



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 29TH MARCH 2012
AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors L. C. R. Mallett (Chairman), J. S. Brogan (Vice-Chairman), Ms. M. T. Buxton, Dr. B. T. Cooper, S. J. Dudley, Miss P. A. Harrison and Mrs. H. J. Jones

AGENDA

1. To receive apologies for absence
2. Declarations of Interest
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 2nd February 2012 (Pages 1 - 4)
4. Audit Commission Annual Audit Letter 2010/2011 (Pages 5 - 20)
5. Audit Commission Annual Grants Report 2010/2011 (Pages 21 - 34)
6. Audit Commission Opinion Plan (Pages 35 - 60)
7. Audit Commission Progress Report (Pages 61 - 74)
8. Audit Commission - Transfer of the audit practice - verbal update from Liz Caves
9. National Fraud Initiative Update (Pages 75 - 78)
10. Overpayments Update (Pages 79 - 82)
11. Provisional Audit Annual Plan 2012-2013 (Pages 83 - 92)

11a Statement of Accounting Policies (Pages 93-116)

12. 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraphs of that part, in each case, being as set out below, and that it is in the public interest to do so:-

| <u>Item No.</u> | <u>Paragraphs</u> | |
|-----------------|-------------------|---|
| 13 | 7 | |
| 14 | 7 | " |

13. Protecting the Public Purse (Pages 117 - 126)

14. Internal Audit Monitoring Report (Pages 127 - 162)

15. 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

21st March 2012



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Declaration of Interests - Explained

Definition of Interests

A Member has a **PERSONAL INTEREST** if the issue being discussed at a meeting affects the well-being or finances of the Member, the Member's family or a close associate more than most other people who live in the ward affected by the issue.

Personal interests are also things relating to an interest the Member must register, such as any outside bodies to which the Member has been appointed by the Council or membership of certain public bodies.

A personal interest is also a **PREJUDICIAL INTEREST** if it affects:

- The finances, or
- A regulatory function (such as licensing or planning)

Of the Member, the Member's family or a close associate **AND** which a reasonable member of the public with knowledge of the facts would believe likely to harm or impair the Member's ability to judge the public interest.

Declaring Interests

If a Member has an interest they must normally declare it at the start of the meeting or as soon as they realise they have the interest.

EXCEPTION:

If a Member has a **PERSONAL INTEREST** which arises because of membership of another public body the Member only needs to declare it if and when they speak on the matter.

If a Member has both a **PERSONAL AND PREJUDICIAL INTEREST** they must not debate or vote on the matter and must leave the room.

EXCEPTION:

If a Member has a prejudicial interest in a matter being discussed at a meeting at which members of the public are allowed to make representations, give evidence or answer questions about the matter, the Member has the same rights as the public and can also attend the meeting to make representations, give evidence or answer questions **BUT THE MEMBER MUST LEAVE THE ROOM ONCE THEY HAVE FINISHED AND CANNOT DEBATE OR VOTE.**

However, the Member must not use these rights to seek to improperly influence a decision in which they have a prejudicial interest.

For further information please contact Committee Services, Legal, Equalities and Democratic Services, Bromsgrove District Council, The Council House, Burcot Lane, Bromsgrove, B60 1AA

Tel: 01527 873232 Fax: 01527 881414

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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY, 2ND FEBRUARY 2012
AT 6.00 P.M.

PRESENT: Councillors L. C. R. Mallett (Chairman), S. J. Dudley, Miss P. A. Harrison and Mrs. H. J. Jones

Observers: Councillors E. J. Murray, R. J. Shannon and S. P. Shannon

Officers: Mrs. S. Hanley, Ms. J. Pickering, Mrs. T. Kristunas, Mr. A. Bromage and Mrs. P. Ross

22/11 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J. S. Brogan, Ms. M. T. Buxton and Dr. B. T. Cooper.

23/11 DECLARATIONS OF INTEREST

No declarations of interest were received.

24/11 MINUTES

The minutes of the meeting of the Audit Board held on 15th December were submitted.

RESOLVED that the minutes be approved as a correct record.

(Note: Under this item the Board agreed to alter the running order of the agenda and that any agenda items not considered during the meeting be deferred to the next meeting of the Board).

25/11 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraphs of that part being as set out below, and that it is in the public interest to do so:

| <u>Minute No.</u> | <u>Paragraphs</u> |
|-------------------|-------------------|
| 26/11 | 7 |
| 27/11 | 2 and 7 |

26/11 **INTERNAL AUDIT MONITORING REPORT**

As requested at the previous meeting of the Board, the Deputy Chief Executive (Leisure, Culture, Environment and Community Services), the Executive Director, Finance and Corporate Resources and the Head of Finances and Resources attended the meeting to provide Members with an update on the outstanding audits yet to be completed.

The Executive Director, Finance and Corporate Resources informed the Board that the Internal Audit Monitoring Report would be monitored by the Worcestershire Internal Audit Shared Service Team. Officers then provided Members with updates for each of the outstanding audits. Following each update the Executive Director, Finance and Corporate Resources highlighted to Members the audits identified as now being a lower priority and the audits that should be removed from the Internal Audit Monitoring Report.

Members were further informed that the Corporate Management Team (CMT) had been made aware of the concerns raised by the Board and that CMT were committed to giving priority to overdue actions.

The Chairman thanked officers for attending and for the detailed updates provided and in doing so he also stated that it was important that there was no further slippage.

27/11 **FRAUD INVESTIGATION UPDATE REPORT**

The Executive Director, Finance and Corporate Resources apologised to Members for information detailed in the Corporate Anti-Fraud Performance Report 2010-2011 presented to the Board on 15th December 2011. The report was misleading and had shown incorrect information in relation to the two cases referred to within the report.

Members were asked to consider the Fraud Investigation Update report which presented further detailed information and clarification in relation to the two cases referred to in the preamble above. The Executive Director, Finance and Corporate Resources and officers present responded to Members' questions. Members were asked to note the 'Lesson Learned' overview as detailed in the report.

Further discussion followed on the processes and decisions taken and officers responded to Members' questions in relation to these.

RESOLVED that the Corporate Anti-Fraud process and decision taken in relation to the specific investigation highlighted, be noted.

(Note: At this stage, due to the meeting becoming inquorate, it was agreed that the following agenda items be deferred until the next meeting of the Audit Board

- National Fraud Initiative Update
- Overpayments Update
- Protecting the Public Purse)

The meeting closed at 6.42 p.m.

Chairman

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AUDIT BOARD

29TH MARCH 2012

AUDIT COMMISSION ANNUAL AUDIT LETTER 2010/11

| | |
|----------------------------|----------------------------------|
| Relevant Portfolio Holder | Cllr Roger Hollingworth |
| Portfolio Holder Consulted | No |
| Relevant Head of Service | Jayne Pickering (Exec Director) |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To enable Members to consider the Audit Commission Annual Audit Letter for 2010/11 and to note the action to the recommendations.

2. RECOMMENDATIONS

- 2.1 **Members note the recommendations included in the Annual Audit Letter 2010/11**

3. KEY ISSUES

Financial Implications

- 3.1 None as a direct result of this report. The work undertaken to Audit the Accounts and prepare the Annual Audit Letter is included in the 2011/12 Audit Commission fee of £145k.

Legal Implications

- 3.2 The Accounts and Audit Regulations 2011 defines the legislation that Authorities have to comply with in preparing their accounts.

