



## **BROMSGROVE DISTRICT COUNCIL**

### **MEETING OF THE AUDIT BOARD**

**THURSDAY 14TH MARCH 2013**  
**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 and notification of substitutes
2. Declarations of Interest
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 13th December 2012 (Pages 1 - 6)
4. Grant Thornton - Certification Report 2011/ 2012 (Pages 7 - 20)
5. Grant Thornton - Auditing Standards (Pages 21 - 42)
6. Grant Thornton - Audit Plan March 2013 (Pages 43 - 64)
7. Grant Thornton - Progress Report (Pages 65 - 78)
8. Presentation from Head of Service, Leisure and Cultural Services
9. Statement of Accounting Policies (Pages 79 - 102)
10. Audit Commission Annual Governance Report 2011 - 2012 - Verbal update in respect of progress made on the actions
11. Corporate Fraud (how the Authority pro-actively responds) - Verbal update

12. Benefits Investigations - Demographic Profile (Pages 103 - 104)
13. Corporate Risk Register / Risk Management Update - Presentation from the Head of Finance & Resources
14. Audit Board End of Year Report - For Member discussion  
To discuss the Board's End of Year report and timescales.
15. Audit Board Work Programme (Pages 105 - 106)
16. DRAFT Internal Audit Plan 2013 / 2014 (Pages 107 - 114)
17. Internal Audit Monitoring Report (Pages 115 - 124)
18. To consider, and if considered appropriate, to pass the following resolution to exclude the public from the meeting during the consideration of items of business containing exempt information:-

**"RESOLVED** that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 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>Item No.</u>	<u>Paragraphs</u>	“
19	7	

19. Appendices 3 and 4 for Agenda Item 17 - Internal Audit Monitoring Report (Pages 125 - 158)
20. 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

6th March 2013



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## **BROMSGROVE DISTRICT COUNCIL**

### **MEETING OF THE AUDIT BOARD**

**THURSDAY, 13TH DECEMBER 2012 AT 6.00 P.M.**

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

Also in attendance: Mr. P. Jones (Engagement Lead, Grant Thornton) and Ms. Z. Thomas (Engagement Manager, Grant Thornton)

Officers: Ms. J. Pickering, Mrs. T. Kristunas, Mr. A. Bromage and Ms. R. Cole.

#### 26/12 **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor S. J. Dudley.

#### 27/12 **DECLARATIONS OF INTEREST**

No declarations of interest were received.

#### 28/12 **MINUTES**

The minutes of the meeting of the Audit Board held on 20th September 2012 were approved as a correct record.

#### 29/12 **AUDIT COMMISSION ANNUAL GOVERNANCE REPORT 2011 - 2012**

The Chairman welcomed Mr. P. Jones (Engagement Lead) and Ms. Z. Thomas (Engagement Manager) from Grant Thornton to the meeting.

The Board considered a report on the responses of the Section 151 Officer to the Annual Governance Report from the Audit Commission for 2011/2012. This report had been considered by Cabinet and Council in September.

Ms. Z. Thomas briefly explained the background to the Annual Governance Report which was part of the process for auditing the final accounts for 2011/2012 and reported that the Section 151 Officer had considered and agreed the five recommendations proposed by the Audit Commission. These were:

- Review the shared service plans accounting arrangements in order to simplify the process;
- Improve risk management arrangements and reporting;
- Continue to monitor the delivery of the Internal Audit Plan;

- Review the format of the monitoring of savings as presented to officers and Members; and
- Review the benefits transformation with the aim to bring to a close.

It was reported that responses to the recommendations had been incorporated into an Action Plan which was attached as Appendix 1 to this report.

The Board discussed in particular the issue of monitoring savings arising from the shared service and transformation process. It was appreciated that it was important for the Authority to be able to demonstrate and monitor the savings achieved. The Head of Finance and Resources explained that through transformation work in a particular area, savings were sometimes achieved in other areas which may not have been envisaged at the start of the process.

The Executive Director (Finance and Resources) agreed this could make it more challenging to identify savings but explained officers were aware of this and were working towards improving the processes. It was intended that the information would be presented to Members as part of the quarterly financial monitoring reports.

Following discussion it was

**RESOLVED:**

- (a) that the responses to the Annual Governance Report 2011/2012 be noted; and
- (b) that officers be requested to report to the Board on a quarterly basis in respect of progress made on the actions to enable them to be monitored effectively.

**RECOMMENDED** that the Cabinet be requested to ensure that processes are put into place to enable savings achieved through the transformation process to be effectively monitored.

30/12 **PLANNED AUDIT FEE FOR 2012/2013**

(The Chairman agreed to the consideration of this item as an urgent matter as consideration was required before the next meeting of the Board).

At the invitation of the Chairman, Mr. P. Jones, the Council's Engagement Lead from Grant Thornton gave a brief introduction to the Company and explained how they would hope to work with the Council over the forthcoming year.

Mr. Jones then reported on the Council scale fee for 2012/2013. It was noted that this had reduced from an Audit Fee of £106,676 for 2011/2012 to £64,006 for 2012/2013 a reduction of £40%.

In response to questions from Members it was explained that this was largely due to a streamlining of processes and was not as a result of a decrease in input. In addition there would be a focus on agreed areas of high risk within

systems. The Audit Commission would maintain a supervisory role and there would be formal Client surveys undertaken to obtain feedback.

**RESOLVED** that the planned audit fee for 2012/2013 of £64,006 be approved.

31/12 **CORPORATE RISK REGISTER / RISK MANAGEMENT**

The Head of Finance and Resources gave the Board an update on the changes to the Risk management arrangements following the changes in processes arising from shared services and the transformation of services. A joint shared approach had been taken with regard to risk identification, recording and monitoring.

It was reported that a new risk management framework document had been produced in draft and was currently in the process of being reviewed by the Corporate Management Team. Key risks had been identified across each service and these would be managed on an on going basis using a web based system. It was reported that an officer Risk Management Group would monitor the operational risks and where appropriate escalate these for discussion and inclusion in the Corporate Risk Register.

The Head of Finance and Resources referred to some of the key risks identified so far such as:

- The need to deliver “business as usual” whilst transformation was on going;
- Failure to deliver a Local Plan could result in increased challenge over planning decisions or unwanted developments;
- Failing to work closely with the new Police and Crime Commissioner with respect of community safety;
- Failure to secure County Council funding for Lifeline services from April 2013.

Clearly actions would be put in place to mitigate the risks identified. The Head of Finance and Resources felt that use of the new risk management tool would enable risks to be monitored and addressed on a more effective and timely basis.

The Board discussed the importance of an effective risk management system and it was

**RESOLVED** that officers be requested to report further to the Board on the development of the new risk management system, including corporate and operational risks.

32/12 **BENEFITS INVESTIGATIONS APRIL - SEPTEMBER 2012**

The Board considered a report on Benefits Service Fraud Investigations service for April to September 2012. The Head of Finance and Resources reported on some of the background to the figures. It was reported that

referrals arose from a number of sources and that it was essential to have a joint approach to working with the Department of Work and Pensions (DWP).

It was also noted that the changes to the Benefits systems arising from the Welfare Reform Act would have significant consequences. The DWP had proposed combining the various fraud services into a Single Fraud Investigation Service (SFIS).

Members of the Board raised queries on the tables of investigations and sanctions which gave comparisons across the County. It was noted that a significant proportion of cases within the District resulted in the acceptance of a caution. In addition it was noted that in the previous financial year the number of investigations closed had peaked in quarter 2 and decreased quite significantly in quarters 3 and 4.

Members felt it would be helpful to understand the nature of the cases more fully before considering any further action which may be required.

Following discussion it was

**RESOLVED:**

- (a) that the report be noted; and
- (b) that the Head of Finance and Resources be requested to provide the Board with additional information on the nature and demographic profile of the cases of fraud within the District and that this be circulated prior to the next meeting of the Board in March 2013.

33/12 **INTERNAL AUDIT MANAGER'S - DRAFT AUDIT PLAN 2013 / 2014**

The Board considered a report from Mr. A. Bromage, Internal Audit Manager, Worcestershire Internal Audit Shared Service, on the draft internal Audit Operational Plan together with the key performance indicators for the Internal Audit Shared Service.

Mr. Bromage explained that the Annual Plan had been drawn up following discussions with the Section 151 Officer and Heads of Service and was a risk based plan. Mr. Bromage and the Executive Director (Finance and Resources) responded to Members' questions in relation to:

- the purpose of days allocated to Shared Service Delivery (Client)
- Section 106 Agreements
- Bromsgrove Urban and Rural Transport service
- the days allocated to catch up work from the previous year

In addition Members queried the days allocated to Transitional (Critical Friend) and the Risk Management days and whether this was the best use of the Audit days available. The Executive Director (Finance and Resources) undertook to discuss this further with the Internal Audit Manager to ensure best value was obtained from the days available.

Following discussion it was



**RESOLVED:**

- (a) that the report be noted subject to the discussion referred to in the preamble; and
- (b) that the key performance indicators for the Worcestershire Internal Audit Shared Service for 2013/2014 be approved.

