire of equipment, and suitable uses of equipment under these conditions.	<p><b>Management Response:</b></p> <p>Paper work is being reviewed and amended to cover the stated changes.</p> <p><b>Responsible Manager:</b> CCTV and Telecare Manager</p> <p><b>Implementation date:</b> 15<sup>th</sup> March 2019</p>
2	Medium	<p><b><u>Maintenance Contract</u></b></p> <p>At the time of the audit work, the contract or the maintenance of the Shopmobility vehicles required re-tendering, as the terms had only been agreed for one year last year.</p> <p>During the course of the audit work, it was agreed to roll the terms of the 2017/18 contract on to cover 2018/19, so that a proper tender process can be performed in accordance with the Procurement Code.</p>	Failure to ensure a suitable and transparent procurement process has been followed, failing to achieve best value, resulting in financial loss or reputational damage.	Ensure the Shopmobility maintenance contract is re-tendered in accordance with the Procurement Code, to ensure the Council is achieving best value.	<p><b>Management Response:</b></p> <p>A new maintenance contract will be entered into following RBC procurement rules. The current contract expires 27<sup>th</sup> June 2019</p> <p><b>Responsible Manager:</b> Head of Community Services. Service Manager responsibility to be determined following a service review.</p> <p><b>Implementation date:</b> 31<sup>st</sup> March 2019</p>
3	Medium	<p><b><u>User Access</u></b></p> <p>Staff at the Shopmobility site currently use the same network login to access the Shopmobility email account and the Access Database of customer records.</p>	Misuse of generic access accounts could result in a lack of accountability, which could result in reputational damage through criticism by the ICO and other third parties.	<p>Ensure all staff members who require access to the network have their own network accounts.</p> <p>Ensure that the current and new customer databases are restricted to essential users only.</p>	<p><b>Management Response:</b></p> <p>New user accounts have been set up through IT. However the staff are unable to access the Shopmobility customer database when logged in individually. The software has been replaced with a web based system and customer data is being transferred over. The new system and individual log ins will be in use once training is completed.</p> <p><b>Responsible Manager:</b> CCTV and Telecare Manager</p> <p><b>Implementation date:</b> 15<sup>th</sup> March 2019</p>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
<b>Audit: Treasury Management</b>					
<b>Assurance: Significant</b>					
1	Medium	<p><b><u>Ledger Coding and &amp; Reconciliation</u></b></p> <p>There have not been any formal periodic reconciliations of treasury management activities in the ledger for either Council during the 2018/19 financial period.</p> <p>It was noted during audit testing that many of the Redditch Borough Council Investment and Borrowing transactions are not being correctly coded on the ledger. Transactions are coded by the Town Hall Cashiers instead of the Finance team.</p>	Failure to correctly account for financial transactions on the ledger, potentially resulting in reputational damage to the Councils.	<p>There needs to be a formal reconciliation of treasury management activities against the ledger postings at agreed intervals to be determined by the Finance Team, to ensure all financial activities have been fully accounted for and coded correctly.</p> <p>To achieve consistency and accuracy the responsibility of coding treasury activities on the ledger is to be reconsidered with additional training being provided to staff if appropriate.</p>	<p><b>Management Response:</b></p> <p>Finance to review whether the reconciliation function currently carried out by cashiers can be relocated to the reconciliation team in central finance. Treasury team to undertake reconciliations of transactions once posted on a monthly basis.</p> <p><b>Responsible Officer:</b> Financial Services Manager</p> <p><b>Implementation Date:</b> March 2019</p>
2	Medium	<p><b><u>User Access</u></b></p> <p>A user account for an Accountancy Trainee with access to the iDealTrade system was not removed at the time of leaving. In addition, the request to remove the user from the Council network was not submitted until almost 3 months after the employee left, and after being queried by the Internal Audit team.</p>	Failure to control access to key systems resulting in potential breaches which could result in reputational or financial loss for the authority.	Ensure procedures for removing network access for previous employees are followed. Additional system access must also be removed in a timely manner, and monitored by senior officers in the Finance team. Current access requirements to be reviewed on a periodic basis.	<p><b>Management Response:</b></p> <p>User access to be reviewed each time a staff member leaves/joins/changes role in the department.</p> <p><b>Responsible Officer:</b> Financial Services Manager</p> <p><b>Implementation Date:</b> Jan 2019</p>
<b>Audit: Payroll</b>					
<b>Assurance: Significant</b>					
1	High	<p><b><u>GDPR</u></b></p> <p><b>Leavers</b></p> <p>Testing of the leavers personal files identified that there were leavers personal files dated back to May 2018 still kept within the current employee cabinet.</p> <p><b>Security of Sensitive information</b></p> <p>Internal Audit observed that personal information held by payroll is kept in unlocked filing cabinets. The door to the room where the filing cabinets are</p>	There is a potential risk that due to the nature of GDPR and DPA that if leavers are not put within leavers files and disposed of in line with retention policies, or confidential information is open to view that the organisation is non-compliant and could face a financial penalty	To undertake an assessment of the potential for non GDPR compliance and where necessary to implement additional procedures/controls in order to reduce the risk to the Council of holding information that should have been disposed of or allowing unauthorised access to confidential information.	<p><b>Management Response:</b></p> <p>To be reviewed as part of new system implementation and data cleansing exercise, potential additional resource needed to support. All files to be scanned onto the network is appropriate, to move away from hardcopies.</p>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>located are kept locked however if it was left unlocked by mistake it would be quite easy to access confidential personal information.</p> <p><b>CHRIS21 Live Users</b></p> <p>Testing of 20 current LIVE user accounts on the CHRIS21 system showed that 7 accounts were for employees who have left the employment of the Council.</p> <p>Access to the CHRIS21 system has also been granted for non-Human Resources and Finance employees.</p> <p>Although it should be noted that network access is required before access can be gained to the CHRIS21 system.</p> <p><b>Hard Copy Payslips</b></p> <p>There is no sign off sheet to evidence the collection of payslips for the depot employees from payroll.</p>	<p>There is the potential risk of not being GDPR compliant leading to penalty fines if confidential data is available to employees who do not require it for their roles and responsibilities.</p> <p>There is a potential breach of GDPR as the person who is retrieving the information is collecting personal data and if a payslip was to be handed out to the wrong person it could lead to a risk of non-compliance with GDPR and possible reputational damage</p>	<p>That a review of all access rights to CHRIS21 is undertaken to ensure that the access is appropriate and is required. A yearly review to then be undertaken to ensure that the access rights remain appropriate.</p> <p>To undertake an assessment of the potential of non GDPR compliance and where necessary implement additional procedures to ensure that the risk to the council is mitigated.</p> <p>To also review the current hardcopy payslip method and explore if an electronic method would mitigate the risk</p>	<p>Agreed - System of notification to IT to be reviewed to ensure only appropriate accounts are live.</p> <p>Agreed - Possibility of moving to electronic payslips to be investigated rather than hardcopies, which are less secure. Failing this new process to be developed to ensure payslips are handled in an appropriate manner and tracked through the organisation to end users.</p> <p><b>Responsible Manager:</b></p> <p>Financial Services Manager</p> <p><b>Implementation Date: -</b></p> <p>1<sup>st</sup> September 2019</p>
2	High	<p><b><u>Foundation Living Wage Implementation</u></b></p> <p>Testing identified that there is an inconsistency in the monitoring and treatment of those employees on the foundation living wage particularly around increments.</p>	<p>Reputational damage and financial loss if those on the foundation living wage are not being correctly paid.</p>	<p>To assess and review the current process of paying those employees on the foundation living wage to ensure that payments and increments are correctly processed.</p>	<p><b>Management Response:</b></p> <p>Controls have been but in place within the team now to prevent this going forwards and historic errors have now been corrected.</p> <p><b>Responsible Manager:</b></p> <p>Financial Services Manager</p>

# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					<b>Implementation Date:</b> Implemented
3	Medium	<u><b>Random Sample Generation</b></u>  There is no random number generator available for payroll to use to pick a fair sample of employees each month to check for fraudulent activity; therefore although it may be unlikely to occur, the sample could be biased each month.	There is potential risk that each month a member of staff could be biased on the sample number being taken whilst doing checks, especially if an employee number is present, which could lead to be possible collusion and fraud.	That a review of the payroll procedures is undertaken in relation to the selection of and checking of employee pay each month including an assessment of whether a random number generator would be appropriate to aid an unbiased approach with monthly checks.	<b>Management Response:</b>  New random number generator to be implemented and the team trained how to use it  <b>Responsible Manager:</b> Financial Services Manager  <b>Implementation Date:</b> 1 <sup>st</sup> August 2019
4	Medium	<u><b>Version Control</b></u> <u><b>New starter/Self-system procedure manual</b></u>  There is no version control or review date on the New Starter and self-system procedure manual.	The council could be open to challenge if the wrong procedures are used which could lead to reputational damage.	To add a version control and/or review date and responsible officer to the New Starter and self-system procedure manual.  This will ensure that up to date are followed by all employees of the council.	<b>Responsible Manager:</b> HR Manager / HR & OD Policy and Project Officer  <b>Implementation Date:</b> Implemented
<b>Audit: Car Parking</b>					
<b>Assurance: Moderate</b>					
1	High	<u><b>On Street Parking Cost to the Council</b></u>  Redditch Borough Council is currently subsidising this service as Expenditure is greater than income.  The areas where PCN's can be issued within Redditch Borough is limited and this is not an area where there can be any expectation of generating additional income in order to cover	Financial loss to the Council from continuing with a service that is making a loss but reputational damage if residents see a lack of enforcement.	The Service Level Agreement with Wychavon District Council has an end date of March 2019.  Redditch Borough Council need to start analysing the cost to the Council going forward both financial and non-financial.  This information then needs to be reviewed in line with any additional costs and consequences	<b>Management Response:</b>  Agreed to investigate the possibility of extending the SLA with Wychavon until 2022 and undertake a full review of the SLA including staffing provision and expenditure.  Quarterly financial meetings to take place with Wychavon to monitor costs and performance  Head of Service, Portfolio Holder and Environmental



# REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>expenses. In addition Redditch Borough Council does not own any pay and display car parks therefore there is no way of offsetting the costs of on street enforcement against off street. Over the years of operation the Management of Redditch Borough Council along with representatives of Wychavon District Council have looked at ways of reducing the expenditure e.g. using one Team of Civil Enforcement officers to cover both Redditch and Bromsgrove in order to keep salary costs as low as possible.</p> <p>Income has not reached that predicted. Although there has been an increase in the last three years of PCN's issued but write offs and cancelled tickets have also increased.</p>		<p>e.g. TUPE, Complaints, involvement of Members in the decision if they were to decide to withdraw from the Wychavon and Worcestershire County Council Service Level Agreement as there is a two year notice period.</p> <p>If the service is to continue then close monitoring of costs and looking for potential savings needs to be undertaken on at least a quarterly basis.</p>	<p>Services Manager to meet with the Worcestershire County Council to discuss the correct agency agreement with regards to costs to RBC.</p> <p><b>Responsible Manager:</b></p> <p>Environmental Services Manager</p> <p><b>Implementation date:</b></p> <p>29<sup>th</sup> March 2019 – SLA/ Quarterly meetings</p> <p>May 2019 - meet with WCC</p>
2	Medium	<p><b><u>Value for Money</u></b></p> <p>It is difficult to assess value for money using the current financial system. There is no easy way of identifying if or where savings have been made year on year and what the make up of the costs are although overall cost figures can be seen.</p> <p>A general analysis of the costs expenditure and PCNs issued over the last three years found:</p> <ul style="list-style-type: none"> <li>Per Clause 4.3 of the Service Level budgets should be discussed and set with Wychavon District Council each year. Currently this is not being undertaken.</li> <li>There has been no consistent coding of Income and Expenditure in order to compare like for like information. There has also</li> </ul>	<p>Financial loss if savings are not made and costs are not kept to a minimum regardless of who is running the service. Inaccurate or incomplete management information could potentially lead to poor management decisions.</p>	<p>In order to fully understand if the service being provided by Wychavon District Council is providing value for money then a full breakdown of income and expenditure is required.</p> <p>This needs to include all costs not just the monetary costs for example resource time incurred by Redditch Borough Council in the monitoring of the contract, lost income incurred from the turnover of staff/sickness.</p> <p>The review needs to also take into account what the Service Level Agreement identifies as the service provided and what the actual service Wychavon District Council now provides and whether this has evolved over the course of the agreement.</p> <p>The costs of the service then need to be analysed to identify potential savings (if there are any).</p> <p>The relationship that has developed between</p>	<p><b>Responsible Manager:</b></p> <p>Environmental Services Manager</p> <p>Please see comments above</p> <p><b>Implementation date:</b></p> <p>29<sup>th</sup> March 2019</p>

## REDDITCH BOROUGH COUNCIL

Date: 25<sup>th</sup> April 2019

### AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>been miscoding of income.</p> <ul style="list-style-type: none"><li>• There is no breakdown of costs from the invoices received from Wychavon District Council. The total sum is placed against the Other Local Authorities Code.</li><li>• Over the last three years there has been a steady increase in the number of PCNs issued. Cancellations and write-offs have also increased.</li></ul> <p>Without a full analysis of expenditure it is difficult to see where future savings could be made if there need to be any.</p> <p>The goodwill that has been built up over the contract also needs to be considered and quantified in any decisions taken.</p>		<p>the parties the knowledge of the districts, the timeliness of responses to requests for information and the understanding of Members roles within a Local Authority environment all need to be considered along side the cost of the service.</p>	
end					

**AUDIT & GOVERNANCE COMMITTEE**

**Date: 25<sup>th</sup> April 2019**

**THE 2019/20 INTERNAL AUDIT PLAN REPORT OF THE HEAD OF INTERNAL AUDIT SHARED SERVICE, WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor Tom Baker-Price
Portfolio Holder Consulted	Yes
Relevant Head of Service	Chris Forrester – Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

**1. SUMMARY OF PROPOSALS**

**1.1 To present:**

- the Redditch Borough Council Draft Internal Audit Operational Plan for 2019/20;
- the performance indicators for the Worcestershire Internal Audit Shared Service for 2019/20.

**2. RECOMMENDATIONS**

**2.1 The Committee is asked to consider the 2019/20 Audit Plan**

**2.2 The Committee is asked to consider the Key Performance Indicators.**

**3. KEY ISSUES**

**Financial Implications**

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

**AUDIT & GOVERNANCE COMMITTEE**Date: 25<sup>th</sup> April 2019**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”.

To aid compliance with the regulation, the Institute of Internal Auditors Public Sector Internal Audit Standards (as amended) details that “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

**Service / Operational Implications**

- 3.3 Internal Audit Aims and Objectives

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.

- 3.4 Formulation of Annual Plan

WIASS operates an Internal Audit Charter which sets out the standards to which it operates for this Council. The Internal Audit Plan for 2019/20, which is included at **Appendix 1**, is a risk based plan which takes into account the adequacy of the

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019**

council's risk management, performance management, other assurance processes as well as organisational objectives and priorities. It has been based upon the risk priorities per the corporate and service risk registers. Large spend budget areas have also been considered, and, direct association has been made to the organisational objectives and priorities. The Internal Audit Plan for 2019/20 has been agreed with the s151 Officer and has been considered by Senior Management Team. It has been formulated with the aim to ensure Redditch Borough Council meets it's strategic purposes, delivers it's promises and has been directly linked the various aspects to identify the 'golden thread' in regards to the objectives and risk identification to Service delivery. It was brought before the Audit and Governance Committee in draft format as the involvement of the Committee 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. Worcestershire Internal Audit Shared Service will also provide limited audit coverage for Rubicon Leisure.

We recognise there are other review functions providing other sources of assurance, both internally and externally, (e.g. ICT Public Service Network assurance testing) 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.

To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is available to the external auditors for information.

By bringing a draft plan of work before the Audit and Governance Committee which was been formulated with the aim to ensure Redditch Borough Council meets it's strategic purposes it allows Members to have a positive input into the audit work programme for 2019/20 and make suggestions as to where they feel audit resources may be required under direction of the s151 Officer. Due to the continuing changing environment that exists in Local Government the plan must be seen as a framework for Internal Audit work for the forthcoming year. There is a need for improved flexibility in the plan due to a changing risk profile as well as emerging risks. To ensure flexibility there is the possibility that the plan will be updated during the year in order to address such challenges. It is planned that a six month review before Senior Management Team will take place to ensure the audit plan remains risk focussed and any required changes can be considered.

REDDITCH BOROUGH COUNCIL**AUDIT & GOVERNANCE COMMITTEE**Date: 25<sup>th</sup> April 20193.5 Resource Allocation

The Internal Audit Plan for 2019/20 has been based upon a resource allocation of 400 chargeable days, a resource allocation which has been agreed with the council's s151 officer. A summary of the days as well as the detailed plan provision has been included with the Internal Audit Plan for 2019/20 at **Appendix 1**. A number of areas have been included in the plan but due to the resource available priorities have been applied in regard to the plan delivery. Those areas that are considered to have a 'high' priority will be targeted first in regard to the plan delivery. Other areas which are identified as 'medium' priority have been considered. An assessment has been made whether to include in the plan based on the overall risk and governance profile. The Head of 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 400 day allocation is based on transactional type system audits and remains the same number of days as 2018/19.

Due to the changing internal environment, ongoing transformation and more linked up and shared service working between Redditch Borough Council and Bromsgrove District Council the plan has been organised in a smarter way in order to exploit the efficiencies that this type of working provides. Although the audit areas will have an allocation of audit days the reviews will continue to be more cross cutting than before and will encompass the different service perspectives that the Services need to deliver (e.g. the customer journey impacts on the majority of service areas so the audit review will consider this). All or part of the budgeted days will be used on a flexible basis but be reflective of the risk exposure the end result being better corporate coverage and ownership of the audit outcomes.

Due to both external and internal audit findings the financial systems have been included as audit areas as it is considered certain risks remain in these areas. It is hoped that in time a 'watching brief' approach can be adopted when there is a confidence in embedded process, control and anti fraud measures thus leading to a reduction in the allocated days. Operational support days are included to give a little flexibility and contingency in the plan e.g. consultancy but are necessary to support the delivery of the plan as a whole.

The Internal Audit Plan for 2019/20 is set out at **Appendix 1**.

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019****3.6 Monitoring and reporting of performance against the Plan**

Operational progress against the Internal Audit Plan for 2019/20 will be closely monitored by the Head of the Internal Shared Service and will be reported to the Shared Service's Client Officer Group, which comprises the s151 officers from client organisations, on a quarterly basis and to the Audit Committee on a quarterly basis.

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

**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.

**5. APPENDICES**

Appendix 1 ~ Internal Audit Plan 2019/20

Appendix 2 ~ Performance indicators 2019/20

**6. BACKGROUND PAPERS**

None

**7. KEY**

N/a

**AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019****AUTHOR OF REPORT**

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**AUDIT & GOVERNANCE COMMITTEE**

Date: 25<sup>th</sup> April 2019

**APPENDIX 1**

**Summary of Days per Overall Audit Group for 2019/20.**

<b>Planned Days</b>	<b>2019/20</b>
Core Financial Systems	62
Corporate Work	74
Service Delivery	140
Other Operational Work	70
<b>Sub Total</b>	<b>346</b>
Audit management meetings	20
Corporate meetings / reading	9
Annual plans, reports & Committee support	25
<b>Sub Total</b>	<b>54</b>
<b>Total Audit Days</b>	<b>400</b>

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE**Date: 25<sup>th</sup> April 2019

Audit Area	Corporate Link	Risk Register Reference	Plan Priority	Include in 2019/20 Plan	Outline Resource Required
<b>FINANCIAL</b>					
Debtors*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	6
Main Ledger/Budget Monitor/Bank Rec	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	8
Creditors*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	6
Treasury Management (incl. assets & acquisitions)	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	6
Council Tax*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	8
Benefits* (Transformation)	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	10
NNDR*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	8
Payroll	Enabling & Contractual Obligation	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	10
<b>Sub TOTAL</b>					<b>62</b>
<b>CORPORATE</b>					
IT Audit* (Server patching and disaster recovery)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	8
Risk Management* (Critical Friend Support)	Fundamental to strategic purpose delivery	S151 request	Medium	<input checked="" type="checkbox"/>	6
Health and Safety* (Training Documentation including Operations & action plan monitoring)	Fundamental to strategic purpose delivery	Non compliance with Health and Safety	Medium/ High	<input checked="" type="checkbox"/>	12
Property Service - (Basic Governance)	Fundamental to strategic purpose delivery	Service returning to Authority	Medium	<input checked="" type="checkbox"/>	15
Compliments and Complaints	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	8
GDPR - Document Retention Policies - (Hardcopy)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	5