Service / Operational Implications

- 3.3 The Annual Audit Letter as attached at Appendix 1 summarises findings from the 2010/11 Audit. This considers 2 elements:
- Audit of financial statements
 - Assessment of Value for Money arrangements.
- 3.4 A number of conclusions have been made by the Commission in relation to these elements. These include:
- The Council manages risk effectively
 - The Council produces a realistic medium term financial plan
 - The savings from shared services have been delivered
 - the Council has a clear plan of addressing financial pressures with the shared service and transformation plans

- there were no significant weaknesses in internal control
 - the Council needs to review the arrangements for charging staff time to capital schemes
- 3.5 There were 2 errors that were identified but not deemed as material but were reported to members:
- Accounting treatment of the lease to Aldi for change of land use
 - Charging of staff time to capital projects
- 3.6 There were 3 recommendations made by the Commission in the Audit Letter. As members are aware the Council is undertaking a transformation in all services to realise efficiencies whilst improving customer service. The recommendations reflect the need to identify savings and to monitor performances, both which form part of regular reports to Members. In addition it was recommended that the risks and progress on the town centre developments should be closely monitored. This is undertaken by the Town Centre Steering Group and the officer Asset Management Group.
- 3.7 Officers will continue to work with the Audit Commission to ensure the Councils accounts and financial management arrangements will deliver compliant and informative accounts and policies in the future.

Customer / Equalities and Diversity Implications

- 3.8 None as a direct result of this report

4. RISK MANAGEMENT

- 4.1 The Financial Services risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards.

5. APPENDICES

Appendix 1 – Audit Commission Annual Audit Letter 2010/2011

AUTHOR OF REPORT

Name: Jayne Pickering – Exec Director Finance and Resources
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Tel: 01527-881400

Annual Audit Letter

Bromsgrove District Council

Audit 2010/11



Contents

| | |
|---|-----------|
| Key messages | 3 |
| Audit opinion and financial statements..... | 3 |
| Value for money..... | 3 |
| Current and future challenges | 4 |
| Financial statements and annual governance statement | 6 |
| Overall conclusion from the audit..... | 6 |
| Significant weaknesses in internal control..... | 7 |
| Value for money | 8 |
| Closing remarks | 10 |
| Appendix 1 - Fees | 11 |
| Appendix 2 - Glossary | 12 |

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

| Key audit risk | Our findings |
|---|--------------|
| Unqualified audit opinion | ● |
| Proper arrangements to secure value for money | ● |

Page 6

Audit opinion and financial statements

I gave an unqualified opinion on your financial statements on 30 September 2011.

- there were no material adjustments to the accounts; and
- there were two areas of uncertainty that in total were not material.

Value for money

I gave an unqualified conclusion on your arrangements to secure value for money on 30 September 2011.

- Medium term financial planning is strong.
- The Council has strong budget setting and monitoring processes which enable prompt action to be taken to resolve any problems.
- There is a good understanding of Council costs.
- Performance against key operational targets is reasonable.
- The planned savings from shared services are being delivered.

Current and future challenges

Bromsgrove and Redditch Councils are partially through an ambitious programme of developing shared services and business transformation. This is being carried out at a time of significant pressure on finances both because of the economic downturn and because of reductions in government support for local councils.

1 Bromsgrove DC and Redditch BC began sharing the provision of services and the senior management team in August 2008. After a trial period the full shared services began in April 2010. In August 2011 the timetable for completion was brought forward so that all services are planned to be shared by Bromsgrove and Redditch by April 2012. In addition the business transformation project which aims to significantly improve operational efficiency and customer service will run alongside the implementation of the shared services programme. Progress to date has been good but the accelerated timetable will be very challenging for management and staff.

2 The Council has responded well to the pressures on its spending but it will become increasingly difficult to make further savings. Following the Government's Comprehensive Spending Review plans for savings have been substantially increased. In January 2010 underlying cost pressures and income shortfalls and the required savings were reported to Cabinet as:

| | |
|-----------|----------------|
| ■ 2010/11 | £1.088 million |
| ■ 2011/12 | £1.343 million |
| ■ 2012/13 | £1.787 million |

3 In January 2011 the council received the two year financial grant settlement from government. This showed a greater reduction than was originally estimated and has resulted in savings that were originally due to be made over four years now being made over two. Savings are now planned to be £2.170 million in 2011/12 and £2.535 million in 2012/13. Savings plans are in place for 2011/12 and are monitored closely. To September there was a recorded under spend against budget of £721, 000 with a projected under spend of £309, 000 for the full year.

4 Detailed savings plans for 2012/13 are currently being worked on by service managers. All detailed savings plans need to be in place by the start of the 2012/13 financial year.

5 Other future challenges include the Bromsgrove town centre redevelopment. This is a major project at a time of economic slowdown and so carries substantial risks.

Recommendations

R1 Council members should ensure

- All savings for 2012/13 are identified before the start of the financial year.
-

R2 Council members should ensure

- Current Council performance is maintained during the business transformation process.
-

R3 Council members should ensure

- Risks and progress of the town centre are monitored closely to minimise risk to the Council
-

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

- 6** I concluded that there were no material errors in the accounts and I issued an unqualified opinion on 30 September 2011.
- 7** The accounts showed a surplus of £930,000 compared to a revised budgeted surplus of £75,000. This improved performance arose for a number of reasons with the one significant variance being a VAT receipt of £154,000.
- 8** There were two errors in the accounts which were not material but were significant enough that I reported them prior to the accounts being approved by the council.
- 9** Bromsgrove District Council owned land on which it granted a 175 year lease to Aldi supermarkets. In return for changing the land use from industrial to retail Aldi paid a £400k premium to the council. The Council treated this sum as a capital receipt in the year. Normal accounting practice would mean that the premium should be brought into income over the period of the lease (175 years). The accounts were not amended for this error, therefore income in the CIES and the general fund balance were overstated by £400k. I understand that, since the year end, the land has been sold and therefore the premium will be treated as a capital receipt in 2011/12 and be available to finance other projects.
- 10** Whilst I disagreed with the treatment of this receipt in 2010/11, the issue was not significant enough to prevent me from giving an unqualified opinion.
- 11** Each year, as part of its budgeting process, the Council identifies an amount of staff salaries that it will capitalise as overheads to capital projects. This is to take account of the fact that, in its view, some of the time spent by staff is spent on acquiring capital assets. However national guidance specifically prohibits the capitalisation of such overheads. Expenditure that can be capitalised has to be directly attributable to bringing an asset into use and excludes management of the capital programme and grant applications.
- 12** The accounts were amended to remove the £138k initially capitalised in 2010/11 and charge it to the revenue account.

- 13** I requested a review of the asset balances to establish whether the similar capitalised amounts in earlier years have resulted in a materially incorrect balance of Property, Plant and Equipment. This showed that the amount which remained on the balance sheet after revaluation and depreciation amounted to £238k. No adjustment was made for this, therefore the asset balance was overstated by this amount. Whilst I disagreed with this treatment of capitalised salaries the issue was not significant enough to prevent me from giving an unqualified opinion.
- 14** The Executive Director (Resources and Finance) is currently working on a revised system for recording staff time to enable all relevant staff costs to be capitalised in future.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Key messages

The detailed annual budget was prepared and approved in January/February of 2011 following a report produced by the Executive Director Resources and Finance which identified unavoidable pressures for savings and high capital bids. This report gives comprehensive information for members' decision making.