34/12 **AUDIT BOARD WORK PROGRAMME 2012 / 2013**

The Board considered the Work Programme 2012/2013.

It was noted that the Audit Commission Annual Letter had been considered previously and could be removed from the list for the March meeting.

In addition further to the discussion on risk management earlier in the meeting, it was agreed that at the March meeting, high level risks be considered together with operational risks from the Leisure and Culture Department and that the Head of Service be invited to attend the meeting.

It was also requested that an item on Corporate Fraud and how the Authority pro-actively responds to this be added to the Work Programme

**RESOLVED** that subject to the amendments set out in the preamble the Work Programme be noted.

35/12 **INTERNAL AUDIT MONITORING REPORT**

The Board considered a report which detailed the monitoring of internal audit work as at 30th November 2012. It was reported that the full Audit Plan would be delivered by the end of the year.

In relation to the Key Performance Indicators, Members requested that this be broken down into quarterly targets where possible.

**RESOLVED** that the report be noted.

36/12 **LOCAL GOVERNMENT ACT 1972**

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

<u>Minute No.</u>	<u>Paragraph</u>
37/12	7

37/12 **INTERNAL AUDIT MONITORING REPORT**

The Board considered the Appendices to the Internal Audit Monitoring Report.

**RESOLVED** that the current position be noted.

The meeting closed at 7.35 p.m.

Chairman

**AUDIT BOARD**14<sup>TH</sup> MARCH 2013**GRANT THORNTON – CERTIFICATION WORK REPORT 2011/12**

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

**1. SUMMARY OF PROPOSALS**

- 1.1 To present Members with the Grant Certification report for 2011/12 from the Councils External Auditors Grant Thornton.

**2. RECOMMENDATIONS**

- 2.1 **The Committee is asked to note the report and action plan.**

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

- 3.1 There is a 50% saving on the prior year fee for grant claim work as levied by the Audit Commission. The budget 2013/14 includes the assumption of this reduced fee being charged.

**Legal Implications**

- 3.2 Grant Thornton have a statutory responsibility to certify the claims submitted by the Council. The Council has a legally binding contract with Grant Thornton to provide the External Audit service for at least the next 5 years.

**Service / Operational Implications**

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. This includes certification of grant claims.
- 3.4 The auditors have certified 4 claims for 2011/12 relating to over £71m of expenditure. These are:

- Housing and Council Tax Benefit Scheme

- National Non Domestic Rates

3.5 The key messages from the Audits are;

- Claims were all submitted and certified on time
- Overall the Council is performing well and there are no significant matters arising
- There was excellent support from officers for the Housing Benefit Claim
- Supporting working papers were generally good

3.6 There is one action area to include a number of points that officers will address for the certification of 2012/13 grants. This relates to the Housing Benefit grant review work that has to be undertaken. There were a number of issues relating to the resourcing of this process and officers have agreed to work with the External Auditors to ensure an improvement in 2012/13 certification.

**Customer / Equalities and Diversity Implications**

3.7 There are no implications arising out of this report.

**4. RISK MANAGEMENT**

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

**5. APPENDICES**

Appendix A – Grant Thornton Certification Report 2011/12

**6. BACKGROUND PAPERS**

Individual internal audit reports.

**7. KEY**

N/a

**AUTHOR OF REPORT**

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## **Bromsgrove District Council**

Certification work report 2011/12

February 2012

# Contents

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# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Grant Thornton have not certified any claims during 2011/12 as the work was completed by the Audit Commission. The Audit Commission certified two claims and returns for the financial year 2011/12 relating to expenditure of £45 million. All claims in 2012/13 will be certified by Grant Thornton.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 It should be noted that all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditors work.
- 1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

### Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	All claims were submitted on time to audit and all claims were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Overall the Council is performing well and there are no significant matters arising from our certification of claims and returns. There was excellent cooperation over the housing benefits audit and savings on the audit fee accrued as a result.
Supporting working papers	Supporting working papers were generally of a good standard, which enabled certification within the deadlines.

### The way forward

- 1.8 We have made recommendations for improvement for the housing benefits claim in Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

### Acknowledgements

- 1.10 We would like to take this opportunity to thank the grant claim co-ordinator and Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**

**February 2013**



## 2 Results of our certification work

### Key messages

- 2.1 Two claims We have certified two claims and returns for the financial year 2010/11 relating to expenditure of £45 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

### Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
<b>Total claims/returns</b>		2		3		
Number of claims submitted on time	100%	2	100	3	100	→
Number of claims certified on time	100%	2	100	3	100	→
Number of claims certified with amendment	0%	0	100	1	33	↑
Number of claims certified with qualification	0%	1	50	1	33	→

- 2.3 The above table shows that Council now has very few claims that require audit. The disabled facilities grant was audited in 2010/11 but fell below the level that required an audit in 2011/12.
- 2.4 The housing benefits claim was subject to qualification this year and in previous years. The financial implications to the Council of this qualification will vary each year, depending on the cases audited, the types of errors identified and the view taken by the DWP on the errors reported. We will continue to work with officers to reduce the number of qualifications on this claim and to complete this audit as efficiently as possible.
- 2.5 Details on the certification of all claims and returns are included at Appendix B.
- 2.6 We charged a total fee of £685 for the certification of claims and returns in 2011-12. In addition, your previous auditors the Audit Commission, charged a total fee of £8164 against an indicative budget of £13,300. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 There are no significant findings arising from the audits. Recommendations for improvement are contained in appendix C
- 2.8 A qualification letter was issued on the housing benefits claim. These errors did not indicate any underlying weakness in the Council arrangements for processing claims and are of the type that are commonly identified in these audits. Nevertheless the Council should continue to drive up the quality of its housing benefits processing to keep these errors to a minimum. This will ensure that the claimants receive the benefit that they are entitled to, in a timely manner and reduce the risk of financial penalties imposed by the DWP when a qualification letter is issued.

## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

### **Certification fees**

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

<b>Role</b>	<b>2011/12</b>	<b>2010/11</b>
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

## B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2011/12 (£)	Fee 2010/11 (£)	Comments
Housing and council tax benefit scheme	20,065,750	N	n/a	Y	6,505	14,650	Fee reduction because of the lower number of errors identified in initial testing so that less further testing was required. This was combined with an increased reliance on the client staff for case testing.
National non-domestic rates return	25,142,654	N	n/a	N	1,659	3,102	More reliance was placed on the control environment and therefore less testing was required in 2011/12.
Disabled facilities grant	demin					682	No audit work was required in 2011/12.
Reporting to those charged with Governance					685	n/a	Reporting was not billed separately in 2010/11.
<b>Total</b>	<b>45,208,404</b>		<b>nil</b>		<b>8,849</b>	<b>18,434</b>	

## C Action plan

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Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing Benefits	The council should continue to use a contractor to undertake the housing benefits testing. This has the benefit of both reducing the external audit fee but also means that the individual is able to focus on the work rather than having conflicting priorities.	H	The Council is currently assessing the structure within the benefits section as part of the transformation framework. We will review our plans for the housing benefits audit, taking into our account our assessment of cost versus benefit of using external contractors and agree these plans with external audit.
Housing Benefits	The Grant Thornton approach in 2012/13 requires that the housing benefits initial testing is completed prior to the opinion being issued on the accounts (30 September). A timetable should be prepared by the Council, agreed with us and sufficient staff resources earmarked to ensure that the timetable is achieved.	H	This will be discussed and agreed with External Audit and included in the planned timetable.

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing Benefits	The Council did not prepare an adequate analytical review in advance of the audit and there was some significant variance between years of some of the key entries in the claim. The Council should ensure that key variances are understood by officers prior to the claim being signed and full explanations should be provided within the claim working papers.	H	This will be addressed by officers as part of the claim preparation.

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## AUDIT BOARD

14<sup>TH</sup> MARCH 2013

### GRANT THORNTON – AUDITING STANDARDS 2012/13

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

#### 1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Auditing Standards report for 2012/13 from the Councils External Auditors Grant Thornton.

#### 2. RECOMMENDATIONS

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

#### 3. KEY ISSUES

##### Financial Implications

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

##### Legal Implications

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

##### Service / Operational Implications

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

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

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

**Customer / Equalities and Diversity Implications**

3.4 There are no implications arising out of this report.

**4. RISK MANAGEMENT**

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

**5. APPENDICES**

Appendix 1 – Grant Thornton Auditing Standards Report 2012/13

**6. BACKGROUND PAPERS**

Individual internal audit reports.

**7. KEY**

N/a

**AUTHOR OF REPORT**

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**Grant Thornton**

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## Auditing Standards – Communication with the Audit Board and Cabinet

Bromsgrove District Council

Audit year 2012/2013

Last updated 5 March 2013

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## Introduction

The purpose of this report is to ensure there is effective two-way communication between 'Those Charged with Governance' and the Engagement Lead, the Council's external auditor. In most Councils the Audit Committee undertakes the role of 'Those Charged with Governance' and thus our communication is with the Audit Committee.

In Bromsgrove the Cabinet retain the role of 'Those Charged with Governance' and the Audit Board receives reports on internal control and fraud. The Audit Board provides assurance on the operation of internal controls to Cabinet.

