BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 9TH JUNE 2011, AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors J. S. Brogan, Ms. M. T. Buxton, Dr. B. T. Cooper, S. Dudley, Miss P. A. Harrison, Mrs. H. J. Jones and L. Mallett

AGENDA

1. Election of Chairman

2. Election of Vice-Chairman

3. To receive apologies for absence

4. Declarations of Interest

5. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 11th April 2011 (Pages 1 - 6)

6. Bribery Act 2010 (Pages 7 - 18)

7. International Financial Reporting Standards (IFRS) update and draft Accounting Standards (Pages 19 - 46)

8. Internal Audit Manager's - Draft Audit Opinion 2010/2011 (Pages 47 - 52)

9. Internal Audit Performance and Workload 2010/2011 (Pages 53 - 60)

10. Risk Management Tracker - Quarter 4 (Pages 61 - 68)

11. To consider, and if considered appropriate, to pass the following resolution to exclude the public from the meeting during the consideration of items of business containing exempt information:-

"**RESOLVED** that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A to the Act, as amended, the relevant paragraphs of that part being as set out below, and that it is in the public interest to do so:-

Item No	Paragraph	
12	3	"

12. Recommendation Tracker (Pages 69 - 80)

13. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

31st May 2011

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

MONDAY, 11TH APRIL 2011 AT 4.00 P.M.

PRESENT: Councillors S. R. Peters (Chairman), B. Lewis F.CMI (Vice-Chairman), Ms. H. J. Jones and C. R. Scurrell

Also in attendance: Mr. D. Evans, Audit Commission (during Minute No's 42/10 to 51/10)

Officers: Ms. J. Pickering, Mr. A. Bromage and Ms. P. Ross

42/10 APOLOGIES

An apology for absence was received from Councillor D. Hancox.

43/10 DECLARATIONS OF INTEREST

No declarations of interest were received.

44/10 MINUTES

The minutes of the meeting of the Audit Board held on 13th December 2010 were submitted.

RESOLVED that the minutes be approved as a correct record.

45/10 AUDIT COMMISSION CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2009/2010

The Chairman welcomed Mr. D. Evans from the Audit Commission to the meeting.

Mr. D. Evans presented the Audit Commission Certification of Claims and Returns Annual Report undertaken during 2009/2010. He informed Members that grant paying Government Departments attached conditions to grants and that the Council had to show that it had met those conditions. The certification work carried out by the Audit Commission involved applying prescribed tests designed to give reasonable assurance that claims and returns were fairly stated and followed specified terms and conditions. The following three claims had been certified:

- Housing Benefit and Council Tax Benefit
- National non domestic rates
- Disabled Facilities grants

The Chairman and Portfolio Holder for Resources expressed concern that a further 20 housing benefit cases had had to be tested, after the initial 20 housing benefit cases had identified an error, an overpayment of benefit of 33 pence. The Chairman and Portfolio Holder for Resources had been surprised that a de minimis had not been set and that due to this error being identified, the Audit Commission had submitted a qualification letter to the Department for Work and Pensions (DWP).

Members noted that the fees charged for grant certification work in 2009/2010 for the three claims had significantly reduced. This had been due to the Council's quality of working papers being improved in all areas.

RESOLVED:
(a) that the Certification of Claims and Returns – Annual Report be noted;
(b) that officers respond to the Recommendations as set out in the report; and
(c) that the Portfolio Holder for Resources to correspond with the DWP regards no de minimis being set for the testing of claims.

46/10 **UNIVERSAL CREDIT AND ITS IMPACT ON LOCAL AUTHORITIES**

Members considered a report which provided details of the latest proposals concerning Universal Credit and the creation of a Single Investigation Service by the Department for Work and Pensions (DWP).

RESOLVED that Members review the contents of the report and the likely impact to local authority benefits and benefit fraud work.

47/10 **TREASURY MANAGEMENT STRATEGY STATEMENT & INVESTMENT STRATEGY 2011/2012 - 2013/2014**

Consideration was given to a report on the Treasury Management Strategy Statement and Investment in relation to Bromsgrove District Council which had been prepared to comply with the Local Government Act 2003 and to ensure that the Council demonstrated accountability and effectiveness in the management of its funds.

Members noted that to comply with Treasury Management Best Practice, the Performance Indicators included in the report had previously been reported to Cabinet on 23rd February 2011.

RESOLVED:
(a) that the Audit Board undertake additional scrutiny of the Strategy during 2011/2012 to ensure the Council's investments were being managed in a risk free environment;
(b) that the Authorised Limit for borrowing at £3,500,000 if required be noted;
(c) that the maximum level of investment to be held within each organisation (i.e. bank or building society) at £1m subject to market conditions as detailed at Appendix D to the report be noted; and

(d) that it be noted that a need for training for Treasury management had been identified and would be incorporated within the Modern Councillor Programme (Training and Development Events for Members).

RECOMMENDED:
(a) that the Council approves the Treasury Management Strategy Statement and Investment Strategy 2011-2012 to 2013-2014 as detailed at Appendix 1 to the report; and
(b) that the Council approves the unlimited level for investment in Debt Management Account Deposit Facility (DMADF)

48/10 **INTERNAL AUDIT DRAFT OPERATIONAL PLAN 2010/2011**

Members considered a report which presented the Bromsgrove District Council's Internal Audit Draft Operation Plan 2011/2012 and the Internal Audit Shared Service's set of key performance indicators for 2011/2012.

Mr. A. Bromage, Worcestershire Internal Audit Shared Service, Audit Manager presented the report and informed Members of the objectives of the Worcestershire Internal Audit Shared Service. The Audit Manager and the Executive Director Finance and Corporate Resources responded to Members' questions regards the reduced resource allocation for 2011/2012.

The Audit Manager informed Members that the Service Manager of the Worcestershire Internal Audit Shared Service was confident that she could provide management and those charged with governance with the assurances and coverage that they required over the system of internal control within the reduced resource allocation. The introduction of a consistent audit methodology and computerised audit software for 2011/2012 would result in a more efficient way of undertaking, documenting and managing work. This would lead to a reduction in the number of days required for audit reviews without a proportionate reduction in the assurances and coverage provided to management as more audits would be covered within a given resource allocation than would have been the case in previous years.

The Audit Manager informed Members that operational progress against the Internal Audit Plan for 2011/2012 would be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service. The success or otherwise of the Internal Audit Shared Service would be measured against the agreed set of Key Performance Indicators (KPIs) for 2011/2012. These KPIs would be reported, on a monthly basis, to the Shared Service's Client Officer Group, which comprised of the section 151 officers from client organisations and on a quarterly basis to the Audit Board.

RESOLVED:
(a) that the Internal Audit Draft Operational Plan 2011/2012 as detailed in Appendix A to the report be approved; and
(b) that the Internal Audit Shared Service's set of key performance indicators for 2011/2012 as detailed in Appendix B to the report be approved.

49/10 **INTERNAL AUDIT PERFORMANCE AND WORKLOAD**

Consideration was given to a report that provided a summary of the current performance and workload of the Internal Audit Section.

RESOLVED:
(a) that the current status and work completed in the Audit Plan up to 28th February 2011 be approved;
(b) that the Current Performance Indicator statistics be noted; and
(c) that amendments to the section's standard documentation be noted.

50/10 **RISK MANAGEMENT TRACKER - QUARTER 3**

Members considered a report which presented an overview of the current progress in relation to Actions/Improvements (actions) as detailed in the service area risk registers for the period 1st April 2010 to 30th December 2010. Members were asked to note that Regulatory Services were currently not included within the risk management process to allow for the shared service to be fully embedded.

The Executive Director Finance and Corporate Resources informed Members that a full review of risk management was being undertaken. Currently the focus had been on departmental risk registers and she thought that Audit Board Members should be provided with a higher level of review and that a more strategic corporate risk register should be developed to include the transformation process and shared services. Members were asked to note that as from April 2011 Regulatory Services would be included within the newly developed corporate risk register.