The Council produces realistic medium term financial plans which are modified as conditions change. Savings identified in January 2010 of over £4 million to be made in the period 2010/11 to 2012/13 had to be amended after the two year government grant settlement. Savings have been brought forward and now Savings of £4.7million need to be made in the period 2011/12 to 2012/13. Identified savings are included in the revised budgets.

Members receive quarterly reports showing financial performance against revised budgets. Savings plans are monitored closely. There is quarterly reporting to members of performance against budgets.

2. Securing economy efficiency and effectiveness
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

There is a robust risk management process so that financial risks are identified, addressed and monitored.

The Council has a good understanding of its costs (including support costs) shown by the thorough review undertaken in 2009/10. Costs are analysed so that a consideration of value for money can be made. Activity drivers for each service have been identified and costs are being reviewed and savings are being identified as part of the shared services programme.

Operational targets are closely monitored and reported to members on a quarterly basis. For 2010/11, 59 per cent of performance indicators (PI) had met their target. This is a reduction from 69 per cent in 2009/10. However, a further 14 per cent of PIs had only narrowly missed their targets.

The business transformation process has the potential to deliver substantial savings and improve customer focus but current performance needs to be maintained whilst business transformation takes place.

The shared services programme has proceeded according to plan. So far the following services are shared: payroll, procurement, community safety/CCTV services, electoral services, ICT, corporate policies and communications and leisure services. In addition regulatory services are now part of the Worcestershire wide shared service hosted by Bromsgrove District council. The implementation timetable has now been revised so that all services will be shared by April 2012. There are detailed savings plans in place which are monitored on a regular basis. These overall planned savings of £1.179 million were achieved in 2010/11. Bromsgrove's share of these savings was approximately £550,000.

The town centre redevelopment is going ahead against a background of national economic slowdown. This makes it higher risk than would have been the case in better economic times. Risks and progress need to be monitored carefully.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Finance and Resources. I will present this letter at the Audit Committee on 15 March 2012 and will provide copies to all Board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

| Report | Date issued |
|------------------------------|----------------|
| Audit Plan | May 2011 |
| Audit opinion | September 2011 |
| VFM Conclusion | September 2011 |
| District Council comparisons | November 2011 |
| Annual Audit Letter | November 2011 |

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Elizabeth Cave
District Auditor
November 2011

Appendix 1 - Fees

| | Actual | Proposed | Variance |
|---------------------|----------------|----------------|----------|
| Scale fee | 112,290 | 112,290 | 0 |
| Grant certification | tbc* | 24,000 | 0 |
| Total | 145,000 | 145,000 | 0 |

*at the time of drafting, the grants certification work is still ongoing.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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AUDIT BOARD

29TH MARCH 2012

AUDIT COMMISSION ANNUAL GRANTS REPORT 2010/11

| | |
|----------------------------|----------------------------------|
| Relevant Portfolio Holder | Cllr Roger Hollingworth |
| Portfolio Holder Consulted | No |
| Relevant Head of Service | Jayne Pickering (Exec Director) |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To advise the Audit Board of the Certification of Claims and Returns – Annual Report, that were undertaken during 2009/10 by the Audit Commission.

2. RECOMMENDATIONS

- 2.1 **That Members consider the Certification of Claims and Returns – Annual Report and request officers to respond to the recommendations following the Board meeting**

3. KEY ISSUES

Financial Implications

- 3.1 A review is undertaken on all grant related claims that the Council submits. There are 3 claims that are subject to External Audit; Disabled Facilities (limited testing due to value), Housing Benefit Claim and National Non Domestic Rates claim (both full reviews due to value). The cost associated with the Audit is £19k.

Legal Implications

- 3.2 The Council has a statutory responsibility to include an audit certificate alongside certain grant claims due to the scheme terms and conditions.

Service / Operational Implications

- 3.3 The Audit Commission have recognised that there have been improved arrangements in relation to completion of grant claims and returns and cooperate well with their auditors.
- 3.4 A number of recommendations have been made by the commission in previous years and progress against these are included within the report.

3.5 Housing and Council Tax Benefits Claim

- This claim was subjected to a full review as it was valued at £17 million.
- No overpayments were identified within the Housing Benefit claim. 6 cases of minor underpayments were found.
- A total error of £41 was found which would have created a £12k overpayment. Despite this being a proportionately small level of error on a claim of £5.5m a qualification letter was issued as the guidelines state any overpayment error found results in a qualification of the claim

3.6 National Non Domestic Claim

- This claim was valued at £23.3 million was also subjected to a full review. There was a significant improvement in the working papers to support the claim and one amendment was made. The claim was certified.

3.7 Disabled Facilities Grant

- A limited review was undertaken on this claim, and no concerns were raised. The claim was certified

Customer / Equalities and Diversity Implications

3.8 None as a direct result of this report

4. RISK MANAGEMENT

4.1 The Financial Services risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards.

5. APPENDICES

Appendix 1 – Audit Commission Certification of Claims and Returns
Annual Report 2010/2011

AUTHOR OF REPORT

Name: Jayne Pickering – Exec Director Finance and Resources
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Tel: 01527-881400

Certification of claims and returns - annual report

Bromsgrove District Council

Audit 2010/11



Contents

| | |
|---|----|
| Introduction..... | 3 |
| Summary of my 2010/11 certification work..... | 4 |
| Results of 2010/11 certification work..... | 6 |
| Summary of progress on previous recommendations | 8 |
| Summary of recommendations | 9 |
| Summary of certification fees | 10 |

Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

The Council has performed well in preparing claims and returns.

This year the Council has further improved its arrangements to ensure that claims and returns that require certification are prepared in accordance with the grant paying bodies' relevant terms and conditions. Officers co-operate well with external audit so that claims can be audited by the required deadlines. We continue to work with officers to reduce the amount of external audit time spent on these claims and thus the fee charged.

My work gave rise to amendment of only one of the three claims and returns for the year ended 31 March 2011. A qualification letter was issued on one claim.

Table 1: Summary of 2010/11 certification work

| Number of claims and returns certified | |
|--|-------------|
| Total value of claims and returns certified | £40,657,401 |
| Number of claims and returns amended due to errors | 1 |
| Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with | 1 |
| Total cost of certification work | £18,434 |

Housing Benefits Claim

The Housing Benefits Claim has a value of over £17million. The Audit Commission has agreed with the Department for Work and Pensions a prescriptive programme of work to enable us to certify the claim. I test a sample of 20 housing benefits cases and a further 20 of council tax cases and then a further sample of 40 cases if errors are found in my initial sample.

- Housing benefit - in my testing of 60 cases I found 6 cases where benefit had been underpaid, in the main due to incorrect income figures being used. The claim is not adjusted for underpayment of subsidy. Incorrect income figures being used is a similar error to that found in previous years.
- Council tax - in my testing of 60 cases I found 9 errors. Three errors related to underpayment of subsidy due to incorrect income figures being used. The remainder provided a total error of £41, which was extrapolated to £12k, over a total cell value of over £5.5m. This is clearly a proportionately small level of error and well within the normal tolerance of error we expect in a claim of this type.

National Non domestic rates

In the previous year I was unable to rely on the control environment due to the absence of a reliable audit trail to support the claim. This year arrangements have improved significantly with much improved working papers. One amendment was made to the claim.