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

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

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

This report summarises the Cabinet's, Audit Board, management's and the external auditor's responsibilities in each of these areas, as explained in the International Standards on Auditing (UK and Ireland) (ISAs). Our primary responsibility is to consider the risk of material misstatement.

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

## **Fraud Risk Assessment**

The ISAs define fraud as:

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

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

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

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

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

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

- How management assesses the risk of material misstatement in the financial statements due to fraud.
- Officers' response to assessed fraud risk, including any identified specific risks.
- How officers communicate its process for assessing and responding to fraud risk to the Audit Board and Cabinet
- How management communicates its views on ethical behaviour to the Audit Board and Cabinet
- How the Audit Board and Cabinet exercise oversight of management's fraud risk assessment and response processes and the internal controls to mitigate these risks.
- What knowledge the Audit Board and Cabinet has of actual, alleged or suspected fraud.

To help us in making our fraud risk assessment management have responded to the following questions.

**Table 1: Fraud Risk Assessment**

Question	Management response
<p><b>1. What is management’s assessment of the risk of material misstatement in the financial statements due to fraud?</b></p> <p><b>Is this consistent with the feedback from your risk management processes?</b></p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Officers also attend technical updates.</p> <p>Financial monitoring reports also highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts.</p> <p>The Council is currently reviewing and updating its risk management processes and procedures.</p> <p>Management considers there is a low risk of material misstatement in the financial statements due to fraud.</p>
<p><b>2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2012?</b></p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> <li>■ Council Tax</li> <li>■ Benefit fraud</li> <li>■ Single person discount</li> </ul> <p>However, there is a dedicated benefits investigation team which investigates any fraud.</p> <p>The Audit Board receives any adhoc fraud reports.</p> <p>There are no material instances of fraud that have been identified during the year.</p>

<p><b>3. Do you suspect fraud may be occurring, either within the Council or within specific departments?</b></p> <ul style="list-style-type: none"> <li>– Have you identified any specific fraud risks?</li> <li>– Do you have any concerns there are areas that are at risk of fraud?</li> <li>– Are there particular locations within the Council where fraud is more likely to occur?</li> </ul>	<p>Evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Authority.</p> <p>Locations handling income, particularly in the form of cash, are more likely to be at risk of fraud. However management does not consider these to be significant risks.</p>
<p><b>4. Are you satisfied that the overall control environment, including:</b></p> <ul style="list-style-type: none"> <li>- the process for reviewing the system of internal control;</li> <li>- internal controls, including segregation of duties; exist and work effectively?</li> <li>– If not where are the risk areas?</li> <li>– What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	<p>Yes - Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as the Constitution.</p> <p>The role of internal audit, provides assurance that the Council's internal controls are in place. An annual report is produced and is available prior to the annual accounts being signed and approved.</p>



<p><b>5. How do you communicate to employees about your views on business practices and ethical behaviour?</b></p> <p><b>How do you encourage staff to report their concerns about fraud?</b></p> <p>– What concerns are staff expected to report about fraud?</p>	<p>There is a Fraud Strategy and a Whistleblowing procedure in place which explain the procedures to follow.</p> <p>Employees are aware of the anti-fraud of the anti-fraud and corruption strategy, details are available on the website.</p>
<p><b>6. From a fraud and corruption perspective, what are considered to be high-risk posts?</b></p> <p>– How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are not any significantly high-risk posts identified.</p>
<p><b>7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</b></p> <p>– How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>2011/12 financial statement disclosure of related party transactions does not identify potential fraud risk.</p> <p>Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p><b>8. What arrangements are in place to report fraud issues to Audit Board?</b></p>	<p>Internal Audit provide the Audit Board with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</p> <p>Any adhoc investigations are reported to the Audit Board</p>

## Law and Regulation

The ISAs (ISA (UK&I) 250) require us to consider the impact that law and regulation and litigation may have on the Council's financial statements. The factors that may result in particular risks of material misstatement due to fraud or error are:

- the operational regulatory framework - this covers the legislation that governs the operations of the Council.
- the financial reporting framework - according to the requirements of International Financial Reporting Standards, the Code of Accounting for Local Authorities in England and relevant Directions.
- taxation considerations - for example compliance with Value Added Tax and Income Tax regulations.
- government policies that otherwise impact on the Council's business.
- other external factors; and
- litigation and claims against the Council.

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

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

**Table 2: Law and Regulation**

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with?	The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.
2. How is the Audit Board and Cabinet provided with assurance that all relevant laws and regulations have been complied with?	Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to Cabinet.

3. Have there been any instances of noncompliance with law and regulation since 1 April 2012?	No.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None.

### Going Concern

Going concern is a key concept in the preparation of the financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts).

The going concern assumption is a fundamental principle in the preparation of financial statements. Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long-term liabilities would become short term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on-going basis.

We discuss the going concern assumption with key Council officers and review the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Cabinet to consider.

**Table 3 – Going concern**

Question	Management response
1. Has a report been received from management forming a view on going concern?	The Director of Finance and Corporate Resources (as s151 Officer) is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy.

<p><b>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</b></p>	<p><i>The Financial Plan is agreed at the same time as the Council Plan. The financial plan makes clear reference to the Council Plan as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Council Plan. Reports in year are consistent with the budget set.</i></p>
<p><b>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</b></p>	<p>The financial plan considered the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review and other changes to local government finance, such as the new Council Tax Support scheme and other Council tax reforms being implemented from 1<sup>st</sup> April 2013 in addition to the Business rates retention scheme.</p>
<p><b>4. Have there been any significant issues raised with the Audit Board during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</b></p>	<p>No</p>

<p><b>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?</b></p> <p><b>If so, what action is being taken to improve financial performance?</b></p>	<p>No.</p>
<p><b>6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</b></p> <p><b>If not, what action is being taken to obtain those skills?</b></p>	<p>Yes.</p>

## **Accounting Estimates**

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation; these are detailed in appendix 1 to this report.

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

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

## **Related Parties**

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

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

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

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

**Table 4: Related Parties**

Question	Management response
<p><b>1. Who are the Council's related parties?</b></p>	<p>The Council discloses its related parties under the following headings:</p> <p>(1) Government - central government has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</p> <p>(2) Pension Fund - this party is subject to common control by central government.</p> <p>(3) Precepts &amp; Levies - these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</p> <p>4) Group relationship with Atrix.</p> <p>(5) Assisted Organisations - the provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</p> <p>(6) Members and Officers - Certain Members and Officers may have controlling influence or related interests with other of the Council's related party organisations, such that they may be in a position to significantly influence the policies of the Council.</p>

<p><b>2. What are the controls in place to identify, account for, and disclose, related party transactions and relationships?</b></p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>■ Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li> <li>■ Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li> <li>■ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>■ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation</li> <li>■ Review of year end debtor and creditor positions in relation to the related parties identified.</li> <li>■ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.</li> </ul>
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## Appendix 1 Accounting Estimates

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

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & Amortisation.	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> <li>■ Assets are not depreciated in the year of acquisition; a full year's depreciation is charged in the year of disposal</li> <li>■ Assets that are not fully constructed are not depreciated until they are brought into use.</li> </ul>	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Worcestershire County Council Valuer.; plus all the heads of service are asked to review a list of assets and confirm they are still in use, life appropriate etc.	Valuations are made in-line with RICS guidance - reliance on one expert.	No
Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?

Non adjusting events - events after the BS date	S151 Officer makes the assessment. If the event is indicative of conditions, that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Heads of Services notify the S151 Officer	This would be considered on, individual circumstances.	This would be considered on, individual circumstances.	N/A
Overhead allocation.	The Cost Centre Management Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed regularly to ensure equitable	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professionals.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No
<b>Estimate</b>	<b>Method / model used to make the estimate</b>	<b>Controls used to identify estimates</b>	<b>Whether Management have used an expert</b>	<b>Underlying assumptions:</b> - Assessment of degree of uncertainty - Consideration of alternative estimates	<b>Has there been a change in accounting method in year?</b>
Bad Debt	A provision is estimated using	An aged debt listing is	No	Consistent proportion	No

Provision.	a proportion basis of an aged debt/listing.	provided routinely and finance calculate the provision.		used across aged debt as per the SORP.	
Provisions for liabilities.	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No
<b>Estimate</b>	<b>Method / model used to make the estimate</b>	<b>Controls used to identify estimates</b>	<b>Whether Management have used an expert</b>	<b>Underlying assumptions: - Assessment of degree of uncertainty Consideration of alternative estimates</b>	<b>Has there been a change in accounting method in year?</b>
Accruals	CCMT collate accruals of Expenditure and Income. Activity is accounted for in the financial	Activity is accounted for in the financial year that it takes place (in line with thresholds identified	No	Accruals for income and expenditure have been principally based on known values. Where	No

	year that it takes place, not when money is paid or received.	in the accounting policies) , not when money is paid or received.		accruals have had to be estimated the latest available information has been used.	
Landfill Allowance liability.	As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash/ penalty to DEFRA (or by a combination).	Finance check calculations from DEFRA.	No	The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.	No

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**AUDIT BOARD**14<sup>TH</sup> MARCH 2013**GRANT THORNTON AUDIT PLAN 2012/13**