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019**

Procurement * (Training)	Fundamental to strategic purpose delivery	Potential area from 2018/19	Medium	<input checked="" type="checkbox"/>	5
Shared Service Delivery*	Fundamental to strategic purpose delivery	N/a	Low/Medium	<input type="checkbox"/>	0
Business Continuity (Service plans)	Fundamental to strategic purpose delivery	8	Medium	<input checked="" type="checkbox"/>	15
<b>Sub TOTAL</b>					<b>74</b>
<b>SERVICE DELIVERY</b>					
<b>Customer Access and Financial Support:</b>					
Business Grants	Help me run a successful business	N/a	Medium	<input type="checkbox"/>	0
Business Centres (Achieving Strategic Purpose)	Help me run a successful business	N/a	Medium	<input checked="" type="checkbox"/>	12
<b>Planning and Regeneration Service</b>					
Planning Application Processing & s106	Keep my place safe and looking good	PLA 4	Medium	<input checked="" type="checkbox"/>	8
Building Regulations Service Client Side	Keep my place safe and looking good	N/a	Low/Medium	<input type="checkbox"/>	0
<b>Community Service</b>					
Safeguarding	Keep my place safe and looking good	Com 3	Medium	<input checked="" type="checkbox"/>	10
St David's House	Help me to live my life independently	HoS request	Low/Medium	<input checked="" type="checkbox"/>	10
<b>Environmental</b>					
Refuse Service scalability (new builds) (Critical Friend)	Keep my place safe and looking good	Enabling 24	Low/Medium	<input checked="" type="checkbox"/>	12
Redditch Crematorium	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	15
Bulky Waste	Keep my place safe and looking good	Potential area from 2018/19	Medium	<input checked="" type="checkbox"/>	10
Data Management for Service Delivery	Fundamental to strategic purpose delivery	Env 14	Low/Medium	<input type="checkbox"/>	0
Health and Safety (see H&S Corporate)	Fundamental to strategic purpose delivery	Env 10	Medium	<input type="checkbox"/>	0
<b>Leisure and Culture - Rubicon</b>					
Contract Management Arrangements	Provide good things for me to see, do and visit	Contractual requirement - SLA	High	<input checked="" type="checkbox"/>	10
<b>Housing</b>					
Housing repair and maintenance	Ensuring a sustainable council	Deputy Chief Executive request	High	<input checked="" type="checkbox"/>	20

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019**

Asbestos Regulation Compliance	Keep my place safe and looking good	Hou 21	High	<input checked="" type="checkbox"/>	10
Annual Gas Inspection	Keep my place safe and looking good	Hou 14	High	<input checked="" type="checkbox"/>	8
Housing Computer System Implementation (Critical Friend)	Fundamental to strategic purpose delivery	Hou 24 & 25	High	<input checked="" type="checkbox"/>	15
<b>Sub TOTAL</b>					<b>140</b>
<b>Other Operational Work</b>					
Advisory, Consultancy & Contingency	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	25
Fraud & Investigations incl. NFI	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	10
Completion of prior year's audits	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	12
Report Follow Up (all areas)	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	15
Statement of Internal Control	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	4
Bus Operators Grant	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	4
<b>Sub TOTAL</b>					<b>70</b>
Audit Management Meetings	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	20
Corporate Meetings / Reading	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	9
Annual Plans, Reports & Committee Support	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	25
<b>Sub TOTAL</b>					<b>54</b>
<b>TOTAL CHARGEABLE</b>					<b>400</b>

**Notes:**

\*As part of the increasing joint and shared service working between Bromsgrove District Council and Redditch Borough Council the audit budgets and areas will feature in both internal audit plans and be consolidated to deliver a single piece of work covering both Councils. Where practically possible the days will be split equally between the plans. Weighting will, however, be applied if it is considered the focus of the work will major on one Council due to the risk profiling.

The customer journey will be considered overall as part of the service audits.

**REDDITCH BOROUGH COUNCIL****AUDIT & GOVERNANCE COMMITTEE****Date: 25<sup>th</sup> April 2019****Appendix 2****PERFORMANCE INDICATORS 2019/20**

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2019/20. Other key performance indicators link to overall governance requirements of Redditch Borough Council e.g. KPI 4. The position will be reported on a cumulative basis throughout the year.

	<b>KPI</b>	<b>Trend/Target requirement/Direction of Travel</b>	<b>2019/20 Position (as at XXXXXXX)</b>	<b>Frequency of Reporting</b>
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 16 Delivered = XX	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	XX	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	XX	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	XX	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	XX	When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded  (<5%)	XX	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	XX	When Audit Committee convene

WIASS conforms to the Public Sector Internal Audit Standards (as amended).

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**REDDITCH BOROUGH COUNCIL****AUDIT, STANDARDS & GOVERNANCE COMMITTEE****25<sup>th</sup> APRIL 2019****HOUSING INTERNAL CONTROLS – S151 UPDATE**

Relevant Portfolio Holder	Cllr Matt Dormer
Portfolio Holder Consulted	-
Relevant Head of Service	Jayne Pickering
Ward(s) Affected	All
Ward Councillor(s) Consulted	N/A

**1. SUMMARY OF PROPOSALS**

- 1.1 This report provides members with the 6 monthly update for the Internal Audit reports which identified failings in the internal controls present in the Councils Housing Service. This report seeks to provide assurance to members that the actions as recommended by the auditors are being undertaken.

**2. RECOMMENDATIONS**

- 2.1 That Members review the actions undertaken to meet the recommendations as detailed in the Appendices.

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

- 3.1 As Members are aware as a result of Internal Audit reports in 2016/17 relating to Housing Capital and Post Contract appraisal functions a significant number of failures in contract compliance, contract management and procurement processes were identified. Following initial internal review the degree of seriousness this resulted in a number of staff being suspended. Members are advised that all employment matters relating to the staff have now been finalised.
- 3.2 The Internal Audit reports contained a number of recommendations that were to be implemented to ensure that internal processes and procedures were robust and compliant.
- 3.3 This report aims to ensure Members have assurance that all recommendations from the Audit team are being implemented within the agreed timelines.

**Legal Implications**

- 3.4 The Council has a number of statutory duties to fulfil as a social landlord. Officers are also required to comply with a number of corporate policies including financial regulations and contract procedure rules. The action plans as included at Appendix A and B detail the recommendations as reported to this Committee in October 2018 and an update on the actions undertaken.

**Service / Operational Implications**

**REDDITCH BOROUGH COUNCIL****AUDIT, STANDARDS & GOVERNANCE COMMITTEE****25<sup>th</sup> APRIL 2019**

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- 3.6 Audit Standards and Governance Committee needs to be assured that the internal controls and governance arrangements that are in place ensure service effectiveness. This report seeks to provide an update within which the Council can be assured that lessons have been learned in respect of the matters identified in the internal audit findings and for the committee to support the processes that have been established to ensure robust financial conduct and internal control of the Housing Service and its associated Housing Revenue Account.
- 3.7 Key recommendations that have been implemented and are detailed in the Appendices include:
- Procurement guidelines and procedures updated
  - Comprehensive training for all staff in relation to procurement and contract procedure rules
  - Commencement of Stock Condition Survey
  - Improvements in budget monitoring
  - Improvements in contract management
- 3.8 Appendix A details the update to March 2019 for all of the actions either implemented or with a clear timeline of delivery for the Capital Programme Audit
- 3.9 Appendix B details the update to March 2019 for all of the actions either implemented or with a clear timeline for delivery of the Post Contract Appraisal Audit.

**Customer / Equalities and Diversity Implications**

- 3.10 The improvements as recommended within the Internal Audit reports and the recent detailed operational and structural report to Executive will ensure that tenants receive a service that is compliant, safe and delivers good customer care.

**4. RISK MANAGEMENT**

- 4.1 The detailed action plan contained within the operational and structural report together with the actions from the internal audit reports are included in the Councils corporate risk register and is updated on a regular basis by the management team.

**5. APPENDICES**

Appendix A - Housing Capital Programme  
Appendix B - Post Contract Appraisal

**AUTHOR OF REPORT**

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Tel.: 01527-881207



## APPENDIX A

### Housing Capital Programme – 2016/17 Worcestershire Internal Audit Shared Service

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 15 <sup>th</sup> February 2018  1 <sup>st</sup> Follow up	Update March 2019
4.1 H	<b>Housing Capital Programme</b>  Original records must be obtained and reviewed in conjunction with major works that have been completed to date to determine: <ul style="list-style-type: none"> <li>• works that have been completed</li> <li>• properties that require upgrades/improvements</li> <li>• the required budget to be included in the current 5 year programme (i.e. 2017 – 2021) and going forward to the 30 year plan ending 2041.</li> </ul>	No response was expected from this audit	<b>In progress</b> A review was carried out on previous stock condition data held by the Capital Team. There was very little data held on component replacements with no robust strategy to replace major components with the housing stock that were either at their remaining life or in a very poor condition. The last meaningful stock condition survey was carried out by Savills in 2001. Savills were contacted and provided a copy of the document that they had compiled, However they did express concerns if this document was still being used as it was only initially intended for budgetary purposes only. The survey data did not hold data against individual properties and schemes that required improvement works.  The Stock survey will collect a minimum of 20% data on the housing stock. This will provide a more accurate and	<b>In Progress</b>  RIDGE LLP were procured to carry out a Stock Condition Survey in January 19.  Phase 1 has been complete with 1272 surveys being completed. These consisted of blocks and independent assets. This represents a sample size of approximately 21%.  Data validation of the data has been completed by the Senior Contracts Manager and the initial report on the condition will be available

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <u>1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
			<p>meaningful picture of the housing stock and to reflect changes that have occurred e.g. end of decent homes standard and compliance with the Housing Health &amp; Safety Rating Standards.. Members have agreed funding of £150k from HRA capital to fund the stock condition survey.</p> <p>The stock condition will initially be completed on 20% of the housing stock ensuring a good representative sample of all archetypes has been surveyed and then will continue focusing on high risk properties.</p> <p>Reviews are being conducted on previous projects that have been completed to ensure that work has been completed to a satisfactory standard and that all necessary documentation in in place. Once this review is completed the data will be uploaded into the new Asset Management system.</p> <p>We envisage the following to be completed on data collection</p> <p>20% to be surveyed by 31<sup>st</sup> March 2019  70% to be surveyed by 31<sup>st</sup> March 2020  100% to be surveyed by 31<sup>st</sup> March</p>	<p>completed by the 30/4/19.</p> <p>The report will look at components remaining life, compliance with Decent Homes Standard and HHSRS.</p>