RESOLVED that the progress to date against all service area risk register actions for 1st April 2010 to 30th December 2010, Quarter 3, be noted.

51/10 **LOCAL GOVERNMENT ACT 1972**

RESOLVED that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraphs of that part, as set out below, and that it is in the public interest to do so:-

Minute No.	Paragraphs
52	3 and 7

52/10 **RECOMMENDATION TRACKER**

Members considered a report that presented a summary of progress to date against audit report "priority one" and key "priority two" findings and agreed actions.

The Audit Manager presented the report and referred to Appendices 1 and 2 of the report. The Audit Manager responded to the Chairman with regard to the lack of update information provided by management for any of the "priority one" and for 2 of the "priority two" findings.

Members agreed that as no update had been provided and no input had been received from management, the information presented had been virtually the same information presented during the December 2010 Audit Board meeting and therefore no further discussion was required.

RESOLVED:
(a) that the "priority one" and key "priority two" findings and agreed actions as set out in Appendices 1 and 2 to the report be noted; and
(b) that any necessary action and reporting process be agreed.

RECOMMENDED that the Portfolio Holder for Resources be requested to determine if the findings had been a "priority one" or "priority two" finding and managers be informed that it was imperative that they provided an update on all "priority one" and "priority two" findings to future meetings of the Audit Board.

The meeting closed at 4.44 p.m.

Chairman

This page is intentionally left blank

BROMSGROVE DISTRICT COUNCIL

Audit Board

Date 9th June 2011

Bribery Act 2010

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Teresa Kristunas
Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To provide the Audit Board with the information necessary to prepare the council to implement processes and procedures to ensure compliance with the Bribery Act 2010. This Act comes into force on 1st July 2011.

2. RECOMMENDATIONS

2.1 That the attached information is carefully considered so that the implications of the Bribery Act 2010 are included in future strategy within the Council. There is a 3 month implementation period from 31st March 2011 to 30th June 2010. The Act comes into force from 1st July 2011.

2.2 That the Audit Board recommends to Cabinet that procedures are put in place to avert any possible actions against the Council, in relation to Bribery actions and in relation to potential legal actions that could be taken against the Council for not having 'adequate' procedures in place.

3. BACKGROUND

3.1 The Act was originally intended to be implemented in October 2010, however was delayed to take into account a consultation exercise. In addition, it was held back to await the written guidance from the Ministry of Justice.

This guidance was issued on 30th March 2011, which means that the Act comes into force from 1st July 2011.

This gives a period of 3 months to enable organisations such as Local Authorities, to implement relevant procedures prior to the Act going "live". Organisations must continue to comply with sector-specific regulations and standards at all times.

The Act applies to individuals in the public service of the Crown as it applies to other individuals. Initiation of proceedings is limited to, or with the consent of, the Director of Public Prosecutions, the Director of the Serious Fraud Office and the Director of Revenue and Customs Prosecutions.

A bribe is a financial or other advantage that is offered or requested with the intention of inducing or rewarding the improper performance of a relevant function or activity, or with the knowledge or belief that the acceptance of such an advantage would constitute the improper performance of such a function or activity.

A relevant function or activity is:

- any function of a public nature
- any activity connected with a business
- any activity performed in the course of a person’s employment
- any activity performed by or on behalf of a body of persons,

where it meets one or more of the following conditions:

- a person performing it is expected to perform it in good faith
- is expected to perform it impartially
- or is in a position of trust by virtue of performing it.

- **Members can refer to Appendix A for the details of Act**

Additional risk area’s

1. Facilitation payments

Otherwise known as ‘grease’ payments. They are designed to make things happen but they don’t secure agreement. One suggestion at the briefing attended, was that Section 106 payments may fall into this category, but that was opinion only, with no legal basis. However it would need considered in order ensuring that these payments do not fall foul of the Bribery Act.

2. Gifts and hospitality

Genuine hospitality that is reasonable is acceptable. Where it is thought that gifts and/or hospitality was really a cover for bribing someone, the authorities would look at such things as the level of hospitality offered, the way in which it was provided and the level of influence the person receiving it had on the business decision in question. However, if it is reasonable and proportionate it should be accepted. It would however be a good idea to have a corporate wide register of gifts and hospitality that could be used as a reference point, both for the issues at hand here, but also for any other corporate internal enquiries that may be needed. It not only protects those officers/staff members who receive such gifts and/or hospitality, but also reinforces the corporate 'defence' argument, should it be challenged.

4. KEY ISSUES

4.1 The issues of Bribery need to be included in documentation held by the Council in relation to Senior Management, Members, Staff and any person associated with the Council that performs services either for or on behalf of the Council. This includes agency workers, contractors and suppliers.

Policies need to be updated to reflect this element, to include HR policies/procedures/contracts, the Corporate Anti-Fraud and Corruption Strategy, and Procurement documentation and contracts.

Commitment from Senior Management is necessary to ensure that the Council can conduct its business without bribery.

A single point of contact needs to be set up to review and monitor compliance with the Act. It is anticipated that this would sit with the S151 Officer, as fraud and corruption issues against the Council are part of the S151 responsibilities under the Local Government Act 1972.

Training would need to be considered to ensure that new employees are aware of the stance in addition to Managers are aware of the zero tolerance. General awareness can be circulated via the Quarterly Corporate Fraud Newsletter.

Risk assessments would need to be undertaken at a corporate level to highlight the proposed level of risk. However, if all of the above was achieved it would be reasonable to assume that the level of risk would be low.

5. FINANCIAL IMPLICATIONS

5.1 It would not be expensive to ensure compliance with the Act. However the issue of training may well incur some expense, certainly in Officers time as a minimum.

6. LEGAL IMPLICATIONS

6.1 The Bribery Act 2010 comes into force from 1 July 2011. Organisations are being given a 3 month period to prepare for the Act's implementation. Guidance has been received from the Ministry of Justice in relation to what organisations must consider. Local Authorities are not exempt from it, as they are 'formed' within the UK and conduct business.

7. POLICY IMPLICATIONS

7.1 Policies will need updating, alongside procedures. These policies will need approval from SMT as a minimum, confirming a zero tolerance. However Members should also be aware of the implications. It would therefore be advisable to ensure that Members do have sight of updated policies so that they can satisfy themselves that the Council is doing everything it can to ensure that the risk of Bribery is minimised.

8. COUNCIL OBJECTIVES

8.1 Improvement

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

Risk assessments would need to be undertaken on a corporate level to highlight the proposed level of risk. However, if all of the above was achieved it would be reasonable to assume that the level of risk would be low.

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

- Disbarment from contracts
- Loss of reputation
- Negative publicity
- Loss of contract specifications/the wrong people doing the jobs under contract

9.2 These risks will need to be managed via the Corporate Risk

10. CUSTOMER IMPLICATIONS

10.1 Suppliers and Contractors will need to be made aware of the zero tolerance approach in order to minimise and reduce the threat of Bribery whilst undertaking business with the Council. This can be catered for by including information in Procurement documents and contracts.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 This will not have any equality and diversity implications – it will be a process that the Council will need to put in place in order to comply with the Bribery Act 2010.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 Reduction and/or minimisation in possible bribery being undertaken by suppliers and contractors who have business with the Council, against the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 n/a.