Relevant Portfolio Holder	Cllr Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering ( Exec Director)
Wards Affected	<b>All</b>
Ward Councillor Consulted	None specific

**1. SUMMARY OF PROPOSALS**

- 1.1 To present to members the Grant Thornton Audit Plan 2012/13. 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 2012/13 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 £77k. This reflects a 30% reduction from 2011/12 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 2012/13 Audit Opinion Plan . The Plan sets out work that the Grant Thornton propose to undertake in relation to the Audit of the financial accounts for 2012/13 and any risks that have will require additional review and consideration.
- 3.4 The Audit will include an understanding of the organisational operations together with issues that may impact on the Council in the future. This assessment results in the External Audit consideration of

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

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

**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 – Annual Audit Plan 2012/13

**AUTHOR OF REPORT**

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# The Audit Plan for Bromsgrove District Council March 2013

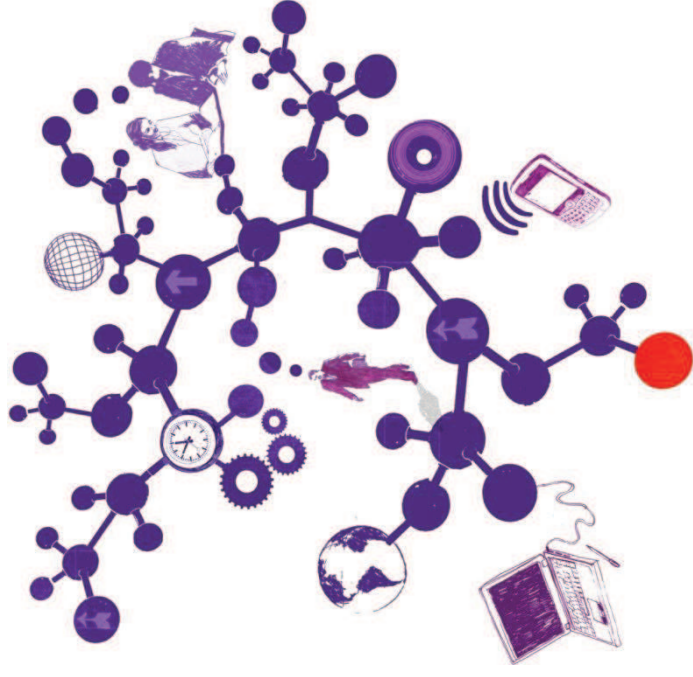
Year ended 31 March 2013  
March 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Financial Pressures

- Providing service with less resource due to reductions in grants and the overall economic environment.
- Significant savings need to be achieved so that balances can be maintained at prudent levels.

### 2. Business rate pooling

- Localising of business rates means a transfer of risks from central government to the Council. This risk will have to be effectively managed to protect the Council's financial position.
- The Council has joined with the Greater Birmingham and Solihull Pool,

### 3. Transformation

- The Council has recognised that alternative ways of service delivery are needed to both address the council's financial challenges and to protect and improve services in the right places. This is an on-going project that cuts right across the Council.

### 4. Housing Benefit /Council Tax changes

- Council tax benefit grant has been cut and the council will have to make decisions on benefit granted locally.
- The current system of housing benefit will transfer to 'universal credit'. This will have a significant operational impact.

### 5. Town Centre regeneration

- The Council is a key member of the regeneration partnership. A developer has been secured for part of the town centre redevelopment. The capital programme includes investment into these projects.

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## Our response

- We will undertake a review of Financial Resilience as part of our VFM conclusion
- We will review the Council's performance against the 2012/13 budget, including delivery of the savings plan.

- We will gain an understanding of the impact of the changes through our discussions with officers, providing support where appropriate.

- As part of our VFM conclusion we will:
- review the medium term financial plan and consider how the council is identifying and managing its savings.
  - continue to monitor the Council's path to transformation, providing support where appropriate

We will consider the assumptions made in financial planning around the impact of these changes.

We will continue to monitor progress through our discussions with officers. We will consider the accounting implications of these schemes where relevant.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

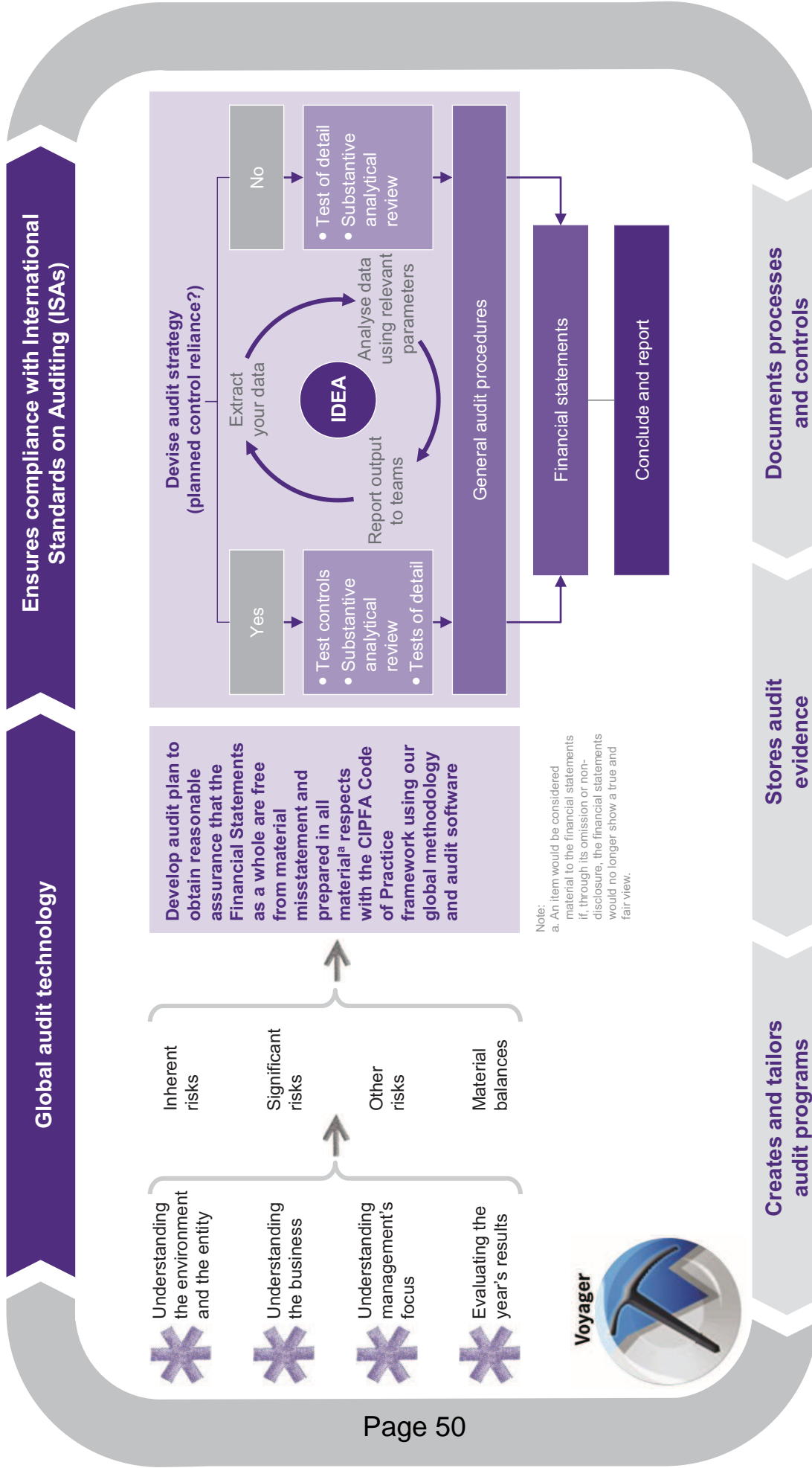
## Developments and other requirements

<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Recognition of grant conditions and income</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement 2012/13</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>
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## Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing</li> <li>• grant income is recognised in line with the correct accounting standard</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements (limited audit procedures are required)</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>
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# Our audit approach



# An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		✗
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		✗
Investment properties: Income expenditure, depreciation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		✗
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income <sup>9</sup>	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓



## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have assessed the arrangements for revenue recognition and have concluded that there is not a material risk of fraud. We can therefore rebut the presumption of fraud in revenue recognition.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

# Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenditure/ Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Walkthrough tests were completed in relation to the completeness assertion which we consider to present a risk of material misstatement to the financial statements</li> </ul>	Tests of detail on operating expenses included in the financial statements including <ul style="list-style-type: none"> <li>Performance of substantive testing for the financial year</li> <li>Tests of controls for operating expenditure</li> </ul>
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> <li>Walkthrough tests were completed in relation to the completeness assertion which we consider to present a risk of material misstatement to the financial statements</li> </ul>	Tests of detail on the employee remuneration including <ul style="list-style-type: none"> <li>Performance of substantive testing on a sample of payroll expenditure</li> <li>Agreement of employee remuneration disclosures in the financial statements to supporting evidence</li> </ul>
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> <li>Walkthrough tests were completed in relation to the valuation assertion which we consider to present a risk of material misstatement to the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Completion of Housing benefit claim initial sample testing</li> </ul>

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Bromsgrove Arts Development Trust	Yes	Comprehensive	Building valuation not accurately recorded	Review valuation report from independent valuer . Confirm with the Trustees of the Bromsgrove Arts Development Trust that there are no income or expenditure transactions within the accounts .

# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we consider:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

Our interim audit is on going at the time of writing and this is reflected in the table below. We will provide an update to the next Audit board, when our interim work will be complete.

	Work performed	Conclusion/ Summary
<p><b>Internal audit</b></p> <p>Page 58</p>	<p>We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.</p>
<p><b>Walkthrough testing</b></p>	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a significant risk of material misstatement to the financial statements -</p> <ul style="list-style-type: none"> <li>• Housing benefit/Council tax expenditure - valuation</li> <li>• Employee remuneration - completeness</li> <li>• Operating expenses &amp; trade creditors/accruals – completeness.</li> </ul>	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p>

## Results of interim audit work (continued)

	<b>Work planned/ performed</b>	<b>Conclusion/ Summary</b>
<b>Review of information technology (IT) controls</b>	<p>We have yet to complete our review of the IT control environment. We are planning to undertake this work in April. Should our work identify a material weakness that is likely to adversely impact on the Council's financial statements we will report to you at the next Audit Board.</p>	
<b>Journal entry controls</b>	<p>As part of our on-going interim audit , we are reviewing the Council's journal entry policies and procedures. We are undertaking detailed testing on journal transactions for the first nine months of the financial year, by extracting 'unusual' items for further review. We will provide an update to the next Audit Board if there are any matters of concern arising from that review.</p>	
<b>Controls testing</b>	<p>Our testing strategy includes tests of control on operating expenses. This work is currently on-going as part of our interim visit.</p>	
<b>Substantive testing</b>	<p>We are undertaking substantive tests on the employee expenses. Again this work is currently on-going.</p>	

# Value for Money

## Introduction

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

## 2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

## Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

## Work to be undertaken

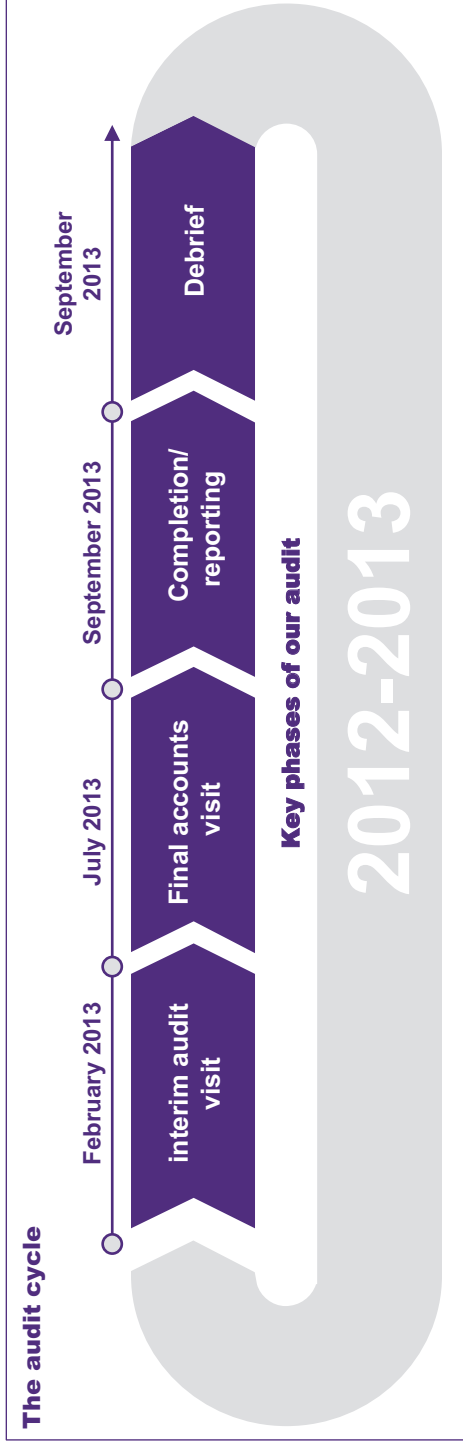
Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will:

- Review the Councils medium to long term financial plan to determine the measures in place to deliver savings over the medium to long term
- Review the Councils plans in relation to both the Shared Service Agenda and transformation with particular focus on the impact on the medium term financial plan
- Continue to monitor the in-year progress against savings targets and longer term plans to deliver recurrent savings.
- Continue to monitor the Councils in-year progress and achievement of its financial targets to the end of the financial year.

We will consider whether the Council is prioritising its resources with tighter budget



# Logistics and our team



Date	Activity
December 2012	Planning meeting
February-March 2012	Interim site work
March 2013	The audit plan presented to Audit Board – to be forwarded to Cabinet
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Cabinet Meeting to present the ISA 260 report
September 2013	Sign financial statements and VFM conclusion
<b>TBC</b>	Issue Annual Audit Letter

## Our team

<b>Phil Jones</b> <b>Engagement Lead</b> T 0121 232 5232 E phil.w.jones@uk.gt.com	<b>Azizul Islam</b> <b>Executive</b> T 0121 232 5416 Azizul.islam@uk.gt.com
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<b>Negat Sultan</b> <b>IT specialist</b> T 0116 257 5590 E negat.sultan@uk.gt.com	

# Fees and independence

## Fees

	£
Council audit	64,006
Grant certification	13,300
<b>Total</b>	<b>77,306</b>

## Fees for other services

Service	Fees £
None	Nil

## Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

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

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

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

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

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## AUDIT BOARD

14<sup>TH</sup> MARCH 2013

### GRANT THORNTON AUDIT UPDATE

Relevant Portfolio Holder	Cllr Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering ( Exec Director)
Wards Affected	<b>All</b>
Ward Councillor Consulted	None specific

#### 1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Grant Thornton update in relation to work undertaken at Bromsgrove District Council.

#### 2. RECOMMENDATIONS

- 2.1 **Members are asked to note and report**

#### 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 £77k. This reflects a 30% reduction from 2011/12 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 Grant Thornton Audit Update. This details work undertaken to date by the External Audit team and highlights any issues that need to be considered by the Audit Board. There have been no concerns raised by Grant Thornton in the aspects of work to date.
- 3.4 In addition to the progress report the Appendix includes a number of key questions that have been raised as a result of emerging issues both financial and operational that may impact on the Council. It is

proposed that these questions are responded to by the Executive Director Finance and Resources as part of the agenda item.

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

**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 Update on Progress March 2013

**AUTHOR OF REPORT**

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# Audit Board Update for Bromsgrove District Council March 2013

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## Year ended

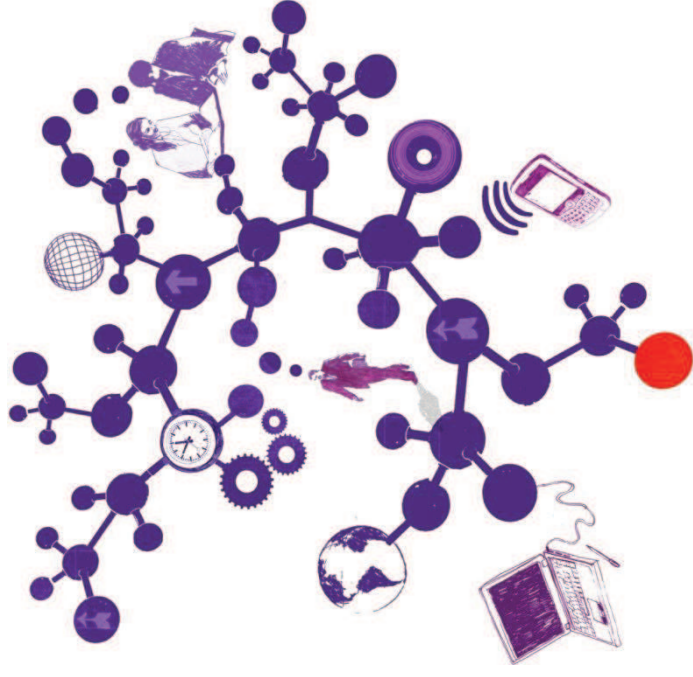
31 March 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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# Introduction

This paper provides the Audit Board with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

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

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

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# Progress at 1 March 2013

Work	Planned date	Complete?	Comments
<p><b>2012-13 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	March 2013	YES	This is presented to the March Audit Board. As the Cabinet has overall responsibility for approving the accounts, this report should also be presented to Cabinet.
<p><b>Interim accounts audit</b> Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• review of the Council's control environment</li> <li>• update understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money risk assessment.</li> </ul>	February/ March 2013	NO	This work is currently on-going. We will provide an update to the next Audit Board.
<p><b>2012-13 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	September 2013	NO	We will be undertaking the main final accounts visit during July 2013. The Annual Governance statement containing the findings from the audit will be presented to Cabinet in September. We will provide an update to the September Audit Board.