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 15 <sup>th</sup> February 2018  1 <sup>st</sup> Follow up	Update March 2019
			<p>2021</p> <p>Until such time that we have robust plans to carry out planned capital works we will be reducing the spend on capital works and only carrying out necessary works following detailed surveys at properties and only where issues have been identified with meeting statutory legislation e.g. The Regulatory Reform (Fire Safety) Order 2005 and Control of Asbestos Regulations 2012.</p> <p>.</p>	
4.2 H	<p><b>Budget Monitoring</b></p> <p>Consideration should be given to:</p> <ul style="list-style-type: none"> <li>• Creating annual orders to commit expenditure.</li> <li>• Routinely incorporating work in progress in to the budget monitoring process to minimise the scope for overspends</li> </ul>	No response was expected from this audit	<p><b>In progress</b></p> <p>The Senior Contract Manager confirmed that he had met with the Housing Accountant and a revised process for monitoring capital spend agreed</p> <p>Expenditure on capital projects is committed and provisions have been made to take account of work:</p> <ul style="list-style-type: none"> <li>• Ordered</li> <li>• In progress (WIP)</li> <li>• Completed but not yet invoiced</li> <li>• Completed and Invoiced</li> <li>• Paid</li> </ul>	<p><b>Implemented</b></p> <p>For financial year 18/19 and going forward orders for capital works were placed using the Councils eProc financial system.</p> <p>This allowed better monitoring of budgets and expenditure.</p> <p>New contracts were also procured through frameworks to ensure</p>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <u>1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
			<p>The Senior Contracts Manager will be responsible for monitoring all capital works expenditure. In the interim whilst the new Housing Management System is being procured and mobilised, the Senior Contracts Manager will be using the financial system eProc and eFin to raise works orders which initially will be for multiple works against one project and contractor to better manage budgets and expenditure.</p> <p>Furthermore a new process of closing accounts on a quarterly basis is being developed by the Senior Contracts Manager and Finance. This will allow potential overspends to be better managed and also ensure that end of year accruals are minimised.</p> <p>This should ensure a more robust approach is followed.</p> <p>Changes to revenue spend is reliant on new Housing Management System.</p>	<p>that all works ordered complied with the Councils Procurement rules.</p> <p>Meetings were held with finance to ensure that expenditure was controlled and managed as per the budgets.</p> <p>No overspend on the budgets is envisaged for financial year 18/19.</p>

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 15 <sup>th</sup> February 2018 1 <sup>st</sup> Follow up	Update March 2019
4.3 H	<p><b>Budget Overspends</b></p> <p>When the budget has been reached it is practice to halt the works.</p> <p>However, it is not common practice to review the contract management arrangements. Failure to routinely do this will not determine if poor contract management was contributory factor in the budget level being prematurely reached/ exceeded.</p>	Where expenditure levels are at or exceeded the budget, then it would be prudent to confirm the reasons for this as opposed to just slowing or halting the works.	<p>See above</p> <p>Regular budget monitoring reports (are produced , circulated and monitored by senior managers and the Portfolio Holder.</p> <p>Any financial concerns will be reported to PFH and an action plan developed.</p>	
4.4 H	<p><b>Property Database</b></p> <p>For the purposes of accuracy and to ensure that the housing stock is maintained in accordance with the Decent Homes Standard, it is recommended that a central database is established.</p> <p>SAFFRON would be the obvious choice for storing property related data. However it is accepted that this is an old version of the application and has limitations.</p> <p>It may be appropriate to consider an alternative solution which will provide a 'fit for purpose' system that can be relied on and provide the requisite management information that will assist good decision making and justifiable actions.</p>	No response was expected from this audit	<p><b>In progress</b></p> <p>A new asset management system has been procured from Asprey Management Solutions Ltd.</p> <p>The asset management system will hold all relevant property information such as property archetype, ownership, status (i.e. sold or RTB) plus survey condition data, Decent Homes and Housing Quality Standard rules, local rules, installation dates, suggested replacement dates (based on survey data), planned replacement dates etc. This module allows an analysis of current and future positions in terms of Housing Quality standards, along with</p>	<p>In Progress</p> <p>The new asset management system was procured in 2018 and is currently being developed in line with RBC requirements.</p> <p>The asset register is complete and a physical survey was carried out of all blocks to ensure we had the correct independent assets were attributed to the correct blocks.</p>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <u>1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
			<p>associated cost information, and via scenario planning, allows the user to determine the optimum route to reaching and maintaining the target level of decency/housing quality.</p> <p>The new system will also allow robust cost forecasting and budgeting for capital works, this can be done on a yearly basis or up to 30 years.</p> <p>The Senior Contracts Manager has been tasked with project managing the implementation of the new system. We envisage the system for initial data collection being in operation by Nov 18 and the full system operation from the 1<sup>st</sup> April 19.</p>	<p>The component register has also been completed detailing all the major components that will be collected during the stock condition surveys.</p> <p>We have also completed the component accounting schedule of rates which will inform RBC of the 30 year expenditure on the assets.</p> <p>Finally the rules and structures for Decent Homes, Housing health &amp; safety rating standard and RdSAP have also been completed.</p> <p>The first phase of the system will initially go live 30/06/19.</p>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <b>1<sup>st</sup> Follow up</b>	<u>Update March 2019</u>
4.5 H	<b>Contract extensions</b>  Contracts should only be extended in accordance with the Standard Terms and Conditions of the Contract and value for key must be a key driving factor.	No response was expected from this audit	<b>Implemented</b>  Following the review of existing contracts and the suspension of all existing contracts subject to a full review a new process has been implemented to manage contract extensions.  No contracts will be extended on the expiration date of existing contracts. All new procurement contracts have been procured in line with the Councils Corporate Procurement Procedure rules. Upon the anniversary of the contract expiration new contracts will have been procured ensuring that adequate time and resources are tasked prior to the contract end date allowing enough time to procure any new contracts.  The Senior contracts Manager has been tasked with responsibility to procure all new contracts and also keep an up to dated register of contracts with start and end dates which are regularly reviewed with the Procurement Officer.  If for any reason a contract cannot be sought in line with Corporate Procedure Rules then a report will be compiled by	<b>Implemented/Ongoing</b>  All new contracts have been procured in line with the Councils Corporate Procurement procedure Rules via a number of frameworks. The contracts procured have been as follows  Voids works. R&M Works. Asbestos removals. Asbestos surveying. Fire Stoppage Works. Stock condition surveys. Structural Surveys. Fire Risk assessments.  The following tenders are in the process of being procured  Electrical works Electrical compliance Electrical Upgrades Equipment & Adaptation

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 15 <sup>th</sup> February 2018  1 <sup>st</sup> Follow up	Update March 2019
			the Senior Contracts Manager and Procurement Officer which will then only be approved by the Head of Service and the Management Team. This process will only be used in exceptional circumstances.	Drains & Sewers Whole House Works Cyclical Painting Cleaning Regular meetings are held between the Senior Contracts Manager and Procurement officer to review contracts.
4.6 H	<b>Work not exposed to competition</b>  This work should be exposed to competition without delay.	No response was expected from this audit	<b>In progress</b>  During the initial audit it had been confirmed that work carried out in connection with aerial repairs had not been exposed to tender and there were questions being raised regarding the current providers qualification to do this work.  <ul style="list-style-type: none"> <li>This work has not been tendered but is being examined with a view to including the works within the electrical contract procurement as a separate Lot.</li> </ul> Electrical contracts will be out for tender in November/December 2018. Industry standard specifications (NATFED) will be used (amended as necessary) for this purpose. These specifications are	<b>Implemented</b>  All new contracts procured have select questions that are completed by the relevant tenderers which specifically look at competency of the contractor.  These will involve qualifications, professional accreditations, references, industry experience and quality assurance systems.



Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u> <b>1<sup>st</sup> Follow up</b>	<u>Update March 2019</u>
			<p>available under a subscription service and are updated to ensure all appropriate legislation, health &amp; safety requirements etc. In future all contract specifications will follow this format starting with the Electrical contract.</p> <p>All future tenders will ensure that appropriate trade qualifications or membership of a professional body will be requested and confirmed as part of the tender/evaluation process.</p>	This will ensure only competent contractors bid for any works
4.7 H	<p><b>Contract Register</b></p> <p>Expired contracts must be tendered as a matter of urgency. Records held by both Procurement &amp; Housing should be reviewed to ensure information is consistent and appropriate action is taken to prepare for letting the contract.</p>	No response was expected from this audit	<p><b>In progress</b></p> <p>All contracts have now been reviewed and the Senior Contracts Manager along with the Procurement Officer will be updating and reviewing the register on a regular basis.</p> <p>The contracts register will also be uploaded onto the Corporate procurement system Due North which will ensure that automatic updates will be sent to robustly manage the process.</p>	<p><b>Implemented</b></p> <p>Training has been provided on the Corporate Procedure Rules and Financial Regulations to the Housing capital team</p> <p>Training was also delivered by Anthony Collins Solicitors on Contract Management.</p>

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 15 <sup>th</sup> February 2018 1 <sup>st</sup> Follow up	Update March 2019
4.8 H	<b>Procurement training</b>  All staff engaged in the procurement process should be adequately trained.	Inexperienced staff should not be preparing specifications unless there is an adequate level of supervision.	<b>In progress</b>  Training was provided to members of the Housing Capital team in May 2017 by the SCM.  The Contract Group has identified council wide training to be delivered : <ul style="list-style-type: none"> <li>• Contract Procedure Rules &amp; Fin Regulations – delivered with mop up sessions available</li> <li>• Contract Management Training – to be provided by HR</li> <li>• Mandatory Procurement Training has now been undertaken and lists of all who attended has been issued to HOS.</li> </ul>	All training now undertaken and continue sessions to maintain knowledge.
4.9 H	<b>Contract Specifications</b>  There is no formal process in place that identifies key contract stages/requirements in the contract letting process e.g. <ul style="list-style-type: none"> <li>• Specification</li> <li>• Advertising</li> <li>• Method of evaluation</li> <li>• Impact on other contracts</li> <li>• Liaison with procurement</li> <li>• Performance measures</li> </ul>	No response was expected from this audit	<b>Implemented</b>  New processes have been developed to ensure that any procurement of contracts has fit for purpose specifications for the work required.  All procurement for contracts has detailed timelines which identify key milestones along with named officers who are required in the process. As all procurement is now being viewed across the council this in turn will allow	<b>Implemented</b>  Contracts specifications have been re-done to ensure they are fit for purpose.  Procurement of contracts now also include Public Buildings to ensure that duplication of works is avoided.