Losses in collection reported on the claim has fallen significantly (by £523k) while arrears has increased by £1,097k. As losses in collection include write-offs this might indicate that the Council is not routinely reviewing its arrears and regularly writing off uncollectable arrears.

Disabled Facilities Grant

No issues of concern arising from this audit.

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the issues arising from that work.

Table 2: Claims and returns above £500,000

| Claim or return | Value of claim or return presented for certification (£'000) | Was reliance placed on the control environment? | Value of any amendments made | Was a qualification letter issued? |
|--|--|---|------------------------------|--|
| Housing and council tax benefit scheme | 17,136,303 | Not required as DWP specify the testing required. | No amendments made | Yes – Over-claim of benefits identified for a number of reasons including incorrect income figures being used in the benefit calculation. Extrapolated overpayment of benefit of approximately £15,000 |
| National non-domestic rates return | 23,211,098 | No, because in the previous year a large number of amendments were made to the claim. | < £500 | No |

Table 3: Claims between £125,000 and £500,000

| Claim or return | Value of claim or return presented for certification (£'000) | Value of any amendments made | Qualification letter |
|---------------------|--|------------------------------|----------------------|
| Disabled facilities | 310,000 | £ nil | No |

]

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

The Council has made progress implementing the recommendations in the 2009/10 grant claims annual report.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

| Agreed action | Priority | Date for implementation | Responsible officer | Current status | Comments |
|--|----------|-------------------------|---------------------|--|---|
| The Council approve a policy for the postal arrangements for Benefit claims and a program of testing is introduced to ensure compliance with procedures | M | January 2011 | Benefits Manager | The benefits manager provided the DWP with assurances around this which were accepted by the DWP in their letter of December 2010. | No further action required to meet DWP requirements |
| Arrangements are in place for the retention of documentation from the NNDR computer accounting systems to support the claim to the central government department | H | January 2011 | Revenues Manager | An adequate audit trail to support the NNDR claim was available this year | No further action required |

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 5: Summary of recommendations arising from 2010/11 certification work

| Recommendation | Priority | Agreed action | Date for implementation | Responsible officer |
|--|----------|--|-------------------------|---------------------|
| Housing and council tax benefit scheme: errors identified in our testing that indicate overpayments in subsidy are extrapolated and reported to the DWP. The DWP may reduce its subsidy to the Council, or may require the Council to undertake additional procedures to provide assurances to the DWP on the validity of subsidy claimed. | M | The Benefits Manager should ensure that a sample of the internal quality checks (post payment verification checks) should focus on the areas of weakness identified in the external audit. | February 2012 | Benefits Manager |
| National non-domestic rates return: In our testing we noted that the stated losses in collection (write offs) had fallen significantly whereas the level of NNDR arrears had risen, which may indicate that the council is not regularly considering its NNDR arrears. | M | The Revenues manager should routinely review the level of NNDR arrears, associated provision for bad debt and submit write offs for approval regularly. | February 2012 | Revenues Manager |

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

| Claim or return | 2010/11 fee | 2009/10 fee | Reasons for changes in fee greater than +/- 10 per cent |
|--|-------------|-------------|---|
| Housing and council tax benefit scheme | £14650 | £13,327 | N/a |
| National non-domestic rates return | £3,102 | £4,885 | Improved supporting working papers and amendments |
| Disabled facilities | £682 | £782 | N/a |
| Total | £18,434 | £18,994 | N/a |

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



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AUDIT BOARD

29TH MARCH 2012

AUDIT COMMISSION OPINION AUDIT PLAN 2011/12

| | |
|----------------------------|----------------------------------|
| Relevant Portfolio Holder | Cllr Roger Hollingworth |
| Portfolio Holder Consulted | No |
| Relevant Head of Service | Jayne Pickering (Exec Director) |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Audit Commission 2011/12 Opinion Plan . A copy of this document is attached to this report as Appendix A.

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and agree the 2011/12 Audit Opinion Plan**

3. KEY ISSUES

Financial Implications

- 3.1 The fee associated with the External Audit Opinion and audit of accounting statements and consideration of the Councils arrangements for securing economy, effectiveness and efficiency is £106k. This reflects an 11.5% reduction from 2010/11 Audit fee.

Legal Implications

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

Service / Operational Implications

- 3.3 Attached at Appendix A is the 2011/12 Audit Opinion Plan . The Plan sets out work that the Audit Commission propose to undertake in 2011/12 in relation to the Audit and any specific risks that have will require additional review and consideration.
- 3.4 There are 3 specific risks that have been identified by the Audit Commission which although not deemed as being significant will be reviewed by the Commission as part of the Audit. These include:

- Proposed changes to the accounts format from Word to Excel
- Shared service allocation of costs between the Councils
- Disclosure of Heritage Assets

3.5 The work by the Audit Commission will enable a robust opinion to be made across all the internal control and accounting arrangements that the Council has in place.

Customer / Equalities and Diversity Implications

3.6 None as a direct result of this report

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Audit Commission Audit Plan 2011/12

AUTHOR OF REPORT

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

Audit plan

Bromsgrove District Council

Audit 2011/12



Contents

| | |
|--|----|
| Introduction | 3 |
| Accounting statements and Whole of Government Accounts | 4 |
| Value for money | 8 |
| Key milestones and deadlines | 11 |
| The audit team..... | 12 |
| Independence and quality..... | 13 |
| Fees | 15 |
| Appendix 1 – Independence and objectivity..... | 17 |
| Appendix 2 – Basis for fee..... | 19 |
| Appendix 3 – Glossary | 20 |

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Board, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. I have not identified any significant risks in 2011/12. three specific risks are identified below.

Table 1: **Specific Risk**

| Risk | Audit response |
|--|--|
| <p>The final accounts format information that supports the production of the statement of accounts is changing from a Word basis to Excel. This should improve the validation checks between figures in the accounts. However there is a risk that when modifications are made to the format that the disclosures will not be SORP compliant.</p> <p>The increasing use of shared services presents risk around allocating and accounting for the costs between organisations.</p> | <p>I have agreed with the Accountant that she will send us a copy of the revised format (including accounting policies) in January 12 and I will complete an initial review to confirm the adequacy of disclosures.</p> <p>Our work last year confirmed that arrangements were appropriate and adequate. I will follow this up again this year as arrangements are extended and I will substantively test the basis of the cross charges and ensure they are consistent with formal agreements between the two organisations and are supported by clear working papers outlining a clear methodology for apportionment</p> |
| <p>There is a new requirement for the Council to identify and disclose any Heritage assets in its financial statements.</p> | <p>I will review the Council's arrangements for establishing and valuing Heritage assets and consider whether there is appropriate disclosure in the financial statements.</p> |

4-1 Group accounts

The Council prepares group accounts. This is in relation to the Artrix Centre (Bromsgrove Arts Development Trust). The centre is operated by a separate Trust. There is no income or expenditure attributable and this is confirmed through our communication with Trustees. There are no components. I am responsible for the direction, supervision and performance of the group audit.