# Progress at 28 February 2013.

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>                      The scope of our work to inform the 2012/13 VFM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• A review of the Council's medium to long term financial plan to determine the measures in place to deliver savings over the medium to long term.</li> <li>• A review of the Council's plans in relation to both the Shared Service Agenda and transformation, with particular focus on the relationship between this and the medium term financial plan.</li> <li>• monitoring the in-year progress against savings targets and longer term plans to deliver recurrent savings in future years.</li> <li>• Monitoring of the Councils in-year progress and achievement of its financial targets to the end of the financial year.</li> </ul>	<p>March 2013</p>		<p>The substantive work will be undertaken in March but will be updated when the outturn position is known.</p>
<p><b>Other areas of work</b>                      Housing Benefits return to DWP.</p>	<p>March –meet with officers                      June – early modules testing                      August – client testing early modules</p>		<p>The housing benefits claim is a substantial piece of work. In previous years the Council has undertaken some of the testing on our behalf in order to reduce the audit fee. We will agree with officers a timetable to ensure the work is completed by the deadline.</p>

# Emerging issues and developments

## Accounting and audit issues

### Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

- Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.
- 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

In December 2012, CIPFA issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

Challenge questions:

- Do you know your key risks?
- Have officers ensured the financial impact is fed into medium term financial plans?
- Have officers undertaken modelling of future business rates growth?
- Have officers given due consideration to pooling?
- Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?
- Has your Executive Director of Finance and Resources reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?

# Emerging issues and developments

## Accounting and audit issues

### Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements.

- ~~TP~~ ~~CO~~ ~~IAS 16~~ and restoration costs – where a local authority owns a closed landfill site and is responsible for aftercare costs, we would expect the authority to recognise a provision for total future costs. These landfill aftercare costs should also be capitalised and depreciated under IAS 16 'Property, Plant and Equipment' so there is no immediate impact on the General Fund.

- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any claims and, where the criteria set out in IAS 37 have been met, recognise a provision.

- Redundancy costs –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'.

Challenge question:

- Has your Executive Director of Finance and Resources considered the need for additional provisions for the above matters?

# Emerging issues and developments

## Grant Thornton

### 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'

In December 2012, Grant Thornton published '[Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities](#)'. This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

#### Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that relate to your authority and what action are you going to take?

### 'LG Governance Review 2013: Improving Council Government Governance; a slow burner'

This report published in February 2013. This report is based on a desktop review of the annual governance statements (AGS) and explanatory forwards of 153 county councils, London Boroughs metropolitan borough councils and unitary councils in England and makes comparison against best practice. This is supplemented by a survey of 63 'council leaders'.

This report is a useful reference for the Council when preparing its 2012/13 AGS and accounts.

# Emerging issues and developments

## Local government guidance

### 'Auditing the Accounts 2011/12' report

In December, the Audit Commission published '[Auditing the Accounts 2011/12](#)'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies have improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:

- Has your Executive Director of Finance and Corporate Resources identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Executive Director of Finance and Corporate Resources produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

### 'Striking a balance: improving councils' decision making on reserves

In December, the Audit Commission published '[Striking a balance: improving councils' decision making on reserves](#)'. The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

Challenge questions:

- Are your officers providing you with the right information about reserves?
- Have you considered the findings of the report and identified where actions are required?



# Emerging issues and developments

## Local government guidance

### 'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published '[Tough times 2012: Councils' financial health in challenging times](#).' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:

- Have you considered the findings of the report and any actions required?

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## BROMSGROVE DISTRICT COUNCIL

### **AUDIT BOARD**

14<sup>th</sup> March 2013

### **ACCOUNTING STANDARDS FOR INCLUSION WITHIN 2012/13 FINAL ACCOUNTS**

Relevant Portfolio Holder	Roger Hollingworth
Portfolio Holder Consulted	No
Relevant Head of Service	Teresa Kristunas
Wards Affected	<b>All</b>
Ward Councillor Consulted	None specific

#### **1. SUMMARY OF PROPOSALS**

- 1.1 To approve the proposed Accounting Standards in preparation for the 2012/13 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 2013. 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.

**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**

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## **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 2012/13 financial year and its position at the year-end of 31 March 2013. 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 2012/13 and the Best Value Accounting Code of Practice 2012/13, 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**

Bromsgrove District Council provides the hosting for a number of shared service arrangements with Redditch Borough Council and Wyre Forest District Council. Bromsgrove also hosts Worcestershire Regulatory Services which is a Jointly Controlled Operation. Other Shared Services are also hosted by Worcester City Council and Wyre Forest District Council.

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

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



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

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

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

<b>Shared Services</b>	<b>Host Council</b>	<b>Basis of split</b>
ICT/Business Transformation	Bromsgrove District	Redditch 50% Bromsgrove 50%
Elections/Electoral Registration	Bromsgrove District	Redditch 46.5% Bromsgrove 53.3%
Building Control	Bromsgrove District	Based on existing budget split
Policy, Performance & Communications	Bromsgrove District	Redditch 50% Bromsgrove 50%
Land Charges	Bromsgrove District	Redditch 40% Bromsgrove 60%
Internal Audit	Worcester City	Agreed audit work
Bromsgrove Community Safety	Redditch Borough	100% Bromsgrove
North Worcestershire Regeneration	Wyre Forest District	Service level agreement
Payroll	Redditch Borough	Payroll numbers
Climate Change	Redditch Borough	Redditch 50% Bromsgrove 50%
Directorate Support	Redditch Borough	Agreed support work
Management Team	Joint Redditch & Bromsgrove	Redditch 50% Bromsgrove 50% (Housing 100% Redditch)
Land Drainage	Wyre Forest District	Based on existing budget split
Legal & Committee Services	Bromsgrove District	Redditch 50% Bromsgrove 50%
Leisure Services	Redditch Borough	Various dependent on facility
CCTV/Lifeline	Redditch Borough	Redditch 60% Bromsgrove 40%

## **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:

	<b>Estimated useful life</b>
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.

The following table gives additional information on the nature and demographic profile of cases of benefit fraud where sanctions were applied during the period April to September 2012 as presented to the Audit Board on 13 December 2012.

Gender	Age	Status	Dependant children	Tenancy type	Area	Fraud type	HB Overpayment	CTB Overpayment	
Female	29	Partnered	1	Housing Association	Charford	Undeclared work	£1,452.23	£1,452.90	Prosecution
Male	52	Partnered	0	Housing Association	Hollywood	Undeclared work	£1,862.77	£460.30	Prosecution
Female	51	Single	3	Private tenant	Rubery	Undeclared partner/contrived tenancy	£39,385.50	£5,266.39	Prosecution
Male	25	Single	0	Private tenant	Rubery	Undeclared rental income	£2,460.00	£578.39	Caution
Male	47	Partnered	1	Private tenant	Rubery	Undeclared work	£473.62	£81.59	Caution
Female	52	Single	0	Private tenant	Catshill	Capital (undeclared savings)	£214.37	£43.31	Caution
Male	44	Single	0	Private tenant	Finfall	Undeclared work	£816.22	n/a	Caution
Male	41	Single	0	CTB only	Tardebigge	Undeclared work	n/a	£1,339.16	Caution
Female	52	Partnered	0	Housing Association	Sidemoor	Undeclared non-dependant's work	£3,554.69	£773.58	Caution
Male	19	Single	0	Private tenant	Sidemoor	Undeclared work	£544.19	n/a	Caution
Female	45	Single	1	Housing Association	Charford	Undeclared partner	£1,575.60	£73.93	Caution
Female	46	Single	1	Private tenant	Hollywood	Undeclared wage increase	£2,929.04	£1,458.91	Caution
Male	66	Single	0	Private tenant	Lickey End	Capital (undeclared savings)	£2,850.85	£1,830.20	Administrative Penalty
Female	21	Partnered	0	Housing Association	Charford	Undeclared work	£270.10	£95.41	Administrative Penalty
Female	38	Single	0	Private tenant	Charford	Undeclared work	£1,993.16	n/a	Administrative Penalty
Female	27	Partnered	2	Private tenant	Sidemoor	Undeclared work	£4,259.51	£591.99	Administrative Penalty
Female	30	Partnered	2	Private tenant	Sidemoor	Undeclared work	£374.18	n/a	Administrative Penalty

The latest National Statistics compiled by the Department for Work and Pensions using claim data supplied by Bromsgrove District Council show claim data to be as follows.

All Housing Benefit claims	3,760
Social sector rented Housing Benefit claims	2,790
Private sector rented Housing Benefit claims	970
All Council Tax Benefit claims	5,300
Both Housing Benefit and Council Tax Benefit claims	3,420
Council Tax Benefit only claims	1,880
Housing Benefit only claims	340

**AUDIT BOARD**

14th March 2013

**WORK PROGRAMME 2012/13****14th March 2013**

- § Audit Commission Annual Governance Report 2011/2012 – quarterly report in respect of progress made on the actions – verbal update
- § Grant Thornton - Certification Report 2011 / 2012
- § Grant Thornton – Auditing Standards
- § Grant Thornton – Audit Plan
- § Grant Thornton – Progress Report
- § Internal Audit Monitoring Report
- § Individual Reports for completed audits
- § Internal Audit Performance and Workload
- § Internal Audit DRAFT Annual Plan 2013/2014
- § Corporate Risk Register / Risk Management – further update on the new risk management system, including corporate and operational risks.
- § Leisure and Culture Department – high level risks / operational risks presentation
- § Corporate Fraud – (how the Authority pro-actively responds)
- § End of Year Report from the Board

**To Be Allocated To Suitable Dates**

- § Departmental Risk Registers – High Level Actions, quarterly reports (to include a frontline service and a support service.
- § Departmental Risk Registers – Detailed reports to be provided periodically
- § Contracts Register – ‘due process’ update to be provided with regard to contracts entered into and that the Legal Services Team see all contracts entered into
- § Best practice – speaker from another authority on operation of their member Audit review and monitoring arrangements

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## **AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

### **THE 2013/14 DRAFT INTERNAL AUDIT PLAN REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Teresa Kristunas Head of Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

#### **1. SUMMARY OF PROPOSALS**

1.1 To present:

- the Bromsgrove District Council Internal Audit Operational Plan for 2013/14
- the key performance indicators for the Worcestershire Internal Audit Shared Service for 2013/14

#### **2. RECOMMENDATIONS**

2.1 **The Board is asked to APPROVE the audit plan and key performance indicators.**

#### **3. KEY ISSUES**

##### **Financial Implications**

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

##### **Legal Implications**

3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2011 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

To aid compliance with the regulation, the 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”.

**Service / Operational Implications**

Internal Audit Aims and Objectives

3.3 The aims and objectives of the Worcestershire Internal Audit Shared Service are to:

- examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the council and recommend arrangements to address weaknesses as appropriate;
- examine, evaluate and report on arrangements to ensure compliance with legislation and the council’s objectives, policies and procedures;
- examine, evaluate and report on procedures to check that the council’s assets and interests are adequately protected and effectively managed;
- undertake independent investigations into allegations of fraud and irregularity in accordance with council policies and procedures and relevant legislation; and
- advise upon the control and risk implications of new systems or other organisation changes e.g. transformation.

Formulation of Annual Plan

The Internal Audit Plan for 2013/14, 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 the s151 Officer and Heads of Service as well as an independent risk assessment of the audit universe by Internal Audit. The Internal Audit Plan for 2013/14 has been agreed with the council’s section 151 officer.

By bringing a provisional plan of work before the Audit Board in December 2012 it allowed Members to have a positive input into the audit work programme for 2013/14 and make suggestions as to where they felt audit resources should be directed. As with all plans it may subject to review as the year progresses in consultation with the s151 Officer.



Resource Allocation

The Internal Audit Plan for 2013/14 has been based upon a resource allocation of 300 chargeable days, a resource allocation which has been agreed with the council's s151 officer. The 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 300 day allocation is based on transactional type system audits. Enhanced audit requirements requested by the Board have been included.

The draft Internal Audit Plan for 2013/14 is set out at Appendix 1.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2013/14 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 s151 officers from client organisations, on a quarterly basis and to the Audit Board on a quarterly basis.

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 s151 officer and are included at Appendix 2.

**Customer / Equalities and Diversity Implications**

There are no implications arising out of this report.

**4. RISK MANAGEMENT**

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

failure to complete the planned programme of audit work within the financial year;  
and,

the continuous provision of an internal audit service is not maintained.

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

**AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

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**5. APPENDICES**

Appendix 1 ~ Outline Internal Audit Plan 2013/14  
Appendix 2 ~ Key performance indicators 2013/14

**6. BACKGROUND PAPERS**

None

**7. KEY**

N/a

**AUTHOR OF REPORT**

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**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

**DETAILED PROVISIONAL AUDIT PLAN FOR 2013/14**

**APPENDIX 1**

Audit Area	Source	Planned days 2012/13	Planned days 2013/14	Difference = + or -
<b>A – CHARGEABLE AND PRODUCTIVE</b>				
<b>Core Financial Systems</b>				
Benefits	Risk assessment score 36	15	15	0
NDR	Risk assessment score 36	12	12	0
Council Tax	Risk assessment score 33	12	12	0
General Ledger, Budget Control & Bank Reconciliations	Risk assessment score 33	21	17	-4
Treasury Management	Risk assessment score 30	7	7	0
Creditors	Risk assessment score 29	7	10	3
Debtors	Risk assessment score 28	7	7	0
Asset Management	Risk assessment score 26	7	7	0
		<b>88</b>	<b>87</b>	-1
<b>Corporate</b>				0
Shared Service Delivery (Client)(Performance Monitoring)	Board & Risk assessment score 36	15	12	-3
ICT	Risk assessment score 35	14	14	0
Corporate Governance (Health & Safety, Media & Communications, Performance Indicators & data quality )	Risk assessment score 31	10	10	0
Risk Management	Risk assessment score 31	15	15	0
s106's	Risk assessment score 31	0	10	10
Transformation & VFM (Critical friend)	Board & Section 151 request	15	7	-8
		<b>69</b>	<b>68</b>	-1

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

<b>Audit Area</b>	<b>Source</b>	<b>Planned days 2012/13</b>	<b>Planned days 2013/14</b>	<b>Difference = + or -</b>
<b>Other Systems Audits</b>				0
Environmental Enforcement	Risk assessment score 33	0	8	8
Depot and Stores	Risk assessment score 32	0	10	10
Development & Building Control	Risk assessment score 29	0	8	8
Regulatory Services	Risk assessment score 28	15	15	0
Land Charges	Risk assessment score 28	0	8	8
BURT Dial a Ride	Risk assessment score 28	0	7	7
Strategic Housing	Risk assessment score 27	0	8	8
Completion of Prior Year's work	N/A	12	10	-2
Statement of Internal Control	N/A	3	3	0
Follow Up on recommendations	N/A	10	12	2
Fraud and Special Investigations	N/A	8	10	2
Advisory / Consultancy / Contingency	N/A	10	10	0
<b>TOTAL PRODUCTIVE (A ONLY)</b>		<b>266</b>	<b>264</b>	
<b>B – CHARGEABLE AND NON-PRODUCTIVE</b>				
Audit Management Meetings	N/A	15	15	2
Corporate Meetings / Reading	N/A	5	5	
Annual Plans and Reports	N/A	8	8	
Audit Board support	N/A	6	8	
<b>TOTAL CHARGEABLE AND NON-PRODUCTIVE (B)</b>		<b>34</b>	<b>36</b>	<b>2</b>
<b>TOTAL CHARGEABLE (A + B)</b>		<b>300</b>	<b>300</b>	<b>0</b>

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

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**SUMMARY OF DETAILED PROVISIONAL PLAN 2013/14**

<b>Planned Days for 2013/14</b>	<b>2012/13</b>	<b>2013/14</b>
Core Financial Systems	49	48
Revenues and Benefits	39	39
Corporate Work	69	68
Other Systems Audits inc follow up	79	79
Completion of prior year's work	12	10
Advisory / Consultancy inc NFI, Fraud & investigations	18	20
<b>Sub Total</b>	<b>266</b>	<b>264</b>
Audit management meetings	15	15
Corporate meetings / reading	5	5
Annual plans and reports	8	8
Audit Board support	6	8
<b>Sub Total</b>	<b>34</b>	<b>36</b>
<b>TOTAL Audit Days</b>	<b>300</b>	<b>300</b>

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

Date: 14<sup>th</sup> MARCH 2013

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**KEY PERFORMANCE INDICATORS 2013/14**

**APPENDIX 2**

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2013/14.

	<b>KPI</b>	<b>Target</b>	<b>Frequency of reporting</b>
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	Minimum 15	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 will also be completed at the end of the annual cycle. Any areas of partial or non-compliance with the Code will be reported as exceptions to the Client Officer Group and Audit Board.

## AUDIT BOARD

Date: 14<sup>th</sup> MARCH 2013

### THE INTERNAL AUDIT MONITORING REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Teresa Kristunas Head of Resources
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision
This report contains exempt information as defined in Paragraph(s) 7 of Part I of Schedule 12A to the Local Government Act 1972, as amended. (Appendices 3 & 4)	

#### 1. SUMMARY OF PROPOSALS

1.1 To present:

- the monitoring report of internal audit work and performance as at 31<sup>st</sup> January 2013;

#### 2. RECOMMENDATIONS

2.1 The Board is asked to **RESOLVE** that the report be noted.

#### 3. KEY ISSUES

##### Financial Implications

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

##### Legal Implications

3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2011 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

##### Service / Operational Implications

3.3 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement. This section of the report provides commentary on Internal Audit’s performance for the period 01<sup>st</sup> April 2012 to 31<sup>st</sup> January 2013 against the performance indicators agreed for the service. As discussed at the 21<sup>st</sup> June Audit Board the Management of Data audit will be included in the 2012/13 plan as part of the

Governance audit. This is scheduled to be undertaken this quarter with the outcome being reported to the Audit Board in a timely manner.

**AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST REPORT:**

Debtors (Final Report)

The review was a full system audit concentrating on the controls over the debtors system as operated from the point where the invoice is raised to entry onto the main ledger. The review found there is a generally sound system of internal control in place. The debtors system is running effectively and efficiently in the majority of areas, including, invoice requests authorised appropriately and timely by the Exchequer team with the payments being recorded correctly and accurately in the Main Ledger. Although 'parked' invoices were not being reviewed on a regular basis, there was sufficient evidence to show that a procedure was in the process of being implemented with the monthly reconciliations. Areas where further enhancements could be made to the control environment included better narrative and notes detail being entered against accounts and an updating of accounts when final reminder thresholds have been reached.