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <b>1<sup>st</sup> Follow up</b>	<u>Update March 2019</u>
	<p>It is recommended for each contract a standard checklist is introduced that will help ensure that a disciplined approach is followed and, key elements have been identified.</p> <p>The checklist should also provide for management/senior officer review/sign off to provide assurance that key areas have been adequately addressed.</p>		<p>other departments who may use similar services to be part of the contract tender documentation. This negates the need to do multiple procurements for similar works ensuring a better streamlined process and value for money is being achieved.</p> <p>The Senior Contracts Manager is leading on this with support from the Procurement Officer to identify where procurement may overlap between different teams and departments.</p> <p>As mentioned in 4.7, contract specifications to be used in the future will now be standardised and up to date and available via a subscription service.</p>	
4.10 H	<p><b>Performance measures</b></p> <p>All contracts must include meaningful performance measures as indicated in the Contract Procedure Rules and be closely monitored as part of the overall contract management throughout the term of the contract.</p>	No response was expected from this audit	<p><b>Implemented</b></p> <p>A new suite of performance measures are in the process of being introduced on all new contracts</p>	<b>Implemented</b>

<b>Ref./ Priority</b>	<b><u>Recommendation</u></b>	<b><u>Management Response and Action Plan</u></b>	<b><u>Position as at 15<sup>th</sup> February 2018</u></b> <b><u>1<sup>st</sup> Follow up</u></b>	<b><u>Update March 2019</u></b>
<b>4.11 H</b>	<b>Record retention/disposal</b>  Records must be retained as outlined in the procedure rules	No response was expected from this audit	<b>Outstanding</b>  This is an area that has yet to be addressed by the Contracts Group and is now council wide and not restricted to Housing.  A 'contract amnesty' was declared for the purpose of determining what contracts existed within the council which are not recorded anywhere & to establish an accurate position. This piece of work has been carried out by the Contract W and contracts have been identified. This is still an ongoing piece of work  In the medium term council wide use of the procurement application DUENORTH will enable all records to be held both electronically and centrally.	<b>N/A</b>
<b>4.12 M</b>	<b>Resilience</b>  It is recommended that the issue of resilience is factored into the process when these contracts are let.	No response was expected from this audit	<b>In progress</b>  The contracts specifically electrical are go to be let in lots i.e. specific type of work. This will allow specialists, small, and multi skilled suppliers to tender. This will also help to provide resilience in this area.	<b>In Progress</b>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u>  <u>1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
4.13 M	<b>Contract / Procurement Guidance</b>  Procurement documents should be reviewed to ensure that guidance is; sufficient, consistent and that responsibilities are clearly defined	No response was expected from this audit	<b>Implemented</b>  The Contract Procedure Rules (CPR) & the Financial Procedure Rules have been reviewed and came into force wef 1 <sup>st</sup> April 2018.  The audit report made specific reference to 'contract extensions' & 'novations' but neither appear in the revised CPR. However it is intended for these areas to be covered in the contract management training.  Consideration was given to centrally locating all contract/procurement advice/documents etc. However it was felt that staff wishing to procure services should be encouraged to deal directly with the Procurement Officer that way there is a greater degree of certainty that advice given will be consistent and the scope for error minimised.	<b>Implemented</b>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 15<sup>th</sup> February 2018</u> <u>1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
4.14 M	<b>Procurement Unit</b>  It is recommended that the Procurement Officer liaises with Heads Of Service & staff involved with contracts to gauge views and ideas to determine an effective partnership going forward	No response was expected from this audit	<b>In progress</b>  The Procurement Unit is now within Legal Service's and forms part of the new Commercial Team that includes solicitors.  The Procurement profile has now been raised by this move. The Business Plan Template also requires that Procurement is involved at an early stage.  Other Services (e.g. Environmental Services) are ensuring that advice is sought from Procurement prior to tendering.	<b>Implemented and Continuing.</b>

<b>Ref./ Priority</b>	<b><u>Recommendation</u></b>	<b><u>Management Response and Action Plan</u></b>	<b><u>Position as at 15<sup>th</sup> February 2018</u></b> <b>1<sup>st</sup> Follow up</b>	<b><u>Update March 2019</u></b>
<b>4.15 M</b>	<p><b>Contract Conditions</b></p> <p>It should not be accepted that the Council will meet these costs and as such these clauses should not be routinely incorporated into contracts.</p> <p>Consideration should also be given to having shorter contracts as opposed to the five year contracts that have been let.</p>	No response was expected from this audit	<p><b>Implemented</b></p> <p>Confirmed with both HOLM &amp; SCM that future contracts will not provide for rpi increases.</p> <p>Again the use of a report will reinforce this requirement.</p>	<p><b>Implemented</b></p> <p>No RPI increases as per previous contracts have been provided in new contracts that have been procured.</p>
<b>4.16 M</b>	<p><b>Whistleblowing Policy</b></p> <p>It is recommended that at the time contracts are exposed to tender, prospective tenderers are given an extract of the policy along with all other documents and the Policy is made easily available on the Council's website to encourage action if wrong doing is considered present.</p>	No response was expected from this audit	<p><b>In progress</b></p> <p>The Whistleblowing Policy (Confidential Reporting Policy) was reviewed and approved by Council in July 2016. The Policy appears in the staff handbook which is also part of the Constitution which can be found from the web site.</p> <p>Due to the suspension of contracts this recommendation has yet to be fully implemented. Though this should occur with the tendering for the Minor Civils contract which is due for tender imminently.</p>	<p><b>In progress.</b></p>

## APPENDIX A

### Definition of Priority of Recommendations

Priority	Definition
<b>H</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>M</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>L</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>



**APPENDIX B**

**Post Contract Appraisal 2016/17**  
**Worcestershire Internal Audit Shared Service**

<b>Ref./ Priority</b>	<b><u>Recommendation</u></b>	<b><u>Management Response and Action Plan</u></b>	<b><u>Position as at 5<sup>th</sup> March 2018 1<sup>st</sup> Follow up</u></b>	<b><u>Update March 2019</u></b>
<b>4.1 H</b>	<p><b>Performance Measures</b></p> <p>All contracts must include a meaningful set of measures that will allow contract performance to be effectively monitored.</p>	<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> <p>All new contracts will include meaningful performance measures and these will be monitored in conjunction with meetings scheduled with the contractor.</p> <p><b>Responsible Manager(s):</b></p> <p>Head of Housing, Housing Capital &amp; Repairs Maintenance Operations Manager Head of Environmental Services</p> <p><b>Implementation Date</b></p>	<p><b>Implemented</b></p> <p><b>Housing</b></p> <p>The Senior Contracts Manager will act as the Contracts Administrator on all contracts to ensure that all contracts are adequately administered and managed. All procurement contracts on Housing Property Contracts will now be underlined by signed contracts from the Joint Contracts Tribunal (JCT) suite of contracts. The Senior Contracts Manager along with the Team Leader – Contracts &amp; Commercial will review all contracts before they are signed as per the delegated authorities within the Council.</p> <p>Recorded contractor monitoring meetings will be maintained along with post inspections, to adequately manage and review performance measures</p>	<p><b>Implemented.</b></p> <p>Senior Contracts Manager has been named as Contracts Administrator on all new contracts that have been procured for Housing.</p>

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
		31 <sup>st</sup> May 2017	<b>Environmental Services</b>  See comments in 4.4	
4.2 H	<b>Works Orders</b>  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 Managers:</b>  Housing Capital & Repairs Maintenance Operations Manager  <b>Implementation Date:</b>  Completed August 2016	<b>In Progress</b>  All new procurement of contracts are issued from the outset with a detailed specification and general condition of works to ensure that quality is not compromised. The contracts also have schedule of rates that are broken down into quantities of measurement to ensure that the costs are better understood and can be assessed more easily on contracts.  Pre site meetings will be held with contractors to confirm the exact measurement and quantities of works are agreed prior to any works starting on site.  The contracts also have cost performance measures built in which will allow robust monitoring	<b>Implemented</b>  All major works have pre inspections which are carried out jointly with RBC and the contractor.  Detailed works are confirmed with a list of schedule of rates for each contract.  Pre contract meetings are held with all parties concerned including

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
				Housing locality to ensure that there is sound understanding of the project and its purpose.
4.3 H	<b>Variation Orders</b>  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 August 2016	<b>In Progress</b>  The new manager now responsible for this is the Senior Contracts Manager. All works are now assessed prior to any works starting on site and detailed schedule of rates are provided by the contractor  Joint visits are conducted prior to any works starting with the contractor and the surveyors to assess the full extent of works required and confirm the rates to be applied.  Any variances on the contract are agreed at stage of identification and signed off on site by the surveyor and then approved by the Senior Contracts Manager prior to the works being varied on the contract. This is then followed up by an email to the contractor and details recorded against the	<b>Implemented</b>  All Variation Orders are signed off by the Senior Contracts Manager.  Once works are completed and prior to sign off a joint inspection is arranged on site and all works are confirmed along with any payments for the final invoice.