14. HUMAN RESOURCES IMPLICATIONS

14.1 HR Policies and procedures will need to be updated to ensure that all staff are aware of the zero tolerance stance being taken by the Council, in relation to any activity involving Bribery.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 By implementing the above, governance of the council will be protected and we will be able to show that we are serious about preventing bribery both within and against the organisation. If challenged, we can then successfully defend ourselves.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 n/a

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 n/a

18. LESSONS LEARNT

18.1 n/a

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 n/a

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	NO
Chief Executive	NO
Executive Director (S151 Officer)	YES
Executive Director – Leisure, Cultural, Environmental and Community Services	NO
Executive Director – Planning & Regeneration, Regulatory and Housing Services	NO
Director of Policy, Performance and Partnerships	NO
Head of Service	YES
Head of Resources	YES
Head of Legal, Equalities & Democratic Services	NO
Corporate Procurement Team	NO

21. WARDS AFFECTED

All wards

22. APPENDICES

Appendix A – Details of the Act

23. BACKGROUND PAPERS

Bribery Act 2010 Guidance
Bribery Act 2010 Quick Start Guide – both available from Ministry of Justice

24. KEY

n/a

AUTHOR OF REPORT

Name: Marie Wall
E Mail: m.wall@bromsgrove.gov.uk
Tel: 01527 881240

Appendix A

Section 1 of the Bribery Act 2010

Bribing another person:

- offer, promise or gift a financial or other advantage to another person either
- intending to induce, or reward, a persons improper performance of a relevant function or activity or
- knowing or believing acceptance of the advantage itself constitutes improper performance

Such bribes could be in money, payment in kind, goods or services.

Section 2 of the Bribery Act 2010

Being Bribed

- requests, agreements to receive or acceptance of financial or other advantage;
- intending in consequence that a relevant function or activity should be performed improperly,
- itself constitutes improper performance,
- rewards improper performance

This section relates to individual officers and could lead to prosecution of Senior Management Officers under Section 7.

Section 6 of the Bribery Act 2010

Bribery of Foreign Public Officials

- Offering, promising or giving a financial or other advantage, either directly or indirectly, intending to obtain or regain business or an advantage in the conduct of business.
- “Business” includes trade or profession.

Section 7 of the Bribery Act 2010

Failure of a commercial organisation to prevent bribery

- if a person associated with an organisation bribes another person to obtain or retain business, or a business advantage for the organisation
- the organisation may not have actual knowledge or day-to-day control over actions and could therefore unknowingly commit an offence
- there is a defence, if the organisation can prove that it had in place "adequate procedures" to prevent persons associated with it from committing such acts.

A relevant commercial organisation is defined as a "body or partnership incorporated or formed in the UK irrespective of where it carries on a business, or an incorporated body or partnership which carries on a business or part of a business in the UK…..". The key concept is that of an organisation which 'carries on a business'……the courts will be the final arbiter as to whether an organisation 'carries on a business', but current legal indicators suggest that Local Authorities are included in this definition as being a body formed in the UK. Government expects that by applying a common sense approach, it does not matter if the organisation pursues primarily charitable or educational aims or purely public functions.

A person **associated** with a commercial organisation is defined as a person who 'performs services' for or on behalf of the organisation. This person can be an individual or an incorporated or unincorporated body. This includes agency workers, contractors and suppliers. Suppliers who can be said to be performing services for a commercial organisation rather than simply acting as a seller of goods, may therefore be classed as an 'associated' person.

Defence

It is a defence if the organisation can show that it has adequate bribery prevention procedures in place. This should be informed by six general principles.

These principles are flexible and outcome focussed, to allow each organisation to tailor its policies and procedures so that they are proportionate to the nature, scale and complexity of its activities. The outcome should always be robust and effective anti-bribery procedures

The Six Principles

1. Proportionality

The action you take should be proportionate to the risks you face and to the size of your business. We should be regularly and comprehensively assessing the nature and extent of risks relating to bribery to which the Council may be exposed.

2. Top Level Commitment

Those at the top of the organisation are in the best position to ensure that the organisation conducts its business without bribery. A culture should be established in which bribery is never acceptable. Steps should be taken to ensure that the organisations policy and procedures is clearly communicated to all levels of management, the workforce and any relevant external factors. Such examples, would be a leadership statement, training and inclusion of expectations on procurement documentation and contracts.

3. Risk Assessment

It may be that if the risk is deemed small, and therefore little risk of bribery being committed on behalf of the organisation, then procedures adopted should be proportionate to that risk. Examples would include, basic induction training, fraud newsletters, procurement controls with suppliers and contractors. There may not be a need for a full comprehensive policy, instead it could be included within other corporate policies, such as the Anti-Fraud and Corruption Strategy.

4. Due Diligence

Knowing exactly who you deal with can help to protect your organisation from taking on people who might be less that trustworthy. You may therefore wish to ask questions and do a few checks before engaging others to represent you in business dealings. Due diligence covers all parties to a business relationship, including the organisation, supply chain, agents and intermediaries, all forms of joint venture and similar relationships.

5. Communication

Communicating policies and procedures to staff and to others who will perform services for you to enhance awareness and help deter bribery by making clear the basis on which the organisation does business. Training and general raising of awareness is a must on this. Ensuring that the procurement team are fully aware of implications also, in addition to including clauses within HR documents/policies and contracts. In addition to this, there would need to be a written procedure on how to investigate such occurrences.

6. Monitoring and Review.

To institute monitoring and review mechanisms to ensure compliance with relevant policies, procedures and identify any issues as they arise, and to subsequently implement improvements as appropriate. Consideration needs to be given to who will be responsible for ensuring that all procedures and processes are kept up to date, for ensuring that training and cascading of information is undertaken.

Penalties

An individual guilty of an offence under section 1, 2, or 6 is liable:

- on summary conviction, to imprisonment for a term not exceeding 12 months, or to a fine not exceeding the statutory maximum (£5000), or to both
- on conviction on indictment, to imprisonment for a term not exceeding 10 years, or to a fine, or both.

A person guilty of an offence under section 7 is liable on conviction on indictment to a fine.

Protection in Real Terms

Defence can be considered ‘adequate’ if the following was in place:

- Risk Awareness and preparation
- Communication and Senior Management buy-in
- ‘Zero tolerance’, process v culture
- Education and training
- Audit Trail and integration with counter fraud processes

Consequences

- disbarment from contract tenders
- adverse publicity (everyone is under the microscope)
- reputational risks
- the wrong people undertaking contracts etc, with potential loss of specification and work not being up to standard

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

9th June 2011

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) UPDATE AND DRAFT ACCOUNTING STANDARDS

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Executive Director (Finance and Corporate Resources)
Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To update Members on the progress of implementing the new International Financial Reporting Standards (IFRS) and to approve the proposed draft Accounting Standards in preparation for the 2010/11 Accounts.

2. RECOMMENDATIONS

2.1 That Cabinet notes the current position with regard to the implementation of IFRS.

2.2 That Cabinet approve the Accounting Policies, detailed at Appendix 1.

3. BACKGROUND

3.1 IFRS are the accounting standards, interpretation and framework adopted by the International Accounting Standards Board. All listed companies within Europe have been required to comply with the IFRS accounting requirements since 2005. They were introduced to ensure consistency between measurement and presentation in financial statements across global markets.

3.2 The UK Government are now seeking to harmonise public sector reporting with best practice in the private sector and improve the consistency and comparability of financial reporting. Government bodies, Central Government and NHS bodies were required to adopt IFRS for the year ended 31st March 2010.

3.3 Local authorities are required to produce IFRS compliant accounts for the financial year ending 31st march 2011. This will include a restatement of the accounts for 2009/10 comparative figures.

4. KEY ISSUES

4.1 Officers have looked at the different areas of change, the table below shows these:

Significant Differences	Some Differences	No Significant Differences
Fixed Assets	Related Party Disclosures	Stocks
Leases	Impairments	Provisions
Employee Benefits	Intangible Assets	Financial Instruments
Accounting for Government Grants	Investment Properties	
Format of Statement of Accounts	Disclosures (General)	
	Definition of Cash	

4.2 Officers have completed the following work; restatement of the 2008/09 balance sheet and the 2009/10 accounting statements. This has included a review of all Asset Categories and the production of a new Asset Register on the IFRS basis.

4.3 A revision of the definition of cash to include cash equivalents has also been undertaken; this now includes investments up to 3 months.