Overall Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;

- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors, where it is judged efficient to do so; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

| | Review of internal audit | Controls testing | Reliance on the work of other auditors | Reliance on work of experts | Substantive testing |
|---------------|---|--|--|---|--|
| Interim visit | Debtors | Debtors Creditors General ledger | Payroll – Redditch Borough Council – auditors: Audit Commission | | Review of accounts formats Non purchase-orders Opening balances Pensions Related party arrangements Claims and litigations Fixed asset verifications |
| Final visit | Financial systems reports and risk management | | Joint Committee – limited assurance – Clement Keys Worcestershire Pensions assets and liabilities – auditor to Worcestershire Pension Fund (Audit Commission) | Pensions liabilities and assets – Mercers and our own consulting actuary Valuation of property, plant and equipment – Worcestershire County Council Valuer | All material accounts balances and amounts Year-end feeder system reconciliations Shared Services apportionment |

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: Significant risks

| Risk | Audit response | Separate audit output? |
|--|---|------------------------|
| Financial resilience - The council has balanced budgets for 11/12 and 12/13. They include significant savings and the council's financial position is at risk if these are not delivered. Over £800k of savings in | <p>I will review the arrangements the Council has in place to deliver these savings to establish that there are::</p> <ul style="list-style-type: none"> ▪ detailed plans to support the identified savings. ▪ adequate arrangements for management of individual savings plans, including monitoring and control. ▪ adequate risk management arrangements | Annual audit letter |

| Risk | Audit response | Separate audit output? |
|--|---|--|
| <p>11/12, and £1.2m in 2012-13 are planned to be delivered through a combination of direct services savings and the transformation project and shared services.</p> | <p>and that savings are being delivered</p> | |
| <p>Securing Economy, Efficiency and effectiveness- There is an accelerated programme of shared services and transformation. The initial programme of three years for shared services has been amended so that all relevant services will be shared by the two bodies within 18 months rather than the three years originally planned.</p> <p>At the same time there is a programme of 'process review' (the transformation project) which seeks to achieve productivity gains (and savings) from transforming service delivery.</p> <p>The risks are:</p> <ul style="list-style-type: none"> - the required changes cannot be made by mid 2012 - savings are not achieved within the short timeframe | <p>I will review the council's overall project plan for transformation. I will review one service (housing benefits) and consider what arrangements the council has in place to manage the review process</p> <p>implement the recommendations, measure success and the impact on performance</p> | <p>implement the recommendations and measure success</p> |

| Risk | Audit response | Separate audit output? |
|------|----------------|------------------------|
|------|----------------|------------------------|

- service delivery is adversely affected

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion [and value for money conclusion] by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

| Activity | Date | Output |
|--|---|--------------------------|
| Audit Plan for 2011/12 | January 2012 | Report to Audit Board |
| Opinion: controls and early substantive testing | January – March 2012 | report by exception |
| Opinion: receipt of accounts and supporting working papers | accounts – 30 June 2012 working papers – 9 July 2012 | |
| Opinion: substantive testing | July & August 2012 | |
| Value for money: financial resilience – review of savings plans | March 2011 | VFM conclusion |
| Value for money: Securing economy, efficiency and effectiveness – review of transformation project | March 2011 | VFM conclusion |
| Present Annual Governance Report at the Audit Committee | 20 September 2012 | Annual Governance Report |
| Issue opinion and value for money conclusion | By 30 September 2012 | Auditor's report |
| Summarise overall messages from the audit | October 2012 | Annual Audit Letter |

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

| Name | Contact details | Responsibilities |
|------------------------------------|---|--|
| Elizabeth Cave District Auditor | L-Cave@audit-commission.gov.uk 0844 798 7552 | Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive. |
| Zoe Thomas Audit Manager | z-thomas@audit-commission.gov.uk 0844 798 7557 | Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance. |
| Mary Wren Team Leader | m-wren@audit-commission.gov.uk 0844 798 7560 | leads the interim and opinion audit visits |

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 6: Threats and safeguards

| Threat | Safeguard |
|---|--|
| One of the principal auditors in West Midlands is related to a Bromsgrove Councillor. | The auditor will not undertake any work at Bromsgrove. |

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £106,676, as set out in my letter of April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £106,676, which represents an 11.5 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Executive Director for Finance and Corporate Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I discuss with your officers areas where there is scope to do this.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 7: Fees

| | 2011/12 proposed | 2010/11 actual | Variance |
|-------------------------------------|------------------|----------------|-----------------|
| Audit | 106,676* | 120,610* | (13,934) |
| Certification of claims and returns | 22,000 | 22,195** | 195 |
| Non-audit work | nil | nil | nil |
| Total | 128,676 | 142,805 | (14,129) |

*please note that these fees are reduced further as a result of rebates from the Audit Commission centrally.

** Grant claims work is not yet finalised. We will bring our Grant Claims annual report to the next Audit and Governance Committee and this will include a summary of the actual fees.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 8: **Independence and objectivity**

| Area | Requirement | How we comply |
|--|--|--|
| <p>Business, employment and personal relationships</p> | <p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p> | <p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p> <p>There are no staff working on the Bromsgrove audit with any relevant declarations.</p> |

| Area | Requirement | How we comply |
|---|---|---|
| Long association with audit clients | The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years. | The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met. |
| Gifts and hospitality | The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment. | All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval. |
| Non-audit work | <p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p> | All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised. |
| <i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i> | | |

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 1 July 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and

Page 35

■ Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Audit Commission

Audit plan

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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AUDIT BOARD

29TH MARCH 2012

AUDIT COMMISSION PROGRESS REPORT 2011/12

| | |
|----------------------------|----------------------------------|
| Relevant Portfolio Holder | Cllr Roger Hollingworth |
| Portfolio Holder Consulted | No |
| Relevant Head of Service | Jayne Pickering (Exec Director) |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Audit Commission progress update in relation to the 2011/12 Audit. A copy of this document is attached to this report as Appendix A.

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and comment on the current progress.**

3. KEY ISSUES

Financial Implications

- 3.1 The fee associated with the External Audit Opinion and audit of accounting statements and consideration of the Councils arrangements for securing economy, effectiveness and efficiency is £106k. This reflects an 11.5% reduction from 2010/11 Audit fee.

Legal Implications

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

Service / Operational Implications

- 3.3 Attached at Appendix A is the 2011/12 Audit Progress Update. The report reflects the work undertaken in relation to the audit of the 2011/12 accounts and general information on the national issues that may impact on the Council. In addition the report updates members on the changes to external audit arrangements in the future.

- 3.4 Officers will continue to work with the Audit Commission to ensure that accounts are produced in a timely and accurate way to enable the Audit to be undertaken as smoothly as possible.

Customer / Equalities and Diversity Implications

- 3.5 None as a direct result of this report

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Audit Commission Audit Committee update 2011/12

AUTHOR OF REPORT

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

Audit Committee Update

Bromsgrove District Council

Audit 2011/12



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

| | |
|---|-----------|
| Introduction | 2 |
| Progress Report..... | 3 |
| Financial statements..... | 3 |
| VFM conclusion | 3 |
| Other areas of work | 3 |
| Other Matters of Interest | 4 |
| 2011/12 Final Accounts Workshops | 4 |
| Dealing with the economic downturn | 4 |
| Procurement Fraud in the Public Sector..... | 4 |
| Protecting the Public Purse 2011 | 5 |
| For information: Police Reform and Social Responsibility Act 2011 | 5 |
| Localism Act 2011 | 6 |
| Openness and Accountability in Local Pay..... | 6 |
| Update on the externalisation of the Audit Practice..... | 8 |
| Key Considerations | 9 |
| Contact Details..... | 10 |

Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Board. The paper concludes by asking a number of questions which the Board may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Elizabeth Cave

District Auditor

29 February 2012

Progress Report

Financial statements

5 My audit plan will be presented to the March Audit Board. This plan outlines the key risks I have identified both in relation to my opinion on the accounts and the value for money conclusion.