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
			contract to allow for future auditing.  All variances are discussed are discussed as a performance measure as part of the contract management processes and recorded.	
4.4 H	<b>Contractor Meetings</b>  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.	<b>Accepted</b>  <b>Environmental Services</b> 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.  All new contracts will stipulate the meeting frequency in the documentation.  <b>Responsible Manager:</b>  Head of Environmental Services  <b>Implementation date:</b>	<b>Implemented</b>  <b>Environmental Services</b>  Drain Clearance contract to be re tendered mid 2018 & this will be included in the contract documentation – in this case a minimum of an annual formal meeting.  Minor Civil Engineering contract is in progress. The tender documents have been prepared & passed to the Procurement Officer for review. Internal Audit have reviewed the documents & confirm that arrangements appear to be sound with the following appearing to be well covered - Tendered rates based on measurements, quantities - Specifications of materials, type measurement etc. - Subcontracting requirements included - Insurance	Minor Civil Engineering and Ancillary Works Contract awarded to successful tenderer - May 2018.  Meetings already undertaken at three months' intervals as required, with performance indicators analysed.  Minor Sewer and Drain Maintenance Contract now taken over by

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
		<p><b>Housing Services</b></p> <p>Regular meetings are now held with contractors. The Housing Capital &amp; Repairs Maintenance Operations Manager is included in the circulation list for minutes and these are retained on the shared network drive.</p>	<p>- Planned contractor meetings together with specimen agenda.</p> <p>Seven number specific Performance Indicators have been included within Minor Civil Engineering and Ancillary Work Contract, and similarly within all future Contracts. These Performance Indicators will be analysed on a three month basis with the Contractor.</p> <p>See also 4.7</p> <p><b>Housing Services</b></p> <p><b>Housing Services (update)</b></p> <p>Regular meetings set up for any new contracts</p>	<p>Housing Services, including re-tendering process. Existing Contract extended by Senior Contracts Manager for interim period.</p> <p><b>Implemented</b></p> <p>As part of better contract management regular meetings (weekly/Monthly) have been set up with the contractor.</p>

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>Position as at 5<sup>th</sup> March 2018 1<sup>st</sup> Follow up</u>	<u>Update March 2019</u>
		<p><b>Responsible Manager:</b></p> <p>Housing Capital &amp; Repairs Maintenance Operations Manager</p> <p><b>Implementation Date:</b></p> <p><b>30<sup>th</sup> April 2017</b></p>		<p>These are held by either the surveyors or Senior Contracts Manager.</p> <p>The meetings discuss the following</p> <p>Progress on works</p> <p>Variances</p> <p>Payments</p> <p>Health &amp; safety</p> <p>Customer satisfaction</p> <p>Project Plan</p>

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
4.5 H	<b>Contractor Payments</b>  Payment terms to be in accordance with the contract and any variation investigated prior to payment.		<b>Implemented</b>  Contractor payments are made in accordance with the signed contracts we have with the new contractors. All costs are verified prior to payment by the relevant managers.  See section 4.3	<b>Implemented</b>  No variances are agreed or approved without a detailed reason and subsequent site visit or report and photographs.
4.6 H	<b>Tender Evaluation</b>  Tender evaluation processes should be observed to maintain transparency in the process	<b>Accepted</b>  Tender evaluation matrices must be completed to confirm that the contract award has been made in accordance with the award criteria.  All officers involved with contract evaluation will be reminded of the need to follow this process.  <b>Responsible Manager:</b>  Head of Environmental Services  <b>Implementation Date</b>	<b>Implemented</b>  Confirmed that no further contracts relating to Stores & Supplies have been let & so this situation has not arising. The situation is the same within Stores, no contracts have been let however discussions are underway with Procurement to look at suitable frameworks for up and coming contracts. Stores Team Leader is aware of the need to undertake a full tender evaluation.	Procurement monitoring / checking scoring prior to award.  No Tendered Contracts relating to Stores have been let in the last year, however there are some due this financial year.

Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
4.7 M	<p><b>Contractors Insurance</b></p> <p>A checklist is 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 Services</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></p> <p>Senior Contracts Manager</p> <p><b>Implementation date:</b></p> <p><b>30<sup>th</sup> April 2018</b></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>	<p><b>Implemented</b></p> <p><b>Housing Services</b></p> <p>Implemented on 30<sup>th</sup> April 2018</p> <p>There is a procurement checklist that has been devised by the Procurement Officer which ensures that all contractors who are awarded contracts have the necessary pre qualification information current and relevant.</p> <p>All contracts awarded through frameworks have this information for all contractors on the framework and this is managed and collected by the relevant framework providers. Furthermore this information is also detailed in the JCT contracts and copies are stored on the server for future auditing purposes.</p> <p>This process is the responsibility of the Senior Contracts Manager and managed by the relevant Managers and Surveyors</p> <p><b>Environmental Services</b></p> <p>16 April 2018</p> <p>Contract documents now include this item as one of the specific Performance</p>	<p>Contractors asked to confirm that required insurances in place – checking documents is contract manager function.</p>



Ref./ Priority	Recommendation	Management Response and Action Plan	Position as at 5 <sup>th</sup> March 2018 1 <sup>st</sup> Follow up	Update March 2019
		<b>Responsible Manger:</b>  Head of Environmental Services  <b>Implementation Date:</b> 31 <sup>st</sup> May 2017	Indicators reviewed every three months. The revised Contract Procedure Rules also include a requirement to confirm that insurance remains in place throughout the life of the contract. Both Training on the revised CPR's & contract management have been delivered with mop up sessions available	
4.8 M	<b>Contract Documents</b>  The Contract Procedure Rules should be followed regarding the retention of signed contracts.	<b>Accepted</b>  All staff will be advised to ensure that signed contract documents meeting this criterion will be passed to Legal Services for safe keeping.  However to assist in this process, it is important that all procedures relating to contracts are readily and easily available to staff  <b>Responsible Manager:</b>  Head of Environmental Services Head of Housing Housing Capital & Repairs Maintenance Operations Manager  <b>Implementation date:</b> 31 <sup>st</sup> May 2017	<b>In progress</b> All new contracts will be advertised using DUENORTH. This application will also be used for Contracts Management and the retention of all related document.  Tracking & tracing 'old' documents remains in progress and this is reported in the Housing Capital Programme audit follow up.	<b>Implemented and Ongoing</b>

## APPENDIX A

### Definition of Priority of Recommendations

Priority	Definition
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<b>M</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>L</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>

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE****25<sup>th</sup> April 2019****2018-19 PROPOSED ACCOUNTING POLICIES**

<b>Relevant Portfolio Holder</b>	Councillor Tom Baker Price
<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 2018/19 accounts. These are prepared in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2018/19 (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, Governance and Standards Committee approves the Council's proposed Accounting Policies to be adopted in completing the 2018/19 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 2019. The audited accounts are required to be completed by 31st July 2019.
- 3.3 The main changes to the accounting policies are:-
- The Going Concern assumption under general principles has been updated to clarify that the going concern principle is still relevant in the case of local government re-organisation.
  - 'Accruals of Income and Expenditure' has been retitled 'Revenue and Expenditure Recognition' and rewritten to reflect the requirements of IFRS 15 (Revenue from contracts with Customers), the key change being that income is

**REDDITCH BOROUGH COUNCIL****AUDIT, GOVERNANCE AND  
STANDARDS COMMITTEE****25<sup>th</sup> April 2019**

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only recognised as received when all specific performance obligations have been satisfied.

- Financial Assets and Financial Liabilities have been amended to reflect the changes of IFRS 9 (Financial Instruments)
- A new policy has been included at point 13, Interests in Companies and Other Entities, to cover the accounting for Rubicon Leisure within the Councils accounting statements.

**Legal Implications**

- 3.4 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**

- 3.5 None, as a direct result of this report

**Customer / Equalities and Diversity Implications**

- 3.6 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 -2018/19 Proposed Accounting Policies

**6. BACKGROUND PAPERS**

CIPFA recommended template for the Statement of Accounts

**AUTHOR OF REPORT**

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# Redditch Borough Council

## Notes to the Financial Statements FOR THE YEAR ENDED 31 MARCH 2019

### Note 1 Accounting Policies

#### General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The statements are prepared on a general principle of a going concern and that the functions and services provided by the Council will continue to operate for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2017 which require them 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 2018/19 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

##### 1) Revenue and Expenditure Recognition

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

- Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.
- Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.
- 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.
- The council has set a de-Minimis level for accruals of creditors and debtors that are calculated manually in order to avoid additional time and cost in estimating and recording accruals.

This level is reviewed annually and is currently set at £5,000. If a payment or receipt is split across different cost centres, the limit is for the whole payment or receipt.

Exceptions to this de Minimis rule where accruals are made in full are:

- Qualifying expenditure upon which income from government grant or other third parties is dependent and associated grant income, where the grant funding would be lost if the accrual is not made.
- Invoices for substantially the same supply or service that are chargeable to the same service area are aggregated where their total is over £500.
- Accruals posted based on orders that have been goods receipted on the E-Financials system.
- For capital projects work in progress schedules will be obtained and accruals will be processed on this basis.

##### 2) 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.

**3) 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.

**4) 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.

**5) 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 (i.e. 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.

**6) 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 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 the below pension scheme:

- The Local Government Pensions Scheme, administered by Worcestershire County Council known as the Worcestershire Pension Fund (WPF)

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

### The Local Government Pension Scheme

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

- The liabilities of the 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 2.5% (based on the indicative rate of return on a basket of high quality corporate bonds, government gilts and other factors).
- 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
  - unlisted 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, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability 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 at the beginning of the period – taking into account any changes in the net defined benefit liability 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the WPF – 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.

### 7) 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 are 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 are 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.

### 8) 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.

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

### 9) Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount (balance carried forward) of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount included in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Accounting for debt re-structuring or early settlement will be in accordance with the Code and relevant statute.



### Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques.

Financial assets are classified into the following categories:

- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit and loss.

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in The Code, and is determined at the time of initial recognition.

#### • Financial Assets at Amortised Cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

For most of the loans that the Council has made, this means that the amount included in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has made interest free loans to home owners (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest rather than interest free, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain 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 at Fair Value Through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

#### • Financial Assets at Fair Value Through Profit and Loss

Financial assets measured at fair value through profit or loss are those that are not otherwise measured at amortised cost or fair value through other comprehensive income. This includes derivatives and financial assets acquired principally for the purpose of selling in the short term.

Legislation requires that any changes in the fair value of financial assets charged to the Surplus or Deficit on the Provision of Service is to be reversed out to through the Movement in Reserves Statement to the Unusable Reserves.

#### • Impairment

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the Council recognises a loss allowance representing expected credit losses on the financial instrument.

The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12-month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

## 10) 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.

## 11) 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, e.g. 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 xxi in this summary of significant accounting policies.

## 12) 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 (e.g. 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.

## 13) Interests in Companies and Other Entities

An assessment of the council's interests has been carried out in accordance with the CIPFA Code of Practice to determine a group relationship exists. Inclusion in the group is dependent upon the extent of the councils control and significant influence over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors, and materiality. Accounts are prepared on a single entity basis with the Statement of Group accounts representing the position for the council and its subsidiary. Interests in other entities are recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

## 14) 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.

**15) 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.

**16) 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 Reserves Statement for the difference between the two.

**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 (e.g., 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

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. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. (England and Wales).