4.4 One of the main changes that has now been completed is in relation to grants and their treatment. Grant income will now show in the year received and will no longer be 'matched' against expenditure. Any grants which are not fully spent in the year received will need to be moved to an earmarked reserve and the expenditure funded by a transfer from the reserve.

4.5 This could result in larger movements in revenue budgets, where income may show in one year and expenditure in the following year, the impact of this is that service costs between years will vary.

4.6 Accruals for employee benefits (holidays) have been calculated for the past 2 years, this has been calculated on a sample basis and will then be applied to all service areas.

4.7 Preparation of the 2010/11 Accounts needs to be completed including review of all notes.

4.8 Changes to accounting statements:

The accounting statements will be presented differently, the new statements and their old equivalents are detailed below.

Old	New
Statement of Movement in GF Balances	Movement in Reserves Statement
Income and Expenditure Account & Statement of Recognised Gains and Losses	Comprehensive Income and Expenditure Account
Balance Sheet	Balance Sheet
Cash Flow Statement	Cash Flow Statement
Notes to the Accounts	Notes to the Accounts

5. FINANCIAL IMPLICATIONS

5.1 None outside existing budgets.

6. LEGAL IMPLICATIONS

6.1 The Council has a statutory requirement to produce a Statement of Accounts each financial year (Accounts and Audit Regulations 2003).

6.2 Approval of the Accounting Policies on which the bases of the Accounts are prepared is required.

7. POLICY IMPLICATIONS

7.1 None

8. COUNCIL OBJECTIVES

8.1 Compliance with the accounting standards supports the improvement objective across the Council.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 None.

10. CUSTOMER IMPLICATIONS

10.1 None Performance Improvement is a Council Objective

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 None

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 None

14. HUMAN RESOURCES IMPLICATIONS

14.1 None

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Sound performance management and data quality are key to achieving improved scores in the Use of resources judgement. This performance report supports that aim.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 Not applicable

18. LESSONS LEARNT

18.1 Not applicable

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No

Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Service	Yes
Head of Resources	Yes
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards

22. APPENDICES

Appendix 1 Draft Accounting Policies

23. BACKGROUND PAPERS

None

24. KEY

PI - Performance Indicator
NI - National Indicator (a PI defined by government and used by all Councils)
LPI - Local Performance Indicator – (a PI defined by Bromsgrove, District Council to measure performance on local priorities)
CAA - Corporate Area Assessment – the methodology used by the Audit Commission to judge the performance of Councils and partners

AUTHOR OF REPORT

Name: Deborah Randall – Accountancy Services Manager
E Mail: d.randall@bromsgrove.gov.uk
Tel: (01527) 881235

This page is intentionally left blank

STATEMENT OF ACCOUNTING POLICIES

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Bromsgrove District Council's accounts.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the accounts to be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance.

These are the first set of accounts prepared under the Code, based on International Financial Reporting Standards. Comparative figures for the year ended 31 March 2010 have been restated to comply with the Code and the balance sheet as at 1 April 2009 has also been restated on this basis for the purposes of transition. The policies set out below have been applied consistently to all periods presented within these financial statements.

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.

2. Significant Changes in Accounting Policies

As a result of the transition to IFRS the following accounting policies have been changed:

- Property plant and equipment
- Intangible assets
- Impairment testing of intangible assets and property, plant and equipment
- Non-current assets and liabilities classified as held for sale and discontinued operations
- Grants and contributions
- Donated Assets
- Leasing

3. Accruals of Income and Expenditure

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

- Fees for the provision of goods and services due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- 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 on 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.

4. 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 investments that are short-term highly liquid investments held at the Balance Sheet date that are readily convertible to known amounts of cash on the Balance Sheet date and which are subject to an insignificant risk of changes 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 Council's cash management.

5. Exceptional Items

Exceptional items are ones that are material in terms of the Council's overall expenditure and are not expected to recur frequently or regularly. Exceptional items are included in the cost of the service to which they relate (or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts). A full explanation of each exceptional item is given in the Notes to the Core Financial Statements.

6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the Council's financial position or performance. Changes are applied retrospectively (unless stated otherwise) with an additional balance sheet presented at the beginning of the earliest comparative period.

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

7. 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 losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the 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.

8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled 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. An accrual is made for the cost of holiday entitlement, flexitime and time off in lieu not taken by employees before the year-end. 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 entitlements are charged to revenue in the financial year in which the absence occurs. These are measured at the undiscounted amount that the Council expects to pay as a result of the unused entitlement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, appropriations are required to and from the Pensions 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 Council are members of the Local Government Pensions Scheme, administered by Worcestershire County Council.

The Scheme provides defined benefits to members (retirement lump sum and pensions), earned as employees working for the Council.

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

- The liabilities of the Worcestershire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of x% (based on the indicative rate of return on high quality corporate bond x)

- The assets of Worcestershire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value.

- The change in the net pensions liabilities is analysed in seven components:-

  i) 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.

  ii) Past service cost – the increase in liabilities arising from current year decisions 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.

  iii) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  iv) Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  v) Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits or employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  vi) 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 – debited to the Pensions Reserve.

  vii) Contributions paid to the Worcestershire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance, this means there are appropriations to and from the Pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

An independent actuary, based on triennial valuations, determines the employers' contributions. The review carried out as at 31 March 2010 was implemented with effect from 1 April 2011 and may revise the contribution rates payable by the Council in future years.

There is no impact on the revenue account of the authority as a result of the application of IAS19 requirements as the effects are statutorily removed in the Statement of Movement in the General Fund Balance when calculating amounts chargeable to Council Tax payers. The resulting pension costs charged to the Council's accounts in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

Further information can be found in Worcestershire County Council's Superannuation Fund Annual Report, available on request from:

Mr. M. Weaver CPFA
Director of Financial Services,
Worcestershire County Council
County Hall, Spetchley Road,
Worcester WR5 2NP

9. Financial Instruments Review

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition
Financial assets and liabilities are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of the instrument.

De-recognition
All financial assets are de-recognised when the rights to receive cashflows from the assets have expired or the trust has transferred substantially all of the risks and rewards of ownership.
Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Classification and measurement
For the purpose of subsequent measurement, financial assets and liabilities other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through income and expenditure;
- held to maturity investments; and
- available-for-sale financial assets.
- Other financial liabilities

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets.
The Council's loans and receivables comprise: Fixed deposits, principally comprising funds held with banks and other financial institutions, cash and cash equivalents, trade receivables, accrued income, 'other debtors', borrowings and trade payables.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are
measured subsequently at amortised cost, using the effective interest method, less provision for impairment.

Financial assets at fair value through profit or loss
Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short term.

Derivatives are also categorised as held for trading unless they are designated as hedges.
Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated out from those contracts and measured in this category. Assets and liabilities in this category are classified as current assets and current liabilities.

The Council's financial assets and liabilities at fair value through income and expenditure comprise: Investments managed as a single portfolio by an appointed fund manager

These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in the comprehensive income and expenditure statement.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. The Council currently no assets designated into this category.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Council currently no assets designated into this category.

Other financial liabilities
All other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method.

The Council's other financial liabilities comprise: borrowings and trade payables are classified as amortised cost. The comprehensive income and expenditure statement is charged with interest receivable/payable, impairment losses and any gain or loss on disposal/maturity.

10. Grants and Contributions

Grants and contributions are recognised when there is reasonable assurance that the council will comply with the conditions attached to them and the grants or contributions will be received. Grants and contributions are accounted for on an accruals basis and are recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition that the council has not satisfied.

Revenue Grants and contributions are accounted for as follows:-

- Revenue grants received with no conditions outstanding are credited to the Comprehensive Income and Expenditure account. As the expenditure to be financed by that grant has not been incurred the grant or contribution is transferred to Earmarked Reserves reflecting its status as a revenue resource available to finance expenditure.
- Revenue grants and contributions received where conditions remain outstanding are recognised as part of the Revenue Grants Receipts in Advance on the balance sheet. Once the condition is met, the grant or contribution will be treated as a revenue grant received with no conditions as above.