6 My team is currently undertaking the interim visit. This involves updating our assessment of the Council's control environment and also reviewing the controls operating around the Council's key financial systems. We are also reviewing internal audit as part of that work.

7 We have agreed with officers the dates of our final accounts visit. We have also provided a copy of our suggested working papers requirements (draft testing schedule) to key officers involved in the audit to assist them in their closedown. We have arranged to meet with key officers involved in the audit in March and will continue to liaise with these officers in the run up to the production of the accounts and the audit.

VFM conclusion

8 I have completed my risk assessment and this has influenced the areas to be considered as part of the work. We have started this work and plan to complete it by mid April 2011.

I will report any matters arising from our interim work to the next Audit Board in June.

Other areas of work

9 We undertake certification of claims work in the autumn, when we have completed the majority of the opinion work. This year we will be transferring our work to the new auditors in October 2012. It is likely that our work on the benefits claim will not be complete at this stage and arrangements will be put in place to hand over this work, we will endeavour to minimise the impact on the Council.

Other Matters of Interest

2011/12 Final Accounts Workshops

10 The Audit Practice ran workshops in January to help your staff prepare your financial statements for 2011/12. Bromsgrove staff attended the workshop in Warwick, and invited your staff to help them to prepare your financial statements for 2011/12.

Dealing with the economic downturn

11 On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

12 The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

13 The key findings in the report are:

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

14 The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

Procurement Fraud in the Public Sector

15 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

16 The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

17 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

Protecting the Public Purse 2011

18 In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

19 This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

20 The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

21 The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

22 We have therefore developed a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average and this can be found on our website.

23 The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

24 The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

25 In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

For information: Police Reform and Social Responsibility Act 2011

26 The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

27 This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

28 The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief

constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

29 The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

Localism Act 2011

30 On 15 November 2011 the Localism Bill received Royal Assent.

31 The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Board.

32 Subject to commencement, key measures of the Act include:

- introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws;
- giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government.
- opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies;
- abolishing the Standards Board;
- clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge;
- enabling councils to return to the committee system of governance, if they wish, regardless of their size;
- giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs;
- promoting openness regarding the pay of senior officers; and
- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

33 Many of the measures in the Localism Act are expected to be in place by April 2012.

Openness and Accountability in Local Pay

34 The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

35 On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for

councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

36 Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

37 There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

Update on the externalisation of the Audit Practice

38 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

39 The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a procurement process to allow suitable private-sector providers the opportunity to bid.
- The contract awards were planned for late-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

40 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers were invited to tender following the initial pre-qualification stage.

41 Further details are available on the Audit Commission's website. I will continue to keep you updated on developments.

42 Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Key Considerations

The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

43 Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?

- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?
- Has the Council responded to the DCLG's consultation exercise on the Housing Revenue Account self-financing determinations?

Contact Details

44 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

45 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Elizabeth Cave

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AUDIT BOARD

Date 29TH March 2012

NATIONAL FRAUD INITIATIVE UPDATE

| | |
|---------------------------------|---|
| Relevant Portfolio Holder | Councillor Roger Hollingworth Portfolio Holder for Finance, Partnerships and Economic Development |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Teresa Kristunas, Head of Finance and Resources |
| Ward(s) Affected | All |
| Ward Councillor(s) Consulted | No |
| Key Decision / Non-Key Decision | Non-Key Decision |
| | |

1. SUMMARY OF PROPOSALS

1.1 This report has been written to provide background information in relation to the bi-annual Datamatching exercise with the Audit Commission. Information contained in this report relates to matches received in February 2011, using data extracted and forwarded to the Audit Commission in October 2010.

2. RECOMMENDATIONS

2.1 For the Audit Board to note the contents and outcomes attached to this piece of work.

3. KEY ISSUES

Financial Implications

3.1 Councils have to make reductions in spending. Significant savings can be made by reducing the impact of potential fraud against the Council. This can help to protect frontline jobs and services.

3.2 By being part of this Datamatching exercise with the Audit Commission (which is mandatory not voluntary), this enables the Council to review its internal procedures and clarify any queries raised. Where an irregularity is identified and proven, the details are corrected on relevant Council Systems and recoveries of any overpaid monies are undertaken. Where there is a case for consideration of a fraud investigation, the details would be supplied to the Corporate Anti-Fraud Team to take further.

3.3 In total 1629 number of data matches were received of which the following numbers related to the areas noted:

| | |
|-------------------------------|-----|
| Housing & Council Tax Benefit | 690 |
| Concessionary Fares | 256 |
| Creditors History | 274 |

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 29TH March 2012

| | |
|--------------------|-----|
| Creditors Standing | 319 |
| Payroll | 89 |
| Insurance Claims | 1 |

As at 9 January 2012, 1408 referrals had been processed, with 12 fraudulent overpayments recorded plus 5 error cases. The total overpayments raised are £63,744.07 of which 16 are in recovery (with 1 fully recovered). These relate to Housing and Council Tax Benefit claims only.

Referrals outstanding are as follows (as at 9 January 2012):

| | |
|---|-------|
| Duplicate records for Creditors (being dealt with by Finance) | = 167 |
| Housing Benefits (being dealt with by CAFT and/or DWP) | = 55 |
| Payroll vs Creditors (being dealt with by CAFT) | = 1 |

The next batch of Datamatching cases is due in February 2012, involving matches between Electoral Register and Council Tax Single Person Discount. This will be another major input of work into the Corporate Anti-Fraud Team, but will allow the team to review the effectiveness of single person discounts awarded by the Authority whilst also identifying any fraudulent cases as relevant.

Legal Implications

- 3.4 There are no legal implications.

Service / Operational Implications

- 3.5 Whilst this type of work is significant both in workload but also in the time it takes to process, it provides a level of assurance regarding fraud affecting the Council with only 0.8% of such referrals requiring further more detailed attention.

Customer / Equalities and Diversity Implications

- 3.6 None

4. RISK MANAGEMENT

- 4.1 The National Fraud Initiative is a mandatory piece of work that the Council needs to undertake, currently with the Audit Commission. At present, the matches are checked by the relevant teams (such as finance transactions/queries being reviewed by the Finance Team). Providing the relevant systems and processes are in place to prevent abuse, this is not an issue, however if they are not, this should be identified on the Risk Register for the relevant departments.

AUDIT BOARD

Date 29TH March 2012

5. **APPENDICES**
6. **BACKGROUND PAPERS**
7. **KEY**

CAFT – Corporate Anti-Fraud Team
DWP – Department for Work and Pensions

AUTHOR OF REPORT

Name: Marie Wall, Fraud Services Manager
email: m.wall@bromsgroveandredditch.gov.uk
Tel.: 01527 881240

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AUDIT BOARD

Date 29TH March 2012

OVERPAYMENTS UPDATE

| | |
|---------------------------------|---|
| Relevant Portfolio Holder | Councillor Roger Hollingworth Portfolio Holder for Finance, Partnerships and Economic Development |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Teresa Kristunas, Head of Finance and Resources |
| Ward(s) Affected | All |
| Ward Councillor(s) Consulted | No |
| Key Decision / Non-Key Decision | Non-Key Decision |
| | |

1. SUMMARY OF PROPOSALS

- 1.1 This document is written as requested by the Audit Board on 15 December 2011, in relation to clarification required in relation to Housing Benefit and Council Tax Benefit overpayments.