The written-off value of disposals is not a charge against council tax, as the cost of non-current 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 (e.g., 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.

#### 17) 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. Notes are only included where items are considered to be material by value or nature.

#### 18) Overheads and Support Services

In the Financial Statements overheads are reported under the Strategic Purpose where they are managed which is usually Enabling the Authority.

#### 19) 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 (i.e., 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 Account.

#### **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 for depreciation that would have been charged if the loss had not been recognised.

#### **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 non-current 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.

### 20) 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 (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 if the authority settles the obligation.

### 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.

**21) 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.

**22) 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.

**23) 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 the host 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 the host 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 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.

**24) Value Added Tax (VAT)**

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

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**BROMSGROVE DISTRICT AND REDDITCH BOROUGH COUNCILS****AUDIT & GOVERNANCE COMMITTEE**Date 1<sup>st</sup> April 2019**REPORT TITLE**

Relevant Portfolio Holder	Cllr M Sherrey & Cllr G Prosser
Portfolio Holder Consulted	Yes
Relevant Head of Service	Deborah Poole
Ward(s) Affected	N/A
Ward Councillor(s) Consulted	N/A
Key Decision / Non-Key Decision	Non-Key Decision
This report contains exempt information as defined in Paragraph(s) of Part I of Schedule 12A to the Local Government Act 1972, as amended	

**1. SUMMARY OF PROPOSALS**

1.1 To acknowledge the findings and recommendations from the Draft Internal Audit Report on Health and Safety dated 30<sup>th</sup> November 2018 (Appendix 1).

1.2 The main findings of the audit were:

- Some policies were not uniform across both Councils and had no document and version controls;
- Fire drawings for RBC at Town Hall should follow the format adopted by BDC used for parkside, clearly detailing evacuation routes;
- Establish a mandatory requirement for IOSH Managing Safely;
- Ensure Contractors have suitable and sufficient risk management and sign an attendance register when on any site;
- Maintenance required on the fuelling point at Crossgates Depot;
- To ensure all Fire Risk Assessments are current;
- To ensure all fire alarm and emergency lighting systems testing are conducted as per a detailed schedule;
- To ensure all fire evacuation drills are conducted as per a schedule;
- To develop a fire response plan;
- To consider corporately an approach regarding Hide, Run and Tell for terrorist response.

1.3 To approve the suggested actions to be taken as per the recommendations to resolve any issues raised during the abovementioned audit.

**2. RECOMMENDATIONS**

2.1 **The Executive Committee is asked to NOTE that:**

1. Recommendations detailed within the report that have been accepted by the Joint Health, Safety and Welfare Committee will be actioned.
2. Actions will be tracked to closure using the External Audit Action Tracker (Appendix 2).

**BROMSGROVE DISTRICT AND REDDITCH BOROUGH COUNCILS****AUDIT & GOVERNANCE COMMITTEE**Date 1<sup>st</sup> April 2019

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

- 3.1 There are no identified financial implications other than maintenance and upkeep costs, which should be identified as part of Pre-planned Maintenance (PPM) budgets.

**Legal Implications**

- 3.2 Compliance with UK health and safety legislation, including Health and Safety at Work Etc. Act 1974, Regulatory Reform (Fire Safety) Order 2005, Management of Health and Safety at Work Regulations 1999, Lifting Operations and Lifting Equipment Regulations 1998 (LOLER), Dangerous Substances and Explosive Atmospheres Regulations 2002 (DSEAR).

**Service / Operational Implications**

- 3.3 This report outlines the response of the Joint Corporate Health, Safety and Welfare Committee to the Draft Internal Audit Report of Health and Safety dated 30<sup>th</sup> November 2018.
- 3.4 The audit was undertaken by the Worcestershire Internal Audit Shared Service during April, May and June 2018.
- 3.5 The Auditor interviewed RBC and BDC colleagues across a broad scope of subjects areas covering:
- Review of Action Plan
  - Financial analysis and review of the training budget
  - Health and Safety documents
  - Planning and Development
  - Training
  - Communication of Health and Safety information
  - Risk Assessments and Risk Management
  - Fire Risk Assessment and Risk Management
  - Active and reactive monitoring and review of Health and Safety statistics and information
  - Corporate Health and Safety advice and support
- 3.6 It was conducted to provide assurance that the recommendations from the 2014 external health and safety audit had been completed.

**BROMSGROVE DISTRICT AND REDDITCH BOROUGH COUNCILS****AUDIT & GOVERNANCE COMMITTEE**Date 1<sup>st</sup> April 2019

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- 3.7 Under the guidance of the Senior Health and Safety Advisor for RBC and BDC, the Committee accepts the contents of the audit report, but challenges some of the recommendations, some of which do not demonstrate best practice:
- Recommendation suggesting that the Council(s) would draft a risk assessment for a lift maintenance engineer in the absence of one supplied by the contracting company - this goes against the Management of Health and Safety at Work Regulations 1999, as the contractors themselves must provide their own risk management.
  - Recommendation to run a fire drill with a person in a wheelchair to establish how long it takes them to get out – really no need as the focus should be on developing Personal Emergency Evacuation Plans (PEEPS) for those with physical limitations.

**Customer / Equalities and Diversity Implications**

- 3.7 There are no identified customer / equalities and diversity implications.

**4. RISK MANAGEMENT**

- 4.1 Failure to address the recommendations within the audit could have an impact on reputational, legal and moral obligation.
- 4.2 Recommendations identified by the Auditor have been detailed in an Excel spreadsheet by the Senior Health and Safety Advisor, with progress tracked and actions closed where currently possible.

**5. APPENDICES**

Appendix 1 - Draft Internal Audit Report Health and Safety 2018/19

Appendix 2 - HSD002 Health and Safety External Audit Action Tracker Jan 2019

**6. BACKGROUND PAPERS**

There are no background papers.

**7. KEY**

N/A

**AUTHOR OF REPORT**

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Audit ID	Date Identified	Current Status	Council	Issue Description	Assigned to Owner	Expected Resulation Date	Action Steps	Actual Resolution Date
2018-01	November 2018	Open	RBC & BDC	Policy - Effective working practice to be established to ensure policies are uniform and are uploaded on the Orb in a timely manner for both Councils at the same time to prevent any knowledge gaps. All policies must have a version control associated and a review date prominently displayed. There must be an established forum e.g. Orb, notice board, providing ease of use and access to information.	Martyn Bradley	30.04.19	Approval process is currently under review which will potentially change the delegation which will stream line the process and the activation and communication of policies. Update 27.03.19 - Health and Safety Statement of Intent and Supporting Manual of Organisation and Arrangements in final draft for approval by Committee on 05.04.19 and then to be signed by Kevin Dicks and both Council Leaders and subsequently published.	
2018-02	November 2018	Open	RBC & BDC	Policy - Cluttered notice boards must be eliminated and re-designed to make them more appealing, visually easier to read and to keep a control in place to update them. There should be clear responsibility established to maintaining such areas and it may also be worth considering new innovative ways of delivering the information in the offices e.g. scrolling monitors running presentations to keep all council staff up-to-date with relevant information, or having pop ups created from IT about important notices.	Martyn Bradley	30.04.19	How can we eliminate <i>and</i> redesign them? Update 27.03.19 - noticeboards are still in place, but had been decluttered since the audit. Funding not yet sought for alternatives such as rolling screens as this will require regular updating - need to establish who will own this.	
2018-03	November 2018	Open	RBC & BDC	Policy - It is recommended to start to introduce different colour hi-vis. Example: Green to represent First Aiders, Red to represent Fire Safety officers, Blue for Trainers to assist with assisting staff who are unsure who to go to during an emergency. It is also recommended to add a mandatory requirement to ensure all First Aider's qualifications are up to date and to have a log in place to ensure they do not lapse unnecessarily.	Martyn Bradley	30.04.19	This will be considered and a process devised when reviewing Emergency Planning Policy (or similar). Update 27.03.19 - a good idea in principle and tested with the potential introduction of red hi-vis for Fire Wardens, which would be standard, but there are many already in use that are orange and as such that is the colour that has been further supplied. Blue for Trainers is not necessary and it isn't clear for what purpose they serve. Green for First Aiders makes sense and can be introduced.	
2018-04	November 2018	Open	RBC & BDC	Policy - To consider having a joint and uniform approach where the blueprint map at Redditch Borough Council is similar to the design of the blueprint map at Bromsgrove District Council showing where you are stood in the building and where the nearest evacuation point is.	John Homer	30.04.19	Review of blue prints to be actioned by Facilities Management. To be put on the orb once updated. Place partnership will be working with the FM Manager at Bromsgrove to agree plans and consistent signage by 31st March 2019. To be reviewed in April 2019 when Facilities returns inhouse from place partnership.	
2018-05	November 2018	Closed	RBC & BDC	Training - Establish a mandatory requirement for IOSH training and issue reminders when completed training is set to expire.	Martyn Bradley	28.02.19	No real / legal need to commit to IOSH Managing Safely as a mandatory course, as there are alternative routes that could be taken. Update 27.03.19 - approval received from CMT on 12.03.19 to move forward with providing internal risk assessment training (and in due course accident investigation training) to be delivered by Martyn Bradley. This will be to front line managers in the first instance. IOSH Managing Safely may still be provided to 4th Tier.	12.03.19
2018-06	November 2018	Closed	RBC	Contractor Control - It is recommended that a risk assessment process is made available whereby a contractor carrying out maintenance on the lifts either fill in a form or we fill in one of their behalf and keep it on file. To establish and set up a control so that all information from the assessments is gathered together to provide an audit trail in case of incident.	John Homer / Martyn Bradley	N/A	Absolutely not! This goes against all known risk management training! Contractors must assess their own risks and communicate these to us prior to works commencing. If we have concerns we can raise them, but we must not edit or update or provide a template as this then becomes our risk assessment! The Council can only be responsible for risk management of lifts maintenance if we were to undertake it ourselves.	N/A
2018-07	November 2018	Open	RBC	Risk Management - Bigger stickers are required on the [secure lift] doors to further deter someone from opening the door to the main electrical switch. Also to create a measure to ensure that all doors are kept locked and that there is more vigilance in this regard.	John Homer	30.04.19	<i>Currently having a new contract tendered which will include lift risk assessments in all public buildings.</i> Additional staff being hired to help support documents being kept up to date. Bigger stickers have been put on doors so has been implemented Oct-18. <i>Property Services will put in place a revised procedure and risk assessment for the maintenance of lifts to ensure compliance is moving forward by end of December 2018.</i> Property services have issued an email to all relevant officers to ensure that the secure doors are properly secured and locked. <i>N.B. Italics in this action denotes approach not believed to be applicable by H&amp;S Advisor (see above action 2018-06 regarding reasoning).</i>	31.10.18 for stickers
2018-08	November 2018	Closed	RBC	Fuelling Point Safety at Crossgates - There has not been an updated health and safety hazard report since 2010 which is prior to the 2014 external health and safety audit report.	Guy Revans	01.11.18	Following consultation with the [former] Health and Safety Officer it has been agreed that the current Health and Safety Hazard report completed in 2010 is still relevant and valid as there have been no changes. Implemented.	01.11.18