Capital grants and contributions are accounted for as follows:-

- Capital grants and contributions received where expenditure has been incurred, where there are no conditions outstanding, are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement.
- Capital grants and contributions received where expenditure has not yet been incurred, where there are no conditions outstanding, are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement. As the expenditure to be financed by that grant has not been incurred the grant or contribution is transferred to the Capital Receipts Reserve reflecting its status as a capital resource available to finance expenditure.
- Capital grants and contributions received where conditions remain outstanding are recognised as part of the Capital Grants Receipts in Advance on the balance sheet. Once the condition is met, the grant or contribution will be treated as a capital grant received with no conditions as above.
- 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 Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. Intangible Assets

Intangible Assets represent expenditure that has been properly capitalised but which does not create a tangible asset for the Council. Intangible assets include acquired and internally developed software used in the services provided or administration that qualify for recognition as an intangible asset. They are accounted for using the cost model whereby capitalised costs are amortised over a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and estimated useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note **** . There is a corresponding transfer from the Capital Adjustment Account to neutralise the effect of the amortisation charges on the General Fund Balance. The useful life applied to this classification of assets is 3 – 7 years.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Costs associated with maintaining computer software, ie expenditure relating to patches and other minor updates as well as their installation are expensed as incurred.

Expenditure on research (or the research stage of an internal project) is recognised as an expense in the period in which it is incurred.

Costs that are attributable to the development phase of new customised software for IT and telecommunication systems are recognised as intangible assets provided they meet the following recognition requirements:-

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the council intends to complete the intangible asset and use or sell it;
- the council has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, it is to be used internally,
- the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee (other than directors) costs incurred on software development along with an appropriate portion of relevant overheads. Internally generated software developments recognised as intangible assets are subject to the same subsequent measurement method as externally acquired software licences. However, until completion of the development project, the assets are subject to impairment testing only as described below in note *****

12. 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 lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be fair value as at the date of acquisition or;
- The lower of costs and current replacement cost where they are held for distribution at no charge or for a nominal charge, or the consumption in

the production process of goods top be distributed at no charge or for a nominal charge.

The council's inventories comprise items for Central Depot Stores, Vending Machine Stock, Pest Control Stock and the Postal Franking Machine.

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

13. Investment Property

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in the delivery of services, the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Comprehensive Income and Expenditure Statement to the Financing and Investment Income and Expenditure line. The same treatment is applied to gains and losses on disposals. Revaluation gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance in the Movement in Reserves Statement and are posted to the Capital Adjustment Account and, for sale proceeds greater than £10,000 the Capital Receipts Reserve.

Rentals received for investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

14. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

The Council is responsible for hosting Worcestershire Regulatory Services under a contractual arrangement which is defined as a Jointly Controlled Operation. Under this arrangement, each participant accounts separately for its own transactions arising within the agreement including the assets, liabilities, income expenditure and cash flows. As host to the Regulatory Shared Service, the

Council accounts for the expenditure incurred for Redditch Borough Council, Wyre Forest District Council, Worcester City Council, Wychavon District Council, Malvern Hills District Council and Worcestershire County Council, its partners in the arrangement. However assets and liabilities of the pension scheme are the joint responsibility of the partnership. These have been accounted for in the full accounts of the Council as host and the notes to the Pension Scheme give details of the amounts attributable to the partners as defined in the partnership agreement.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only is share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

15. Shared Services

The Council has entered into shared services with various other local Councils for the provision of services to ensure economical and efficient service provision. This arrangement is agreed by each of the partner Councils. Under the arrangement each Council accounts separately for its own transactions arising within the agreement including the assets, liabilities, income, expenditure and cash flows. The host for the shared service accounts for the income and expenditure incurred, including income from each of the partners to the arrangement.

16. Leasing

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

The council 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 Council 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 a 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).

<u>Operating leases</u>

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as a cost to the services benefiting from the use of the lease property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

The council as lessor

<u>Finance leases</u>

Where the Council grants a finance lease over a property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and the carrying amount is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor
- finance income (credited to the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement, or the write off of the value of disposals, is not to be adjusted against council tax. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund in the Movement in Reserves Statement.

Operating leases

Where the Council grants an operating lease over property, 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.

17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

18. Property, Plant and Equipment

Recognition

Property, plant and equipment shall be recognised as an asset on the councils balance sheet if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the council,
- The cost of the item can be measured reliably,
- The item has a cost of at least £10,000; or
- Collectively, a number of items have a cost of at least £10,000, where the assets are functionally independent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.

Where a large asset, for example a building, includes a number of components with significantly different asset lives, e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

Measurement
All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

Following initial recognition assets shall be valued as follows:-

- Infrastructure, community assets and assets under construction shall be measured at historical cost.
- All other classes of assets are measured at fair value using a valuation method appropriate for the asset in accordance with IAS 16 and the 2010 SORP.

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

- Operational land and buildings, other than low cost housing and rent to mortgage properties (see below), are included at existing use value in accordance with the 2010 SORP.
- Low cost housing and rent to mortgage properties are included at market value.
- Infrastructure assets such as environmental improvements (eg footbridges, highways furniture and bus shelters) are included at depreciated historical cost.
- Vehicles, Plant and Equipment, other than park equipment and play areas (see below), are included at fair value. The council has adopted a historical cost basis as a proxy for fair value as the assets have short useful lives or low values or both.
- Specialised operational assets such as the skateboard park and equipment in play areas and parks where there is no established market value, have been valued on a depreciated replacement cost basis.
- Community assets, such as Parks and Recreation Grounds, are included at depreciated historical costs
- Investment Properties, which are assets that are not directly used in the delivery of a service and are held for investment potential with any rental income being negotiated at arms length, such as Industrial Properties, are included at market value.
- Assets under Construction are new capital works that will result in the creation of a new asset but will involve expenditure over several years are carried on the Balance Sheet at cost and classified as non-operational until they are finished and brought into operational use.

A programme of valuations, to be carried out by the County Council's Valuation Officer (under an SLA), is in place to ensure all appropriate fixed assets are revalued every 5 years. The County Council's Valuation Officer has been asked to review the impact of the current economic climate on the Council's fixed assets and has confirmed that there is no material impact on their value in the financial year.

Depreciation

Depreciation is charged on all assets used in the provision of services. It represents the use of capital assets by that service. It is calculated on a straight line basis by writing off the cost or revalued amount for assets, less the residual value for each asset, over the useful life of each asset.

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life (except for investment properties), by allocating the value of the assets in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is charged on the asset values at the beginning of the financial year. All assets have now been revalued within the last four years. No depreciation is charged on assets in the year of acquisition or enhancement. No charge is made for non operational assets.

The useful life of assets is based on individual assets but generally is based on:

	Estimated useful life
Other Land and Buildings	5-50 years
Vehicles, Plant and Equipment	2-15 years
Infrastructure	5-20 years

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received in excess of £10,000 are categorised as capital receipts. A proportion of 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 is credited to the Capital Receipts Reserve, and can then only be used for new investment or set aside to reduce the Council'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.

As the cost of fixed assets is fully provided for under separate arrangements for capital financing, the written-off value of disposals is not a charge against Council Tax; amounts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement for the written off value of disposals.

Componentisation
Where an item of PPE has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £1 million for determining whether an asset needs to be componentised and a component value of more than 20% of the total asset value to determine if part of an asset is considered as a component.

Residual values
Where assets are held past their estimated useful life their residual values are usually immaterial or below the £10,000 de minimus level for inclusion on the balance sheet. Where an asset has reached the end of its estimated life and is still used, its value is reviewed to confirm that its value is immaterial. This is done annually at the end of the accounting year.