2. RECOMMENDATIONS

- 2.1 That the Audit Board approve this document and the additional information contained within it.

3. KEY ISSUES

Financial Implications

- 3.1 Within the original report to the Audit Board (dated 15 December 2011), information confirming the amount of Housing Benefit and Council Tax Benefit overpayments raised were noted.
- 3.2 Audit Board wished to have further information in relation to the total amount of Housing Benefit / Council Tax Benefit overpayments raised, showing the split between that and the amount of fraudulent overpayments raised. In addition, a request was made regarding the proportion of overpayments collected, alongside comparison with neighbouring Local Authorities.
- 3.3 During the financial year from April 2010 to March 2011, the following details in relation to overpayments for Bromsgrove District Council, are shown below:

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 29TH March 2012

Total Housing Benefit/Council Tax Benefit Overpayments raised = **£810,624.73**
(this does not include technical council tax benefit overpayments which are raised up to the financial year end regardless of when actioned – it only includes genuine overpayments)

Total Housing Benefit/Council Tax Benefit overpayments raised by the Corporate Anti-Fraud Team (CAFT) = **£163,691.77**

% of overpayments raised by CAFT against total overpayments = **20.2%**

Recovery of overpayments is shown below:

Total overpayments raised during the year = **£810,624.73**

Total amount recovered during the year = **£458,849.80**

There is no facility within the Benefit System to identify what percentages of overpayments raised by the Corporate Anti-Fraud Team are recovered. This cannot be provided.

The following Benchmarking data is collated quarterly, however as you will note, not all Local Authorities provide this data as a matter of routine. The information below is as complete as can be provided; it does however provide an indication regarding the performance of overpayment recovery within Bromsgrove Council.

| % of overpayments recovered as a % of total overpayments outstanding | |
|---|------------|
| Bromsgrove | 57% |
| Herefordshire | 47% |
| Malvern Hills | 49% |
| Redditch | 28% |
| Worcester | 47% |
| Wychavon | 49% |
| Wyre Forest | |

Bromsgrove District Council

During the financial year from April 2011 to September 2011, the following details in relation to overpayments are shown below:

Total Housing Benefit/Council Tax Benefit Overpayments raised = **£406,513.04**
(this does not include technical council tax benefit overpayments which are raised up to the financial year end regardless of when actioned – it only includes genuine overpayments)

Total Housing Benefit/Council Tax Benefit overpayments raised by the Corporate Anti-Fraud Team (CAFT) = **£176,274.90**

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 29TH March 2012

% of overpayments raised by CAFT against total overpayments = **43%**

Please Note – the National Fraud Initiative has had an impact on these figures as a major bi-annual Datamatching exercise which is undertaken by the CAFT team, in relation to all irregularities including Benefit related concerns.

Recovery of overpayments is shown below:

Total overpayments raised = **£406,513.04**

Total amount recovered during the year to date = **£342,684.74**

There is no facility within the Benefit System to identify what percentages of overpayments raised by the Corporate Anti-Fraud Team are recovered. This cannot be provided.

The following Benchmarking data is collated quarterly, however as you will note, not all Local Authorities provide this data as a matter of routine. The information below is as complete as can be provided; it does however provide an indication regarding the performance of overpayment recovery within Bromsgrove Council.

| % of overpayments recovered as a % of total overpayments outstanding | |
|---|--------------|
| Bromsgrove | 84% |
| Herefordshire | |
| Malvern Hills | |
| Redditch | 68% |
| Worcester | |
| Wychavon | |
| Wyre Forest | 84.9% |

Legal Implications

3.4 There are no legal implications.

Service / Operational Implications

3.5 To ensure that overpayment recovery remains priority as performance has increased significantly. Due to the transformation agenda currently being undertaken, it is difficult to know what implications this may have on the future ability to maintain current performance. This is part of the ongoing transformation agenda.

Customer / Equalities and Diversity Implications

- 3.6 Recovery is sought in conjunction with the Overpayment Recovery policy, which fully considers equality and diversity implications. Where necessary consideration will be given to writing off overpayments if they are deemed irrecoverable or not cost effective.

4. RISK MANAGEMENT

- 4.1 None

5. APPENDICES

6. BACKGROUND PAPERS

7. KEY

CAFT – Corporate Anti-Fraud Team

AUTHOR OF REPORT

Name: Marie Wall, Fraud Services Manager
email: m.wall@bromsgroveandredditch.gov.uk
Tel.: 01527 881240

AUDIT BOARD

Date 29TH March 2012

PROVISIONAL AUDIT ANNUAL PLAN FOR 2012/13

| | |
|--|--|
| 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 to Members:

- the Bromsgrove District Council Provisional Internal Audit Operational Plan for 2012/13 for noting, see Appendix 1; and
- the Internal Audit Shared Service's set of key performance indicators for 2012/13 for noting, see Appendix 2.

2. RECOMMENDATIONS

- the Bromsgrove District Council Provisional Internal Audit Operational Plan for 2012/13 is noted, see Appendix 1; and
- the Internal Audit Shared Service's set of key performance indicators for 2012/13 are noted, see Appendix 2.

3. BACKGROUND

Internal Audit Aims and Objectives

3.1 The objectives of the Worcestershire Internal Audit Shared Service are to:

- examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the council and recommend arrangements to address weaknesses as appropriate;
- examine, evaluate and report on arrangements to ensure compliance with legislation and the council's objectives, policies and procedures;
- examine, evaluate and report on procedures to check that the council's assets and interests are adequately protected and effectively managed;

AUDIT BOARD

Date 29TH March 2012

- undertake independent investigations into allegations of fraud and irregularity in accordance with council policies and procedures and relevant legislation; and
 - advise upon the control and risk implications of new systems or other organisational changes.
- 3.2 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”.
- 3.3 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”.

Formulation of Annual Plan

- 3.4 The Internal Audit Plan for 2012/13, which is included **at Appendix 1**, is a risk based plan which takes into account the adequacy of the council’s risk management, performance management and other assurance processes. It has been based upon the risk priorities per discussions with Directors and Heads of Service as well as upon an independent risk assessment of the audit universe by Internal Audit. The Internal Audit Plan for 2012/13 has been agreed with the council’s section 151 officer.
- 3.5 By bringing a provisional plan of work to Members at this stage of the planning process it allows Members to have a positive input into the audit work programme for 2012/13 and make suggestions as to where they feel audit resources should be directed. As with all plans it may subject to review as the year progresses in consultation with the section 151 Officer.

4. KEY ISSUES

Resource Allocation

- 4.1 The Internal Audit Plan for 2012/13 has been based upon a resource allocation of 300 chargeable days, a resource allocation which has been agreed with the council’s section 151 officer. The Acting Service Manager of the Worcestershire Internal Audit Shared Service is confident that, with this resource allocation, he can provide management, external audit and those charged with governance with the assurances and coverage that they require over the system of internal control, annual governance statement and statement of accounts.

The Internal Audit Plan for 2012/13 is set out at **Appendix 1**.

AUDIT BOARD

Date 29TH March 2012

Financial implications

- 4.4 The agreed charge to the council for the delivery of the Internal Audit service for 2012/13 is £69,242. The charge for the delivery of the service in 2011/12 was also £69,242.