Assurance Level: Significant  
Final Report issued: 3<sup>rd</sup> January 2013

Treasury Management (Final Report)

The review was a full system audit concentrating on the controls over the Treasury Management System. The audit did not express an opinion on the rates of interest obtained for individual investments/loans. There is generally a strong system of internal control. Monthly reconciliations are undertaken, although at the time of this audit were not up to date but this has since been addressed. Interest is paid and received on a timely basis and investments are made based upon cash flow, appropriately authorised and in accordance with the approved Counterparty list.

Assurance Level: Significant  
Final Report issued: 13<sup>th</sup> November 2012

Street Scene 2012-13 (Final Report)

The review was a full system audit concentrating on areas of Street Scene. Detailed testing of operational activities was limited to areas considered the highest priority for the public or the most regularly undertaken, such as fly tipping, dog fouling and hazardous waste. Although there is generally a sound system of control in place and areas of good practice were identified (for example budget monitoring, publicity campaigns and priority cleansing areas) the audit found a couple of areas where managers are required to address identified control weaknesses including, performance monitoring currently undertaken and



the development of the street sweeping schedules currently in operation (e.g. detail how often a street is cleaned, different streets having different frequencies dependent on usage (footfall), etc) These are with managers to ensure that processes continue to be developed for the future.

The service is currently undergoing a transformation review and, therefore, the findings and consequential recommendations will be considered as part of this process.

Assurance Level: Significant  
Final Report issued: 7<sup>th</sup> January 2013

Summary of Assurance Levels:

<b><u>Audit</u></b>	<b><u>Assurance Level</u></b>
Debtors 2012/13	Significant
Treasury Management 2012/13	Significant
Street Scene 2012/13	Significant

2012/13 AUDITS IN PROGRESS AS AT 31<sup>st</sup> January 2013

Creditors (Draft Report Stage)

The review is a full system audit concentrating on the controls over the creditors system as operated from the point when the purchase order is raised to the point the payment is recorded in the ledger. The audit will not look at the procuring of goods and services.

Parks and Open Spaces (Draft Report Stage)

The review is a limited systems review of Sanders Park concentrating on the areas of the pavilion and café including, income collection and contractual and management information.

ICT (Draft Report Stage)

The review is a full system audit focusing on inventory; replacement programme; IT Helpdesk; communications and monitoring.

Asset Management (Clearance Meeting Stage)

The review is a risk based systems review seeking assurance on the accuracy of the records maintained for recording Fixed Assets with regards to both the Fixed Asset Register and other service department registers. All land and property valuations are performed under a service level agreement with Worcestershire County Council. The review will concentrate on areas including assets per the Fixed Asset Register are owned by Bromsgrove District Council, there are procedures in place for Acquisition and Disposal of Assets, Valuation of Assets as well as assets per the Fixed Asset Register are reconciled to other asset

records held e.g. the land and property database maintained by the Property Section and there is evidence to support this.

Renovation Grants (Clearance Meeting Stage)

The review is a risk based systems audit concentrating on the Renovation Grants system from the point where the application form is received to the approval of the grant. The review will assess control objectives of Renovation Grants including critical appraisal of each stage of the process, grants are consistent and awarded only to eligible applicants and the contract with Festival Housing is monitored.

Climate Change (Fieldwork Stage)

The audit is a risk based systems review of limited scope. The review is to concentrate on areas including the utilisation of funding by Bromsgrove District Council, monitoring of savings and repayment of funding as per agreement. The review will assess the eligible projects have been identified to maximise the use of available grant and Salix funding, in accordance with determined criteria along with effectively monitoring of performance and promotion.

Regulatory Services ~ Licensing Income (Fieldwork Stage)

The review is a full systems audit concentrating on the Miscellaneous Environmental Licensing system. The review has included the granting and approval of licenses, renewal and enforcement, collection and payment of licenses and income performance monitoring.

Council Tax (Fieldwork Stage)

The review is a full systems audit concentrating on the controls within the Council Tax system in connection with key areas such as discounts, recovery of debt, write offs and system access.

Non Domestic Rates (Fieldwork Stage)

The review is a full systems audit concentrating on the controls within the Non Domestic Rate system in connection with key areas such as discounts, recovery of debt, write offs and system access.

Housing and Council Tax Benefits (Fieldwork Stage)

The review is a full systems audit concentrating on the controls within the Housing and Council Tax Benefit system in connection with key areas such as overpayments, back dated claims and reconciliations.

Cemetery and Crematorium

The review will be a full system audit which will concentrate on adherence with regulatory requirements, for example, documentation and authorisation; income collection; pursuit of debts; landscaping maintenance and management information. The audit is due to recommence towards the end of February having been placed on hold.

As the above audits remain in progress an assurance level will be allocated on completion.

**3.4 AUDIT DAYS**

Appendix 1 shows that progress continues to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31<sup>st</sup> January 2013 a total of 187 days had been delivered against a target of 300 days for 2012/13.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Board on the 29th March 2012 for 2012/13.

Appendix 3 shows a summary of the 'high' and 'medium' priority recommendations for those audits that have been completed and final reports issued.

Appendix 4 shows an updated list of recommendations reported to the Board previously. The 'Action Tracker' reporting mechanism has been superseded by Appendix 3 but will continue to be reported until the points have been satisfied.

**3.5 OTHER KEY AUDIT WORK**

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

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

**Recruitment**

- 3.6 WIASS has experienced natural turnover of staff and has also had to manage sickness absence during the year to date. This has been achieved with the careful allocation of resource and engaging the services of agency workers to assist in the overall delivery of the plans to all the partners. Close monitoring of resource is continuing using current management information and further resource is secured and in place to assist the delivery of the partner's plans in relation to forecasted demand for the remainder of quarter 4. WIASS remains committed to delivering all audits as indicated in the 2012/13 plan for Bromsgrove District Council and continues to take active steps to achieve this. There is no expectation that engaging agency workers will result in an increased contribution requirement from Bromsgrove District Council.

**Customer / Equalities and Diversity Implications**

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

**4. RISK MANAGEMENT**

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

failure to complete the planned programme of audit work within the financial year; and,

the continuous provision of an internal audit service is not maintained.

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

**5. APPENDICES**

- Appendix 1 ~ Internal Audit Plan delivery 2012/13  
Appendix 2 ~ Key performance indicators 2012/13  
Appendix 3 ~ 'High' and 'Medium' priority recommendations summary and complete finalised reports  
Appendix 4 ~ Action Tracker entries

**6. BACKGROUND PAPERS**

Individual Internal Audit reports.

**AUDIT BOARD**

**Date: 14<sup>th</sup> MARCH 2013**

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**7. KEY**

N/a

**AUTHOR OF REPORT**

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**Delivery against Internal Audit Plan for 2012/13**  
**1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013**

<b>Audit Area</b>	<b>2012/13 PLANNED DAYS</b>	<b>DAYS PLANNED TO THE END OF THE 3<sup>rd</sup> QUARTER</b>	<b>DAYS USED TO 31/01/13</b>
Core Financial Systems (*Note 1)	88	71	46
Corporate Audits (*Note 2)	69	31	27
Other Systems Audits (*Note 3)	109	73	79
<b>TOTAL</b>	<b>266</b>	<b>175</b>	<b>152</b>
Audit Management Meetings	15	11	13
Corporate Meetings / Reading	5	4	4
Annual Plans and Reports	8	6	5
Audit Board support	6	5	6
Other chargeable	0	0	7
<b>TOTAL</b>	<b>34</b>	<b>26</b>	<b>35</b>
<b>TOTAL</b>	<b>300</b>	<b>201</b>	<b>187</b>

**\*Note 1**

Core Financial Systems are audited in quarters 3 and 4 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts. An explanation as to the short fall against the projected days is provided at paragraph 3.6 above and the situation is being addressed.

**\*Note 2**

Corporate Audits to include Management of Data audit request per Audit Board 21st June 2012.

**\*Note 3**

A number of the budgets in this section are 'on demand' e.g. consultancy, investigations so the requirements can fluctuate.

**APPENDIX 2**

**Key Performance Indicators (KPIs) for 01<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013.**

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

	<b>KPI</b>	<b>Progress to date (1/4/12 to 31/01/13)</b>	<b>Target</b>	<b>Frequency of Reporting</b>
1	% Plan delivered excluding overruns	62%	90% for year	Quarterly
2	Customer satisfaction surveys	None received at time of publishing	90% Good or above	Quarterly
3	Number of audits delivered compared to plan	2012/13 6x Final Reports 3x Draft Reports & 8x in progress  2011/12 2	18	Quarterly
4	Annual survey of Internal Audit Service	To be monitored by the Client Officer Group throughout the year	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 will also be completed at the end of the annual cycle. Any areas of partial or non-compliance with the Code will be reported as exceptions to the Client Officer Group and Audit Board.



By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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