De minimus capital expenditure
Purchases of assets or enhancement work with a value of £10,000 or lower are not recorded in the asset register. De minimus assets financed from capital resources are written off to the service in the year that expenditure is incurred. Credits are made from the Capital Adjustment Account to ensure the written down assets do not have an impact on Council Tax.

19. Impairment testing of intangible assets and property, plant and equipment

At each reporting period end, the Authority checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount.

If there has been an impairment loss, the asset is written down to its recoverable amount, with the loss charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

20. Non-current assets and liabilities classified as held for sale and discontinued operations

Assets intended for disposal are reclassified as ‘held for sale’ once all of the following criteria are met:

- The asset (or disposal group) is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales, and
- The sale is highly probable and sale should be expected to be completed with 12 months of the date of classification as ‘held for sale’, and
- The asset (or disposal group) must be actively marketed for a sale price that is reasonable in relation to its fair value.

When these conditions have been met, the asset or disposal group is classified as ‘held for sale’ and presented separately in the statement of financial position.

Liabilities are classified as ‘held for sale’ and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as ‘held for sale’ and their fair value less costs to sell. No assets classified as ‘held for sale’ are subject to depreciation or amortisation, subsequent to their classification as ‘held for sale’.

21. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council 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 Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. Contingent liabilities also arise in the 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 Council 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 Council.

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 outflow of economic benefits or service potential.

22. Reserves

The Council 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 the 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, employee and retirement benefits and do not represent usable resources for the Council.

23. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue expenditure funded from capital under statute incurred during the year have been written off as expenditure to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where the Council has determined to meet the cost of the Revenue expenditure funded from capital under statute from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

24. VAT

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

25. Accounting for Council Tax

As a billing authority, the Council acts as an agent, collecting and distributing Council Tax income on behalf of its major preceptors – Worcestershire County Council, West Mercia Police Authority, Hereford and Worcester Fire and Rescue Authority and itself.

Council Tax income for the year is the Council's accrued income for the year and not the amount required by legislation to be transferred from the Collection Fund. The difference between the amount included in the Income and Expenditure account 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 Statement of Movement on the General Fund.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and major preceptors. This results in a debtor/creditor position between the Council and major preceptors for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and associated impairment for bad debts, Council Tax overpayments and prepayments and the debtor/creditor position with the precepting bodies.

26. Accounting for National Non-Domestic Rates (NNDR)

The Council acts as an agent in the collection of National Non-Domestic Rates on behalf of Central Government. The cost of collection allowance is included as income within the Council's Income and Expenditure Account.

The Council does not include NNDR debtors in the Balance Sheet but instead shows a creditor or debtor for cash collected from NNDR debtors as agent of the Government but not paid to the Government or overpaid to the Government, at the Balance Sheet date.

This page is intentionally left blank

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 9th June 2011

THE ACTING WORCESTERSHIRE INTERNAL AUDIT MANAGER'S DRAFT 2010/11 AUDIT OPINION FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT.

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Executive Director (Finance & Corporate Resources)
~~Key Decision~~ / Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To present:

- A draft of the 2010/11 Acting Worcestershire Internal Audit Shared Services Manager's Opinion.

2. RECOMMENDATION

2.1 That the Audit Board notes:

- the Internal Audit Opinion for inclusion in the Annual Governance Statement as detailed in Appendix 1.

3. BACKGROUND

3.1 To provide Members with a copy of the proposed Acting Worcestershire Internal Audit Services Manager's opinion, which is to be included as part of the Annual Governance Statement and included with the Statement of Accounts for 2010/11.

3.2 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. Under the Local Government Act 1999 the Council also has a duty to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council also has a responsibility for ensuring a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.

3.3 The Audit Board has a responsibility to consider the effectiveness of the Council's internal control environment.

3.4 A key element of the Council's Annual Review and Statement of Accounts is the formal Annual Governance Statement, which is certified by the Chief Executive and the Leader of the Council.

4. KEY ISSUES

4.1 An element of the overall statement is the Acting Worcestershire Internal Audit Shared Services Manager's opinion a draft of which is contained at Appendix 1.

5. FINANCIAL IMPLICATIONS

5.1 None as a direct result of this report.

6. LEGAL IMPLICATIONS

6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

7. POLICY IMPLICATIONS

7.1 None as a direct result of this report.

8. COUNCIL OBJECTIVES

8.1 Compliance with the accounting standards supports the improvement objective across the Council.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

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

- Non-compliance with statutory requirements.

10. CUSTOMER IMPLICATIONS

10.1 None as a direct result of this report.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 A robust internal control environment ensures that Value for Money is delivered in the service provision across the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 None as a direct result of this report.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None as a direct result of this report.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective overall governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None as a direct result of this report.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None as a direct result of this report.

18. LESSONS LEARNT

18.1 Nothing to report for this Board.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards.

22. APPENDICES

Appendix 1 ~ Acting Worcestershire Internal Audit Shared Services Managers' Opinion

23. BACKGROUND PAPERS

None.

AUTHOR OF REPORT

Name: Andy Bromage
Acting Service Manager ~ Worcestershire Internal Audit Shared Service
E Mail: andy.bromage@worcester.gov.uk
Tel: 01905 722051

APPENDIX 1

Acting Worcestershire Internal Audit Shared Services Manager's Opinion on the Effectiveness of the System of Internal Control at Bromsgrove District Council (the Council) for the Year Ended 31st March 2011

1. Audit Opinion

1.1 The internal audit of Bromsgrove District Council's systems and operations during 2010/11 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit Board on 15th March 2010 with a revised version being approved by the Audit Board on 27th September 2010 and a further revision being approved on the 13th December 2010.

1.2 From the 1st April 2010 the Internal Audit function did not meet the planned targets. This was due to additional demands of the WETT programme (for example, attendance at Worcestershire Internal Audit Shared Service management meetings), additional resource included in the WETT business case which was not provided until September 2010 and fundamental activities such as follow up checks and professional training block release were omitted from the original plan. An increased number of days was also required for Risk Management to provide support for new members of the Senior Management Team.

1.3 The Worcestershire Internal Audit Shared Service came into effect on 1st June 2010 and an interim review with the Section 151 Officer took into consideration the above factors and, based on risk, a revised plan was compiled to reflect the requirements for the remainder of the year.

During October 2010 a part time manager was appointed to support the existing team and a further revision of the plan took place to reflect the reclassification of the direct audit management time.

1.4 Based on the audits performed in accordance with the approved revised plan, the Acting Worcestershire Internal Audit Shared Services Manager has concluded that the internal control arrangements during 2010/11 effectively managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate objectives have been met.

1.5 It should be noted that as part of the risk based approach to the testing of core financial systems which has been agreed with External Audit no work was performed on Budgetary Control & Strategy, Cash, General Ledger & Bank Reconciliations and Asset Management during 2010/11 as these systems were assessed as low risk to the Council.

1.6 In relation to the eight reviews that have been undertaken, five audits have been completed and three are to be completed and finalised. A further audit in relation to Regulatory Services was performed at the request of the WETT partners.

1.7 All of the completed audits have been allocated an opinion of either ‘Full’ or ‘Significant’ Assurance meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified during a time of significant transformation and change.

Andy Bromage
Acting Worcestershire Internal Audit Shared Services Manager
May 2011

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 9th June 2011

2010/11 INTERNAL AUDIT PERFORMANCE AND WORKLOAD

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Executive Director (Finance & Corporate Resources)
~~Key Decision~~ / Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To present the Internal Audit Out-turn statement for the period 1st April 2010 to 31st March 2011.

2. RECOMMENDATION

2.1 That the report be noted.

3. BACKGROUND

3.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

3.2 To aid compliance with the regulation, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 details that "Internal Audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective and efficient use of audit resources".