Monitoring and reporting of performance against the Plan

- 4.5 Operational progress against the Internal Audit Plan for 2012/13 will be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service and will be reported to the Shared Service's Client Officer Group, which comprises the section 151 officers from client organisations, on a quarterly basis and to the Audit Committee on a quarterly basis.
- 4.6 The success or otherwise of the Internal Audit Shared Service will be determined by the performance against a set of key performance indicators which have been developed for the service. These have been agreed with the council's section 151 officer and are included at **Appendix 2**.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no direct financial implications arising out of this report as the provision is in line with that agreed with the council's section 151 officer in December 2010 as part of the restructuring of the Internal Audit Shared Service.

6. LEGAL IMPLICATIONS

- 6.1 See 3.2 above.

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.
- Ineffective Internal Audit service.
- Lack of an effective internal control environment.

- 9.2 These risks are being managed as follows:

AUDIT BOARD

Date 29TH March 2012

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

10. CUSTOMER IMPLICATIONS

10.1 There are no implications arising out 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

AUDIT BOARD

Date 29TH March 2012

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 ~ Provisional Internal Audit Plan 2012/13

Appendix 2 ~ Key performance indicators 2012/13

23. **BACKGROUND PAPERS**

None.

AUTHOR OF REPORT

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722051

AUDIT BOARD

Date 29TH March 2012

DETAILED PROVISIONAL AUDIT PLAN FOR 2012/13

APPENDIX 1

SUMMARY OF DETAILED PROVISIONAL PLAN 2012/13

| Planned Days for 2012/13 | 2012/13 | 2011/12 |
|--|----------------|----------------|
| Core Financial Systems | 49 | 54 |
| Revenues and Benefits | 39 | 32 |
| Corporate Work | 69 | 55 |
| Other Systems Audits inc follow up | 73 | 107 |
| Completion of prior year's work | 15 | 15 |
| Advisory / Consultancy inc NFI, Fraud & investigations | 21 | 8 |
| | | |
| Sub Total | 266 | 271 |
| | | |
| Audit management meetings | 15 | 15 |
| Corporate meetings / reading | 5 | 5 |
| Annual plans and reports | 8 | 8 |
| Audit Committee support | 6 | 6 |
| | | |
| Sub Total | 34 | 34 |
| | | |
| TOTAL Audit Days | 300 | 305 |

AUDIT BOARD

Date 29TH March 2012

DETAILED PROVISIONAL PLAN FOR 2012/2013 AUDIT PROGRAMME

| Audit Area | Planned days 2012/13 |
|--|---------------------------------|
| CHARGEABLE AND PRODUCTIVE | |
| Core Financial Systems | |
| Benefits | 15 |
| Cash, General Ledger & Bank Reconciliations | 11 |
| NDR | 12 |
| Council Tax | 12 |
| Budgetary Control & Strategy | 10 |
| Treasury Management | 7 |
| Debtors | 7 |
| Creditors | 7 |
| Asset Management | 7 |
| TOTAL | 88 |
| | |
| Corporate | |
| ICT inc. project auditing | 14 |
| Shared Services | 15 |
| Governance inc Procurement | 10 |
| Risk Management | 15 |
| Transitional arrangements (critical friend) | 15 |
| TOTAL | 69 |
| | |
| Other Systems Audits | |
| Street Scene inc abandoned vehicles, fly tipping, etc. | 12 |
| Cemeteries | 8 |
| Parks & Open Spaces (Sanders Park) | 8 |
| Renovation Grants (including Festival Housing Contract and DFGs) | 10 |

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 29TH March 2012

| | |
|---|------------|
| Regulatory Service/Environmental Health | 15 |
| Climate Change (grants received) | 10 |
| Completion of Prior Year's work | 15 |
| Statement of Internal Control | 3 |
| Follow Up on recommendations | 10 |
| Fraud and Special Investigations | 8 |
| Advisory / Consultancy / Contingency | 10 |
| TOTAL | 109 |
| | |
| Audit Management Meetings | 15 |
| Corporate Meetings / Reading | 5 |
| Annual Plans and Reports | 8 |
| Audit Committee support | 6 |
| TOTAL | 34 |
| TOTAL CHARGEABLE | 300 |

AUDIT BOARD

Date 29TH March 2012

KEY PERFORMANCE INDICATORS 2012/13

APPENDIX 2

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2012/13.

| | KPI | Target | Frequency of reporting |
|---|---|----------------------|-------------------------------|
| 1 | % Plan delivered excluding overruns | 90% for year | Quarterly |
| 2 | Customer satisfaction surveys | 90% Good or above | Quarterly |
| 3 | Number of audits delivered compared to plan | 18 | Quarterly |
| 4 | Annual survey of Internal Audit Service | Good or above | Annually |

The Internal Audit Self-Assessment checklist assessing compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 should also be completed at the end of the annual cycle. Any areas of partial or non-compliance with the Code should be reported as exceptions to the Client Officer Group and Audit Committee.

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

29TH March 2012

ACCOUNTING STANDARDS FOR INCLUSION WITHIN 2011/12 FINAL ACCOUNTS

| | |
|----------------------------|--------------------|
| Relevant Portfolio Holder | Roger Hollingworth |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Teresa Kristunas |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To approve the proposed Accounting Standards in preparation for the 2011/12 Accounts.

2. RECOMMENDATIONS

- 2.1 That the Audit Board approve the Accounting Policies, detailed at Appendix 1.

3. KEY ISSUES

Financial Implications

- 3.1 The Council has a statutory requirement to produce a Statement of Accounts each financial year (Accounts and Audit Regulations 2011). The Statement of Accounts presents the overall financial position of Bromsgrove District Council for the year ended 31 March 2012. The format of the Accounts is stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with the International Financial Reporting Standards.
- 3.2 The Accounting Policies form part of the required Statement of Accounts, and are defined as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting the financial

Legal Implications

- 3.3 The Council has a statutory requirement to produce a Statement of Accounts each financial year (Accounts and Audit Regulations 2011).
- 3.4 Approval of the Accounting Policies on which the bases of the Accounts are prepared is required.

AUDIT BOARD

29TH March 2012

Service/Operational Issues

3.5 None as a direct result of this report.

Customer/ Equalities and Diversity

3.6 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 None.

5. APPENDICES

Appendix 1 – Accounting Policies

AUTHOR OF REPORT

Name: Deborah Randall – Accountancy Services Manager

Email: d.randall@bromsgroveandredditch.gov.uk

Tel: (01527) 881235

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 2011/12 financial year and its position at the year-end of 31 March 2012. 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 proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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. 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.

Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request of the relevant budget holder.

3. 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.

4. 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.

5. 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) by adjusting opening balances 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.

6. 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.

7. 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.
- 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. P Birch CPFA
Director of Resources
Worcestershire County Council
County Hall, Spetchley Road,
Worcester WR5 2NP

8. Events After the Reporting Period

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

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

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

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. Heritage Assets

The Council has undertaken a full review of all service areas to identify any collections of Heritage Assets which are held in support of the primary objective of the service provision. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

12. 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 *****

13. 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 to 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

14. 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.

15. 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 its 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.

16. 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.

17. 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).

Operating leases

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

Finance leases

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.

18. 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.

19. 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 2011 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.

20. 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.

21. 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 within 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'.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

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