2018-09	November 2018	Open	RBC	Fuelling Point Safety at Crossgates - The concrete on the dispenser island was showing wear. The areas around the dispenser should be impervious.	John Homer	31.12.18	Fuel tank has been recognised to be 40 years old and requires somebody to come and check the concrete dispenser island and pumps. Place Partnership is commissioning a review of the fuel pumps and fuelling area and tanks to assess current state and works required this is due to be completed by 31st December 2018 and any resulting capital works will be programmed accordingly during 2019/20. Update 05.04.19 - it had been decided that this would be addressed once the Place Partnership contract had ended and John Homer would then lead on this from within RBC.	
2018-10	November 2018	Closed	RBC	Fuelling Point Safety at Crossgates - Vehicles are parking in the no-parking zones which can be found on top of the fuel dispensers with the engines left needlessly running.	Guy Revans	30.11.18	Email has been sent to all Housing and Environmental services managers to ensure that all teams are reminded not to park in the fuelling zones or leave engines running. Implemented.	30.11.18
2018-11	November 2018	Closed	RBC & BDC	Fire Risk Assessments Action Plan - To update the 2014 action plan to include all public buildings for both councils and to ensure that it is up to date to mirror the actual fire risk assessments that have been filled in. It is recommended to have regular meetings regarding the process on the action plan to ensure controls are in place and to create an audit trail through the minutes. To ensure 'high risk' items are updated and dealt with in as a priority and it a timely manner.	Jas Sidhu / Martyn Bradley	30.11.19	An IT system has been sourced and will be part of the asset management system implementation that Senior Contracts Manager is leading on and will enable better maintenance of records and data. Public buildings will be managed centrally. Budget bid for dedicated system linking to PPL transfer in-house. Bromsgrove to review in October/November 2019.  Place Partnership will no longer be carrying out this work post 31st March 2019. It is therefore intended that processes and procedures will be established as part of the Officer in Charge process to ensure that all fire safety checks are carried out in a timely and compliant way by the transfer date.  It is also intended that all officers with responsibility for FRAs will review risk assessment and action plans and training will be delivered where required.  Health checks are currently being carried out in the Housing Schemes and new FRAs being developed for High Risk Housing. Update 27.03.19 - it was agreed on 20.03.19 at CMT that Jas Sidhu will focus on Housing related FRAs and John Homer (with advisory support from Martyn Bradley) will focus on all other RBC / BDC buildings FRAs.	20.03.19
2018-12	November 2018	Open	RBC & BDC	Fire Alarm Testing - To ensure a control is in place at both councils to carry out a weekly fire alarm test and record it to comply within British Standards 5839. If a test is not completed on a weekly basis then there needs to be justification to support why it was not carried out in case a fire officer visits the site and questions it.	John Homer / Martyn Bradley	30.04.19	To create a sub group to work through recommendations and give a clear plan by April 2019. Group to feature Health and Safety Advisor, Facilities and be supported by Claire Felton and Guy Revans. This group will also review officer behaviour through fire drills to ensure compliance.	
2018-13	November 2018	Open	RBC & BDC	Fire Alarm Testing - Redditch Borough Council and Bromsgrove District Council need to establish a requirement to complete a fire test regularly to remain within compliance for fire safety regulations.	John Homer / Martyn Bradley	30.04.19	To create a sub group to work through recommendations and give a clear plan by April 2019. Group to feature Health and Safety Advisor, Facilities and be supported by Claire Felton and Guy Revans. This group will also review officer behaviour through fire drills to ensure compliance.	
2018-14	November 2018	Overdue	RBC & BDC	Fire Evacuation Drills - It is recommended that both depots start to commence fire drills within a 6 month window to ensure that they are compliant and regiment the evacuation process for any fire Marshalls.	Carl Walker / Kevin Hiron	31.12.18	To deliver fire drills at all sites in Dec-18.	
2018-15	November 2018	Open	RBC & BDC	Fire Evacuations - A process to be established where a designated fire warden is located next to one of the fire exits to ensure no unauthorised personnel re-enter the building until safe to do so.	Martyn Bradley	30.04.19	To create a sub group to work through recommendations and give a clear plan by April 2019. Group to feature Health and Safety Advisor, Facilities and be supported by Claire Felton and Guy Revans. This group will also review officer behaviour through fire drills to ensure compliance.	
2018-16	November 2018	Open	RBC & BDC	Fire Alarm Testing - Better planning to ensure that the fire alarms are tested on time and that the key is available and not moved.	John Homer / Martyn Bradley	30.04.19	To create a sub group to work through recommendations and give a clear plan by April 2019. Group to feature Health and Safety Advisor, Facilities and be supported by Claire Felton and Guy Revans. This group will also review officer behaviour through fire drills to ensure compliance.	
2018-17	November 2018	Open	RBC & BDC	Contractor Control - A process is established to ensure all contractors sign a register when coming to work on site and that they have basic induction training to know where the fire evacuation point is.	John Homer / Martyn Bradley	30.04.19	To create a sub group to work through recommendations and give a clear plan by April 2019. Group to feature Health and Safety Advisor, Facilities and be supported by Claire Felton and Guy Revans. This group will also review officer behaviour through fire drills to ensure compliance.	
2018-18	November 2018	Overdue	RBC & BDC	Fire Evacuations - It is recommended to have a systematic approach to ensuring all documentation is up-to-date at all times so that if departments change locations this does not impact on obtaining an assurance that everyone has left the building.	Martyn Bradley	30.11.18	To provide audit trail moving forwards, to be implemented immediately. Update 27.03.19 - Fire Warden training has been taking place, new sign-in sheets have been provided to confirm attendance on site(s).	
2018-19	November 2018	Closed	RBC	Fire Evacuation Drills - To arrange for a fire drill with someone who uses a wheel chair to assist with monitoring how long it would take in a fire evacuation for the individual to exit the building from the top floor.	Martyn Bradley	N/A	Really not necessary (under these circumstances you would put the individual under emotional pressure) – why not address this once EvacChairs have been procured (and people trained) and then time / stage an evacuation with a wheelchair user without actually setting the alarms off? To arrange test to identify learning to develop guidance notes. Co-ordination required with facilities and planned to be picked up as part of next fire drill. Drill training date to be agreed	N/A

2018-20	November 2018	Overdue	RBC	Fire Response & Planning - To develop a procedure manual with who is responsible for the person(s) in case of a fire and what needs to happen, to arrange for appropriate signs to be implemented to locate the stair lift in a fire emergency situation.	John Homer / Martyn Bradley	31.03.19	Place Partnership to review the procedure with Health and Safety Advisor. Update 27.03.19 - to be reviewed during April / May 2019 once Place Partnership no longer working with RBC, also addressing BDC at the same time.	
2018-21	November 2018	Open	RBC & BDC	Follow other authorities' leads with the Hide, Run, and Tell policy for terror. Consider training staff on terrorism attacks through e-learning or various methods. Create a process in how to best suit the situation at both councils. Create an action plan date as soon as possible to discuss this.	Sue Hanley	28.02.19	To be reviewed at CMT to ensure the pitch is right.	
2018-22	November 2018	Closed	RBC	To ensure all doors are shut at 09:00am at Redditch Borough Council Town Hall. (Practical / pragmatic in a public building Consider the most appropriate and safest foot traffic route for entry to the building).	John Homer / Martyn Bradley	28.02.19	Lock down of doors, 9am onwards. Update 27.03.19 - this has changed inasmuch as doors from Town Hall car park are now opened at 08:45am, but the other access route (via the basement) is on swipe access only anyway.	28.02.19

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

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### **Work Programme**

#### **25 April 2019**

- Monitoring Officer's Report
- Public Speaking at committee meetings
- Grant Thornton External Audit Progress Report and Sector Update
- Internal Audit Progress Report
- Internal Audit Plan 2019/20
- Accounting policies report
- Independent Member – Verbal Update
- HRA S151 Update
- Internal Audit of Health and Safety
- Committee Work Programme

#### **29<sup>th</sup> July 2019**

- Monitoring Officer's Report
- General Dispensations Report
- External Audit – Audit Findings Report 2019/20
- Audited Statement of Accounts 2019/20
- Internal Audit – Annual Report 2019/20
- Corporate Governance and Risk Update (including S11 Action Plan Monitoring)
- Financial Savings Monitoring Report
- RIPA Report
- Committee Work Programme

#### **31<sup>st</sup> October 2019**

- Monitoring Officer's Report
- Internal Audit – Progress Report
- Compliance Team Update (6 monthly)
- Corporate Governance and Risk Update (including S11 Action Plan Monitoring)
- Sector Update
- Fee Letter 2019/20
- Financial Savings Monitoring Report
- HRA Internal Controls - S151 update
- Committee Work Programme

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

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### **30<sup>th</sup> January 2020**

- Monitoring Officer's Report
- External Audit – Update Report
- External Audit – Grant Claims Certification Work Report
- External Audit – Annual Audit Letter 2018/19
- Treasury Management Strategy, Prudential Indicators and Minimum Revenue Policy Provision 2020/21
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan 2020/21
- Corporate Governance and Risk Update (including S11 Action Plan Monitoring)
- Financial Savings Monitoring Report
- Committee Work Programme

### **9<sup>th</sup> April 2020**

- Monitoring Officer's Report
- External Audit – Update Report
- External Audit - Informing the Risk Assessment (Communicating with those charged with governance)
- External Audit - 2017/18 Housing Benefit grant certification report
- Internal Audit – Progress Report
- Internal Audit – Final Audit Plan 2019/20
- Compliance Team Update (6 monthly)
- Corporate Governance and Risk Update (including S11 Action Plan Monitoring)
- Financial Savings Monitoring Report
- Corporate Risk Register
- Committee Work Programme