3.3 A revised three year plan was approved by the Audit Board at its meeting of 28th September 2009. The purpose of the three year plan is to ensure that all of the Council's key systems are audited at least once every three years, thus providing assurance that the Council's systems are operating as intended.

3.4 The annual plan for 2010/11 was the second year of the three year plan. In accordance with best practice, each year the three year plan should be subject to review to ensure that identified changes, for example, external influences, risk score and process re-engineering, are taken into consideration within the current year's annual plan.

3.5 The purpose of the 2010/11 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:

- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes.
- Audit plan delivery was monitored on a weekly basis, appropriate action taken and performance reports issued on a regular basis.
- The key financial systems are reviewed annually, enabling the Authority's external auditors to place reliance on the work completed by Internal Audit.
- An opinion can be formed on the adequacy of the Authority's system of internal control, which feeds into the Annual Governance Statement in the statement of accounts.

3.6 The WETT Internal Audit Shared Service came into effect on 1st June 2010. Accordingly, the plan for 2010/11 was compiled in accordance with the WETT Business Case and a number of proposed amendments were approved by the Audit Board on the 27th September 2010 with further amendments on the 13th December 2010. The Internal Audit Shared Service is introducing for all its member authorities a risk based assessment that will assist in the compilation of future internal audit plans.

3.7 Following the Audit Board meeting on the 25th April 2006, a number of standard agenda items and topics were agreed. This report includes information on the following areas:

- Audit Plan – Current Status.
- Audit Work Completed since the previous Audit Board meeting.
- Performance Indicator statistics.
- New or updated audit documents.

4. KEY ISSUES

4.1 There are four performance indicators for Internal Audit:

- Actual time compared with planned time,
- Percentage of productive time,
- Number of jobs planned for the year actually finished,
- Number of customer surveys returned that scored the service as 'good'.

The first two performance indicators are monitored and reported quarterly and the latter two indicators are measured and reported annually.

4.2 For the performance indicators that are reported annually, the following is a list of audits from the revised 2010/11 Annual Plan that were planned and have been finished:

- Debtors;
- Creditors;
- Treasury Management;
- Non Domestic Rates;
- Council Tax;
- Regulatory Services; and
- Benefits.

There were two further audits included in the revised plan that are awaiting completion and finalisation. These are:

- Waste Collection; and
- Joint audit with Redditch Borough Council on Corporate Governance for the Shared Service.

For all the completed audits a customer survey has been issued to the relevant manager; however, only one questionnaire has been completed and returned. Accordingly, we are unable to provide an unbiased report on the number of customer surveys returned that scored the service as ‘good’.

In 2011/12 the Internal Audit Shared Service is introducing a new Client Satisfaction Survey where the client will be given a deadline by which they will need to complete and return the survey. Surveys not returned will be rigorously followed-up.

4.3 The table below details planned time compared with actual time recorded from 1 April 2010 to 31st March 2011.

	Revised Plan (days)	Actual (days) (rounded)	% used	Comments
Chargeable Days (operational) days:				
Completion of 09/10 audit work	44	43	97%	Completion of 2009/2010 audit work in Q1
Audit reviews	169	97	57%	Includes all reviews; fundamentals, corporate.
Risk Management	80	80	100%	Risk Management
Follow up checks (Agreed Action Tracker process)	20	23	115%	
Consultancy	14	13	93%	
External Audit	2	1	50%	
Audit reviews contingency	5	1	20%	
Management	84	134	160%	WETT, Mngt Staff Forums & Team Mtgs, WIASS support
Sub-totals	**418**	**392**	**94%**	(Actual / Plan Days)
Non-Chargeable (non-operational) days:				
Non-operational contingency	0	0	0%	
Management & Administration	30	43	147%	Appraisals, Corporate Initiatives, Audit Group Mtgs, System issues, Administration & Audit Timesheets, WIASS support
Leave/approved absences	82	70	85%	General seminars & training
Professional Training	30	30	100%	
Sub-totals	**142**	**143**	**101%**	(Actual / Plan Days)
Total	**560**	**535**	**96%**	(Actual / Plan Days)

	Planned	Actual	Comments
Percentage of operational days: (benchmark 65%)	75%	73%	

Performance against the two key performance indicators against which we report quarterly; actual time compared with planned time and the percentage of productive time was less than expected; however, the benchmark figure was exceeded.

The variances to expectation as indicated above show only 57% of time on audit reviews and the management budget at 160%. The reasons for the variances include:

- Significant study leave which was not accounted for in the original 2010/11 plan;
- The Worcestershire Internal Audit Shared Service restructuring programme which significantly impacted the ongoing audit plan delivery;
- Reallocation of a Bromsgrove District Council Internal Auditor for five weeks; and
- Significant time was placed in the 'management' budget for coaching, supervision, review of audit work and other operational activity rather than being raised against the 'Audit Review' budget.

Accordingly, the time allocation budgets as shown above need to be considered together as a whole rather than isolated individual budgets.

New or updated Audit documents

4.4 There are no new or updated Internal Audit documents to report, however, there is ongoing business transformation which will culminate in revised audit documentation.

Recommendations Tracker

4.5 This is a separate report.

5. FINANCIAL IMPLICATIONS

5.1 None.

6. LEGAL IMPLICATIONS

6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

7. POLICY IMPLICATIONS

7.1 None.

8. COUNCIL OBJECTIVES

8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

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

- Non-compliance with statutory requirements.
- Ineffective Internal Audit service.
- Lack of an effective internal control environment.

9.2 These risks are being managed as follows:

- Risk Register: Financial Services
- Key Objective Ref No: 3
- Key Objective: Efficient and effective Internal Audit service

10. CUSTOMER IMPLICATIONS

10.1 The internal control and assurance framework ensures that the services delivered by the Council to the customer are undertaken with a robust and effective framework of processes and procedures.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 A robust internal control environment ensures that Value for Money is delivered in the service provision across the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 Climate Change is included as a risk to be managed on the Corporate and service area risk registers.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 Nothing to report for this Board.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. **WARDS AFFECTED**

All Wards.

22. **APPENDICES**

None.

23. **BACKGROUND PAPERS**

None.

AUTHOR OF REPORT

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

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 9th June 2011

RISK MANAGEMENT TRACKER

Relevant Portfolio Holder	Councillor Roger Hollingworth
Relevant Head of Service	Executive Director (Finance & Corporate Resources)
Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To present an end of year overview in relation to Actions/Improvements (actions) as detailed in service area risk registers for the period 1st April 2010 to 31st March 2011.

2. RECOMMENDATIONS

2.1 The Audit Board is recommended to note the end of year position for all service area risk register.

It should be noted that:

- Regulatory Services are currently not included within the risk management process to allow for the shared service to be fully embedded.

3. BACKGROUND

3.1 During December 2006 a review of the Council's risk management arrangements was undertaken by the Internal Audit section. Following the review a new approach, which included updated documentation, was adopted. The revised Risk Management Strategy was approved by the Cabinet on the 7th March 2007.

3.2 As part of the new approach, each business area is required to collate a risk register that details:

- Key Objectives;
- Risk Score;
- Current controls;
- Actions and improvements;
- Responsible officers and target dates for each action; and
- Progress against each action.

3.3 Business areas update their risk registers on a regular basis to ensure that actions are being monitored and implemented. The actions are designed to reduce risks, improve controls and aid individual sections to achieve their objectives.

3.4 The Risk Management Steering Group meets on a monthly basis to review departmental registers, highlight any concerns with the Head of Service and to review progress on actions.

3.5 The departmental registers are reviewed at Corporate Management Team and Audit Board on a quarterly basis.

3.6 In addition to the review of the registers there is a planned programme of risk management training that supports the development of the risk culture through the organisation.

4. KEY ISSUES

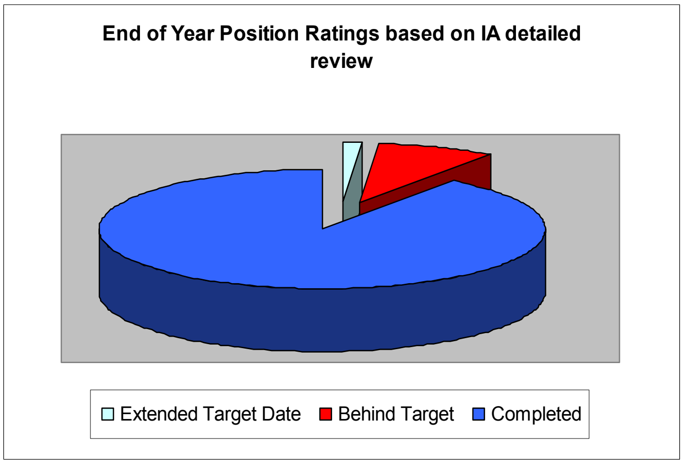
4.1 Service areas have submitted to Internal Audit the end of year position for each action detailed on their risk register.

4.2 A detailed review of each action, target date, end of year position rating and commentary has been undertaken; the rationale is that this analysis aids management of actions.

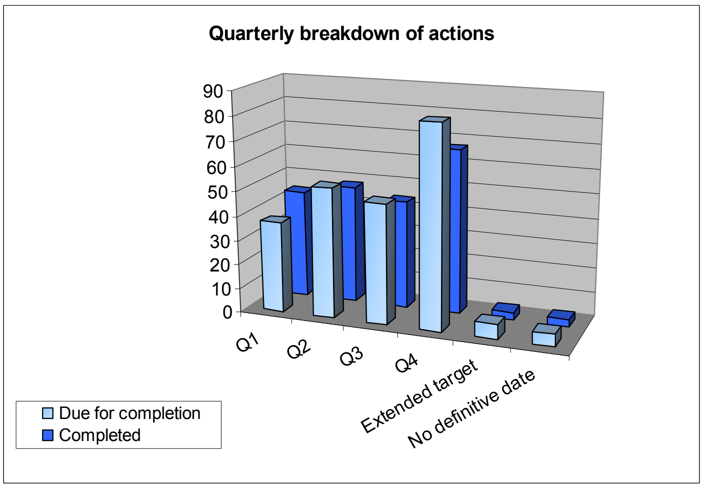
4.3 At the end of quarter 3 we predicted a total of 60 actions would be behind target at the end of the 2010/11 financial year. Our review has verified that a total of 20 actions were behind target at year end which is better than expected.

4.4 Whilst it is acknowledged that this figure is significantly less than predicted it should be noted that the improvement is partially due to 46 actions being excluded during the course of the year.

4.5 This information is illustrated in the below chart.



4.6 As part of the detailed review we have analysed the number of actions due for completion each quarter. The total quarterly breakdown is illustrated in the chart below.



4.7 At the end of quarter 3 we confirmed that a high proportion of actions (43.5%) were due to be completed in quarter 4 which significantly increased the likelihood that a high percentage would not be completed by year end.

Analysis of actions has confirmed that:

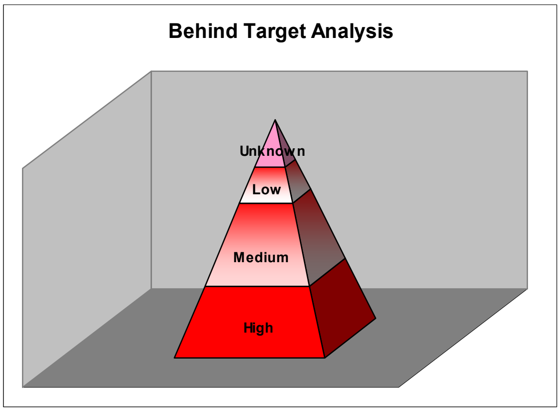
- 88% (that is, 209) were completed during the year with 67 being completed during quarter 4;
- 9% (that is, 20) were behind target; with the remaining

- 3% (that is, 6) having either an extended target date or no definite target date.

Accordingly, the high number of actions completed during quarter 4 together with the number of actions excluded from reporting (see section 2.2 above) has ensured that the majority of actions have been completed.

4.8 For 2010/11 the risk register template has been updated and all actions are required to be allocated a High/Medium/Low rating. The rationale for this addition is to categorise actions that are behind target in order to provide an analysis of the potential impact on the control environment.

4.9 The chart below illustrates the overall rating allocation of actions that are currently behind target based on Internal Audit's detailed review.



4.10 There are a total of 20 actions that have been allocated a behind target position rating. Review has verified that these actions are in relation to improving service delivery rather than fundamental problems with processes. For example, two of the actions are in relation to improving disaster recovery arrangements.

4.11 In order to highlight service area successes, Internal Audit have selected three actions that have been completed during quarter 4.

Relevant Key Obj.	**Action/Improvement**
Resources (Finance)	
Efficient and effective payment of Housing and Council Tax Benefit to eligible customers and based on customer needs	As part of year end processes customers not receiving Council Tax Benefit have been targeted in order to increase and promote the use of the Benefit Service.

Community Services - Housing	
Effective, efficient and legally compliant Strategic Housing Service	Working in partnership with BDHT, have identified more accurate levels of housing need within Bronze Banded housing applicants.
Leisure & Cultural Services	
Effective implementation of successful funding projects by Sports Development	Delivered People Dancing Project in partnership with local organisations and Dance Fest increasing opportunities for all target groups.

Overall summary

4.12 In order to ascertain an overall perspective of progress, Internal Audit has compared the current position of actions with the end of year positions for 2009/10:

Position Rating	EOY 2009/10	EOY 2010/11
Behind target	8%	9%
Completed	84%	90%
Extended target	8%	1%
Total	100%	100%

From the above it may be seen that the percentage of actions completed is an improvement on last year's performance.

4.13 Internal Audit's end of year position rating has identified:

- 6 risk registers with an Excellent rating; and
- 5 risk registers with a Good rating.

5. FINANCIAL IMPLICATIONS

5.1 None outside of existing budgets.

6. LEGAL IMPLICATIONS

6.1 None except specific legislation associated with any of the risk registers key objectives.

7. POLICY IMPLICATIONS

7.1 None.

8. COUNCIL OBJECTIVES

8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 Developing and maintaining Service risk registers will assist the Council to achieve its objectives, priorities, vision and values. The development and continual review of the registers will also support the Councils achievement of the Use of Resources framework.

9.2 Improvements and actions are monitored as part of each service risk register.

10. CUSTOMER IMPLICATIONS

10.1 In addressing the risks associated with the delivery of the Councils services the customers will receive a consistent and controlled quality of service provision.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 The specific issue of improving equality and diversity is included within the Legal, Equalities and Democratic Services departmental register.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 Ensuring the Council has adequate arrangements in place for VFM, procurement and asset management and that these areas are addressed in risk registers.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 Climate Change has been added as a High Impact Area and, therefore, will be considered for all objectives (Corporate and service area).

14. HUMAN RESOURCES IMPLICATIONS

14.1 The HR implications are addressed as part of the HR risk register.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 The risk management framework constantly evolves following advice from the Audit Commission and stakeholder.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	Yes
Chief Executive	Yes
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	Yes
Executive Director – Planning & Regeneration, Regulatory and Housing Services	Yes
Director of Policy, Performance and Partnerships	Yes

Head of Finance and Resources	Yes
Head of Legal, Equalities & Democratic Services	Yes
Corporate Procurement Team	Yes

21. WARDS AFFECTED

All Wards.

22. APPENDICES

None.

23. BACKGROUND PAPERS

Risk registers – available from Heads of Service.

AUTHOR OF REPORT

Name: Andy Bromage
Acting Service Manager – Worcestershire Internal Audit Shared Service
E Mail: andy.bromage@worcester.gov.uk
Tel: 01905 722051

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank