



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 19TH JUNE 2014
AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors S. J. Baxter, M. T. Buxton, B. T. Cooper, S. J. Dudley,
P. A. Harrison, H. J. Jones and P. M. McDonald

AGENDA

1. Election of Chairman
2. Election of Vice-Chairman
3. To receive apologies for absence and notification of substitutes
4. Declarations of Interest

To invite Councillors to declare any Disclosable Pecuniary Interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.
5. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 20th March 2014 (Pages 1 - 8)
6. Grant Thornton - Auditing Standards 2013/2014 (Pages 9 - 36)
7. Grant Thornton Audit Plan 2013/2014 (Pages 37 - 54)
8. Grant Thornton Progress Update 2013/2014 (Pages 55 - 68)
9. Departmental Risk Register Presentation - Environmental Services
10. Annual Governance Statement 2013/2014 (Pages 69 - 78)

11. Benefits Fraud Investigations Update - Quarter 4 (Pages 79 - 88)
12. Internal Audit Annual Report 2013/2014 (Pages 89 - 100)
13. Internal Audit Monitoring Report (Pages 101 - 134)
14. ICT Resilience - verbal update
15. Corporate Risk Register (Pages 135 - 138)
16. Audit Board Draft Annual Report 2013/2014 (Pages 139 - 168)
17. Audit Board Work Programme 2014/2015 (Pages 169 - 170)
18. 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

10th June 2014



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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY, 20TH MARCH 2014 AT 6.00 P.M.

PRESENT: Councillors B. T. Cooper (Vice-Chairman), J. R. Boulter, M. T. Buxton, S. J. Dudley, H. J. Jones and C. J. Spencer (substituting for P. A. Harrison)

Invitees: Councillor M. J. A. Webb, Portfolio Holder for Finance, Customer Services and Economic Development

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

The Chairman welcomed Councillor M. J. A. Webb to the meeting as Portfolio Holder for Finance, Customer Services and Economic Development.

34/13 APOLOGIES

Apologies for absence were received from Councillors P. A. Harrison and P. M. McDonald. Councillor C. J. Spencer confirmed she was attending as a substitute Member.

35/13 DECLARATIONS OF INTEREST

No declarations of interest were received.

36/13 MINUTES

The minutes of the Audit Board meeting held on 12th December 2013 were submitted.

RESOLVED that the minutes be approved as a correct record.

37/13 GRANT THORNTON - CERTIFICATION WORK REPORT 2012/2013

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

The Board was asked to note the Grant Thornton Grant certification letter 2012/2013 and the Grant certification work plan 2013/2014.

Ms. Z. Thomas introduced the report and informed Members that they had certified two claims for 2012/2013 which related to £45.8 million of expenditure. The two claims, as detailed at Appendix 1 to the report were:

- Housing and Council Tax Benefit Scheme
- National Non Domestic Rates

There were no significant issues arising from their certification work which they wished to highlight for the Board's attention. They were satisfied that the Council had appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification and were satisfied that any recommendations raised in previous years had been addressed.

There were a number of errors identified in the housing benefits testing. There were 8 cells for which 40+ testing was required. The value of the errors were extrapolated and reported to the Department for Work and Pensions (DWP) in line with the Audit Commission certification instructions. The total extrapolated value of amendments was less than £20,000 and was therefore small relative to the total value of the claim. It was important that officers reviewed the errors to determine whether there were any lessons to be learned that should be reflected in training and procedures within the department.

In response the Executive Director, Finance and Corporate Resources informed Members that she accepted there had been slightly more errors than in previous years. Training plans and checks were now in place with Benefits Team Leaders.

RESOLVED that the Grant Thornton Grant certification letter 2012/2013 and the Grant certification work plan 2013/2014 be noted.

38/13 **GRANT THORNTON - REVIEW OF FINANCIAL RESILIENCE**

The Board was asked to note the Grant Thornton Review of the Council's Arrangements for Securing Financial Resilience.

Mr. P. Jones, Engagement Lead, Grant Thornton introduced the report and in doing so drew Members' attention to page 31 in the report, which detailed the RAG (Red/Amber/Green) rating used by Grant Thornton. The Executive Summary detailed the four risk areas:

- Key Indicators of Performance
- Strategic Financial Planning
- Financial Governance
- Financial Control

Three of the risk areas had been RAG rated green, Financial Governance was RAG rated amber, due to the significant unplanned underspends in its revenue and capital budgets for the last two years. The Council had taken these large underspends seriously. Mr. Jones felt that there needed to be clear communication between the budget holders and their designated

accountants. Financial reports in the past had not been explicit enough about savings, the Board needed to ensure that transformation was delivering savings. Overall the financial position was reasonably sound.

The Chairman expressed his concerns with regard to over estimating on the budget, which had been contentious and questioned what plans were now in place. In response the Executive Director, Finance and Corporate Resources informed Members that the current underspend was £50,000. Each department now had a dedicated accountant. The 2014/2015 budget was being scrutinised with every single spend versus budget checked and any underspend drawn down and extracted to meet future budget savings. A financial management training package for budget holders was currently being developed and Grant Thornton would be asked for their comments on the financial training package. Members were further informed that a detailed report on financial resilience, as detailed at agenda item 13, would be presented to Members later in the meeting.

Councillor M. T. Buxton commented that she was pleased to see that the concerns raised by Members with regard to unplanned underspends had been taken into account and addressed.

RESOLVED that the Grant Thornton Review of the Council's Arrangements for Securing Financial Resilience and the actions to be undertaken by the Council, be noted.

39/13 **BENEFITS SERVICES FRAUD INVESTIGATION**

The Board considered a report which detailed the performance of the Benefits Services Fraud Investigation service for the period 1st October 2013 to 31st December 2013.

The Executive Director, Finance and Corporate Resources introduced the report and in doing so informed the Board that as detailed in the report, during this period there had been 3677 live Housing Benefit claims and 5102 Council Tax Support claims at any one time. Direct expenditure for the period from 1st April 2013 until 31st December 2013 was £15,667,212 in Housing Benefit and £5,666,630 in Council Tax Support.

47 fraud referrals had been received and considered for investigation by the team. Many fraud referrals related to benefits paid by both Bromsgrove District Council and the Department of Works and Pensions (DWP). In these cases, a joint approach was taken to ensure that the full extent of offending was uncovered and the appropriate action was taken by both bodies.

The Executive Director, Finance and Corporate Resources responded to Members' questions with regard to files being closed without sanction. The Chairman questioned as to why cases were closed without sanction and not left open, pending information that could be received at a later date, therefore providing enough evidence to prosecute. The Executive Director, Finance and Corporate Resources agreed to raise his question with the Head of Customer Access and Financial Support and report back to the Board.

Following further discussion on the new benefit system, Universal Credit, the Executive Director, Finance and Corporate Resources suggested that information on the new benefit system and the potential for increased fraud be reported to a future meeting of the Board.

The Chairman suggested and asked Members if they would prefer to see temporal data in future reports. Members were in agreement.

RESOLVED:

- (a) that the Benefits Services Fraud Investigation for 1st October 2013 to 31st December 2013 be noted;
- (b) that future reports include temporal data; and
- (c) that information on Universal Credit and the potential for increased fraud be reported to a future meeting of the Board.

40/13 **TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013-2014 TO 2015-2016**

The Board was asked to consider a report which detailed the Treasury Management Strategy Statement and Investment Strategy 2013/2014 to 2016/2016 in order to comply with the Local Government Act 2003.

The Executive Director, Finance and Corporate Resources introduced the report and in doing informed Members that the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (CIPFA TM Code) and the Prudential Code required local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year.

RESOLVED:

- (a) that the Strategy and Prudential Indicators shown at Appendix 1 to the report;
- (b) that Authorised Limit for borrowing at £12 million if required;
- (c) the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £3 million, subject to market conditions;
- (d) that an unlimited level of investment in Debt Management Account Deposit Facility (DMADF); and
- (e) that the updated Treasury Management Policy, as detailed at Appendix 2 to the report, be approved.

41/13 **CORPORATE FRAUD - AUDIT REVIEW**

The Board was asked to note the Worcestershire Internal Audit Shared Services review currently being undertaken in relation to Corporate Fraud 2013/2014.

The Executive Director, Finance and Corporate Resources provided Members with brief details of the Staff Mood Survey and the questions included within the survey in respect of the Council's Whistleblowing Policy:

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Audit Board
20th March 2014

- I understand that I have a responsibility to raise any concerns I may have over possible fraud, crime, danger or other serious risk that could threaten customers, colleagues, the public or the organisation's reputation –
 - Yes 97.18% (276) No 2.82% (8) 284
- I know how to raise such a concern –
 - Yes 83.22% (238) No 16.78% (48) 286
 -
 - I feel confident about raising any such concerns –
 - Yes 78.95% (225) No 21.05% (60) 285

Councillor Buxton felt that a more direct question "Are you aware of the Council's Whistleblowing Policy" should have been included in the Staff Mood Survey in order to identify any training issues. Members agreed that this should be included in the Audit Brief to ensure staff were aware of the Council's Whistleblowing Policy.

The Executive Director, Finance and Corporate Resources drew Members' attention to Appendix 2 to the report that detailed the Objectives of the Audit; which had been determined by Internal Audit and would address current policies and procedures whilst identifying best practice across the audit environment. The results of the Corporate Fraud 2013/2014 audit review would be reported to a future meeting of the Board. Members had noticed that the policy was out of date and in need of review. The Executive Director, Finance and Corporate Resources informed Members that this would be picked up by Internal Audit during the audit review.

Members raised the following questions:-

- Employee commencement and termination forms, what checks were in place to ensure that the staff member completing these forms was authorised to do so and to ensure there was no fraud taking place?
- Could it be included in the revised Whistleblowing policy that staff can raise concerns with Councillors?

The Executive Director, Finance and Corporate Resources agreed to raise both questions with the Council's Human Resources department and report back to the Audit Board.

RESOLVED that, as detailed in the preamble above the Corporate Fraud Audit Brief, in relation to Corporate Fraud be amended and noted.

42/13 INTERNAL AUDIT MONITORING REPORT

The Board considered a report which detailed the monitoring report of internal audit work and performance as at 28th February 2014

Mr. A. Bromage, Service Manager, Worcestershire Internal Audit Shared Service introduced the report and in doing so drew Members' attention to the audit reports issued and completed as at 28th February 2014, as detailed on page 104 and 105 in the report. There were no high priorities for the audits completed. Mr. Bromage responded to the Chairman and highlighted that he was confident that the planned programme of audit work would be completed.

RESOLVED that the monitoring report of internal audit work and performance as at 28th February 2014 be noted.

43/13 **INTERNAL AUDIT OPERATIONAL PLAN 2014/2015**

The Board considered a report which detailed the Internal Audit Operational Plan 2014/2015 and the key performance indicators for the Worcestershire Internal Audit Shared Service 2014/2015.

Mr. A. Bromage, Service Manager, Worcestershire Internal Audit Shared Service introduced the report and in doing reminded Members that a provisional plan of work was presented to the Board in December 2013. The provisional plan had provided Members with the opportunity to have a positive input to the audit work programme.

Mr. Bromage highlighted that with the resource allocation of 300 chargeable days for 2014/2015, as agreed with the Council's s151 officer; he was confident that he could provide management, external audit and those charged with governance with the assurances and coverage that they required over the system of internal control, annual governance statement and statement of accounts.

RESOLVED:

- (a) that the Internal Audit Operational Plan 2014/2015; and
- (b) the Key Performance indicators for the Worcestershire Internal Audit Shared Service 2014/2015 be approved.

44/13 **ICT RESILIENCE UPDATE**

Following on from the meeting held on 12th December 2013 where Members had requested further information on ICT Resilience. At the suggestion of the Chairman and with the agreement of all Members it was

RESOLVED that Executive Director, Finance and Corporate Resources would provide the brief information on ICT Resilience to the Democratic Services Officer to forward onto all Audit Board Members.

45/13 **CORPORATE RISK REGISTER**

The Board was asked to note and propose any additional items to be included in the Corporate Risk Register 2014/2015.

The Executive Director, Finance and Corporate Resources introduced the report and in doing so drew Members' attention to the Corporate Level – Risk Register, as detailed at Appendix 1 to the report.

The Corporate Risk Register was currently in the process of being updated and Members were requested to consider and propose any additional risk areas or changes to the Corporate Risk Register that were deemed to be of a strategic nature. The risks contained within the Corporate Register were deemed as strategic as they had the following impact:-

- If realised, could fundamentally affect the way in which the Council existed or provided services in the next five years.
- These risks would have a detrimental effect on the Councils' achievement of the key purposes
- Risk realisation would lead to material failure, reputation damage, loss or lost opportunity across the Council

The Executive Director, Finance and Corporate Resources informed Members that an additional corporate risk has been identified by the Head of Legal and Democratic services in relation to the implementation of the Individual Electoral Registration. The controls and actions in place were discussed with Members. Members agreed that Corporate Fraud be added as an additional corporate risk.

Risks were monitored on a quarterly basis and actions were undertaken to ensure adequate and robust controls were in place to mitigate any risk.

Following further discussion it was

RESOLVED:

- (a) that, as detailed in the preamble above the implementation of the Individual Electoral Registration and Corporate Fraud be included as additional corporate risks; and
- (b) that subject to these amendments the Corporate Risk Register be noted.

46/13 **QUARTER 3 - FINANCE MONITORING REPORT 2013/2014**

The Board was asked to consider a report which detailed the Council's summary financial position for Quarter 3, April to December 2013.

The Executive Director, Finance and Corporate Resources introduced the report and in doing so informed Members that the detail was presented to Cabinet and Overview and Scrutiny Board to enable Members to discuss the reasons for the variances in expenditure and income on the services provided. The main summary was included within the report to enable Members to be assured that relevant information was provided.

RESOLVED:

- (a) that the current summary financial position on Revenue and Capital be noted; and

(b) that the savings delivered 2014/2015 as reported and the approach taken to report the savings be approved.

47/13 **AUDIT BOARD END OF YEAR REPORT 2013/2014**

The Democratic Services Officer sought confirmation from the Board as to whether or not Members wanted to follow on from the success of the last municipal year and produce an Audit Board End of Year Report for 2013/2014.

RESOLVED that the draft Audit Board End of Year Report 2013/2014 be presented to the next meeting of the Audit Board.

48/13 **AUDIT BOARD WORK PROGRAMME MARCH 2014**

The Board considered the Work Programme for 2013/2014.

Following a brief discussion on the number and volume of reports presented to Audit Board meetings, the Board agreed that the Portfolio Holder for Finance, Customer Services and Economic Development and officers be tasked to review the Work Programme for 2014/2015.

RESOLVED:

- (a) that the Work Programme for 2013/2014 be noted; and
- (b) that the Portfolio Holder for Finance, Customer Services and Economic Development and officers review the Work Programme for 2014/2015.

The meeting closed at 7.14 p.m.

Chairman

AUDIT BOARD

19TH JUNE 2014

GRANT THORNTON – AUDITING STANDARDS 2013/14

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

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Auditing Standards report for 2013/14 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

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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 2013/14

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

AUTHOR OF REPORT

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Informing the audit risk assessment for Bromsgrove District Council

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Year ended
31 March 2014

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Agenda Item 6

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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit Board. The Cabinet retain the responsibility as 'those charged with governance' at Bromsgrove District Council, and the Audit Board supports them in that role. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Cabinet, through the Audit Board under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Standards Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Board in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Board and supports the Cabinet in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Standards Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties.

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit Board should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Board and management. Management, with the oversight of the Audit Board, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Board and Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Board regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Board oversees the above processes. We are also required to make inquiries of both management and the Audit Board as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	
<p>1. What is officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Officers also attend technical updates.</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>2. Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2013?</p> <p>If so how does the Audit Board respond to these?</p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> ■ Council Tax ■ Benefit fraud ■ Single person discount <p>However, there is a dedicated benefits investigation team which investigates any fraud.</p> <p>The Audit Board receives any ad-hoc fraud reports.</p> <p>There are no material instances of fraud that have been identified during the year.</p>
<p>3. Do you suspect fraud may be occurring, either within the Council or within specific departments? Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?</p>	<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>

Fraud risk assessment (continued)

Question	Management response
<p>4. Are you satisfied that the overall control environment, including: the process for reviewing the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Yes - Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as 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>

Fraud risk assessment (continued)

Question	Management response
<p>5. How do you encourage, and communicate to employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud? 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. Employees are aware of the anti-fraud of the anti-fraud and corruption strategy, details are available on the website.</p> <p>Management accepts that the fraud and corruption polices require updating and need to raise awareness across the Council</p>
<p>6. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are not any significantly high-risk posts identified.</p>

Fraud risk assessment (continued)

Question	
<p>7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>2012/13 financial statement disclosure of related party transactions does not identify potential fraud risk. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>8. What arrangements are in place to report fraud issues to Audit Committee? How does the Audit Board exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Internal Audit provide the Audit Board with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. Any adhoc investigations are reported to the Audit Board</p>
<p>9. Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2013? If so how does the Audit and Ethics Committee Respond to these?</p>	<p>None</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Board, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Board as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.
2. How is the Audit Board 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 2013 with and on-going impact on the 2013/14 financial statements?	None
4. Is there any actual or potential litigation or claims that would affect the financial statements?	These are included in the financial outturn statements
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The officers within legal and financial services assess the impact of any claims
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption 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.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has a report been received from management forming a view on going concern?	The Director of Finance and Corporate Resources (as s151 Officer) is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Financial Plan is agreed at the same time as the Council Strategic Purposes. The financial plan makes clear reference to the Purposes as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Purposes. Reports in year are consistent with the budget set.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan considered the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review and other changes to local government finance, such as the new Council Tax Support scheme and other Council tax reforms being implemented from 1st April 2013 in addition to the Business rates retention scheme.
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).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations (continued)

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	yes
7. Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Yes as above
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No
9. Are arrangements in place to report the going concern assessment to the Audit Board? How has the Audit Board satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- 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 plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority perspective but material from a related party viewpoint then the Authority must disclose it.

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.

Related Parties

Question	Management response
<p>What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?</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">■ 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.■ Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.■ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.■ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation■ Review of year end debtor and creditor positions in relation to the related parties identified.■ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Accounting estimates

Issue

Matters in relation to accounting estimates

Local Authorities 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 Authority 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 Authority is using as part of its 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.

We would ask the Audit Board to satisfy itself that the arrangements for accounting estimates are adequate.

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Question	Management response
Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Audit Board provided with assurance that the arrangements for accounting estimates are adequate ?	Yes

Appendix A 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, and officers there are RICS qualified	Valuations are made in-line with RICS guidance - reliance on expert	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> ■ Buildings 50 years ■ Equipment/vehicles 5 years ■ Plant 12 years ■ Infrastructure 40 years. 	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

Appendix A Accounting Estimates (Continued)

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 and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> ■ Assets acquired in the first half of a financial year are depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year. ■ Assets that are not fully constructed are not depreciated until they are brought into use. 	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is an 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, here 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.	Valuations are made in-line with RICS guidance - reliance on expert.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants.	Take advice from professionals.	Yes	Take advice from treasury management professionals.	No

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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

Appendix A Accounting Estimates (Continued)

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?
PFI schemes and similar contracts	NA				

Appendix A Accounting Estimates (Continued)

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 balance sheet date	S151 officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting 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
Defined benefit pension amounts and disclosures	Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council.	Rely on the calculations made by the actuary	The actuary of the pensions scheme	Reliance on the expertise of the actuaries of the pension scheme	No

Appendix A Accounting Estimates (Continued)

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?
Pension Fund Actuarial Gains/Losses	The actuarial gains and losses figures are calculated by the actuarial experts. These figures are based on making % adjustments to the closing values of assets/liabilities	For the LGPS the Authority responds to queries raised admitted bodies of the pension fund.	The Authority are provided with an actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



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AUDIT BOARD

19TH JUNE 2014

GRANT THORNTON AUDIT PLAN 2013/14

Relevant Portfolio Holder	Cllr Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering Executive Director Finance and Resources
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Grant Thornton Audit Plan 2013/14. A copy of this document is attached to this report as Appendix 1.

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and agree the 2013/14 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 £68k.

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 1 is the 2013/14 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 2013/14 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.

AUDIT BOARD

19TH JUNE 2014

- 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 2013/14

AUTHOR OF REPORT

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The Audit Plan for Bromsgrove District Council

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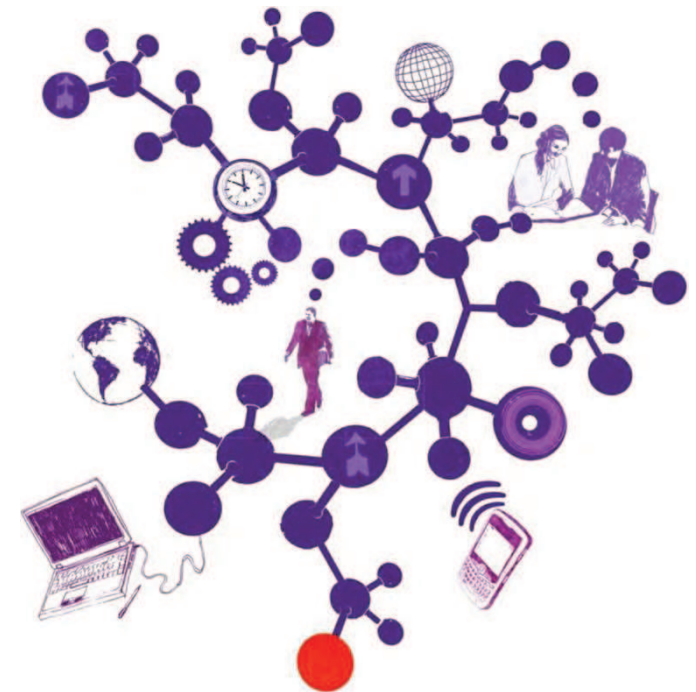
Year ended 31 March 2014

5 June 2014

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Agenda Item 7

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.

Contents

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

Appendices

- A. Action plan

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

- In common with other councils, Bromsgrove is facing increasing financial pressures. The Council has responded to these challenges, and currently has good levels of balances. We reported last year that improvements were needed in the budget management arrangements.
- The Council is planning some large capital schemes going forward and good financial management will be key to the success of those projects.

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 has made decisions on benefit granted locally.
- In the future the current system of housing benefit will transfer to 'universal credit'. This will have a significant operational impact.
- The council has recently lost management capacity in the department which provides further risk in this challenging period

Our response

- We will undertake a review of Financial Resilience as part of our VFM conclusion. We will review the Council's medium term financial plan and consider whether improvements have been made in budgetary control to support the successful delivery of the plan.
- We will consider what arrangements the council is putting in place to successfully manage the capital schemes

- We will gain an understanding of the impact of the changes through our discussions with officers, providing support where appropriate.
- We will review the arrangements being put in place to estimate appeals and bad debts under the revised framework.

As part of our VFM conclusion we will:

- continue to monitor the Council's path to transformation.
- Where savings are specifically attributes to transformation in the MTFP we will consider how these are being identified and reported.

- We will consider the assumptions made in financial planning around the impact of these changes.
- We will consider the impact on the accounts and our audit approach of the change to council tax discount..
- we will complete our audit of the housing benefits subsidy claim, which will provide assurance to both the DWP and the Council that the benefits subsidy is being correctly determined.

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 ('the code') and associated guidance.

Developments and other requirements

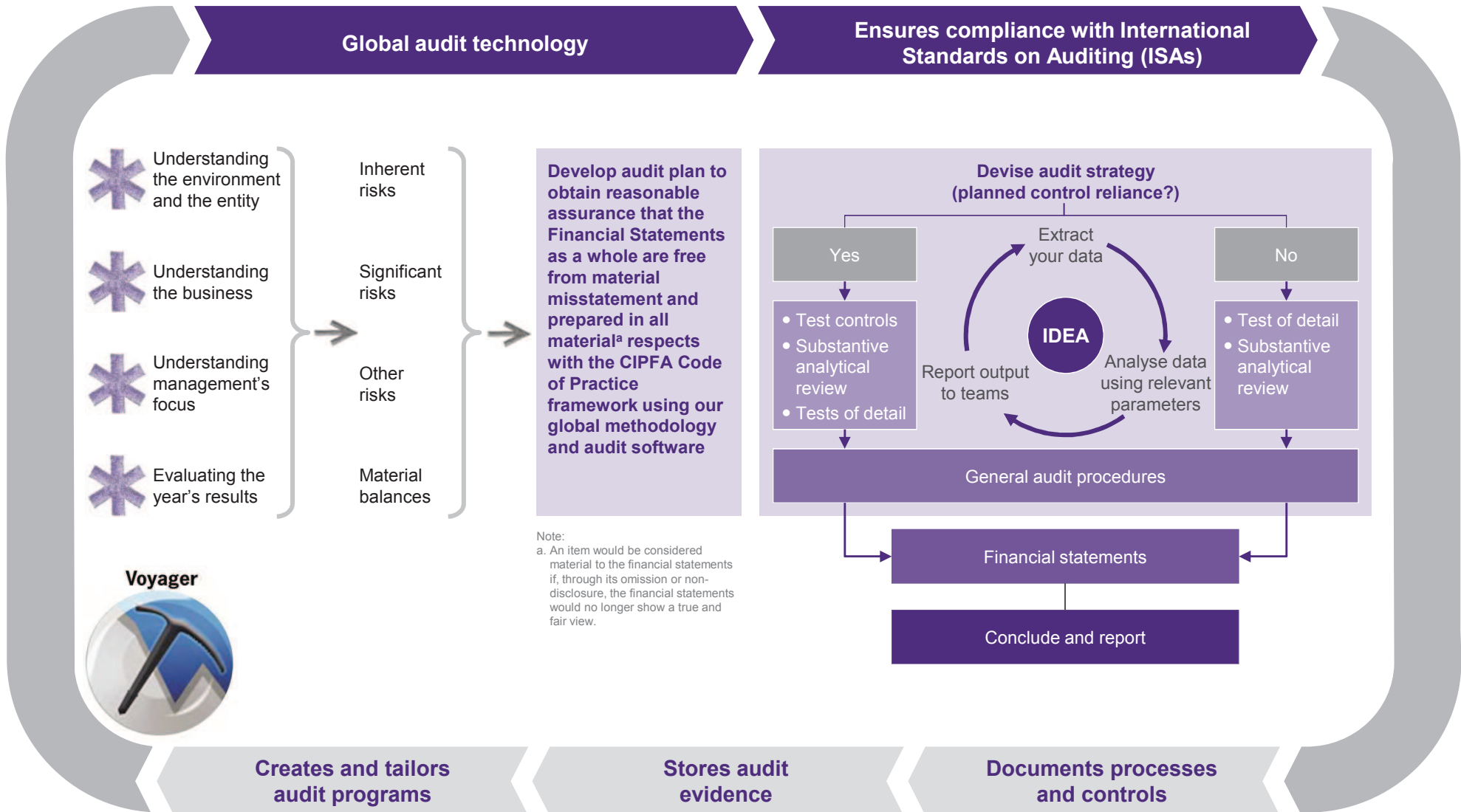
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required. We are expecting that it will only be the housing benefit subsidy claim this year.
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing. 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements. As in previous years, we are expecting that expenditure is below the threshold for a detailed audit to be required. • We have met with officers to discuss how production of the claim and the audit will be managed so that we are able to certify the HB grant claim in accordance with Audit Commission requirements.
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Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Agenda Item 7

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.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of revenue recognition policies • Testing of material income streams
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>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Further testing of journal entries – month 12 and year end journals • Review of unusual significant transactions

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period (Completeness)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system 	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> Cut off testing of purchase orders and goods received notes(both before and after year end) Review of the completeness of the reconciliations to the purchasing system.
Employee remuneration	Employee remuneration accrual understated (Completeness)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system We have reviewed the payroll exception reporting and reconciliations in year to gain assurance over the completeness of employee remuneration recorded in the General Ledger. 	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> Review of the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements Sample of payments made in April & May to ensure payroll expenditure is recorded in the correct year. Carry out a monthly trend analysis of payments made through the payroll system
Welfare Expenditure	Welfare benefit expenditure improperly computed (Valuation)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system We have tested a sample of Council Tax Support for the period to end of February 2014 	<ul style="list-style-type: none"> We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim. We will perform further testing of Council Tax Support to cover the full 12 months

Value for money

Value for money

The Code 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

We will:

- consider the planning assumptions in the budget for 13/14 and 14/15 and progress towards developing a medium term financial plan
- review the outturn for the 2013/14 financial year including the delivery of planned savings.
- consider the links between the Council financial planning and the strategic planning of the Council.
- consider how the Council is managing its financial risks

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council depending on the outcome of our review.

Results of interim audit work

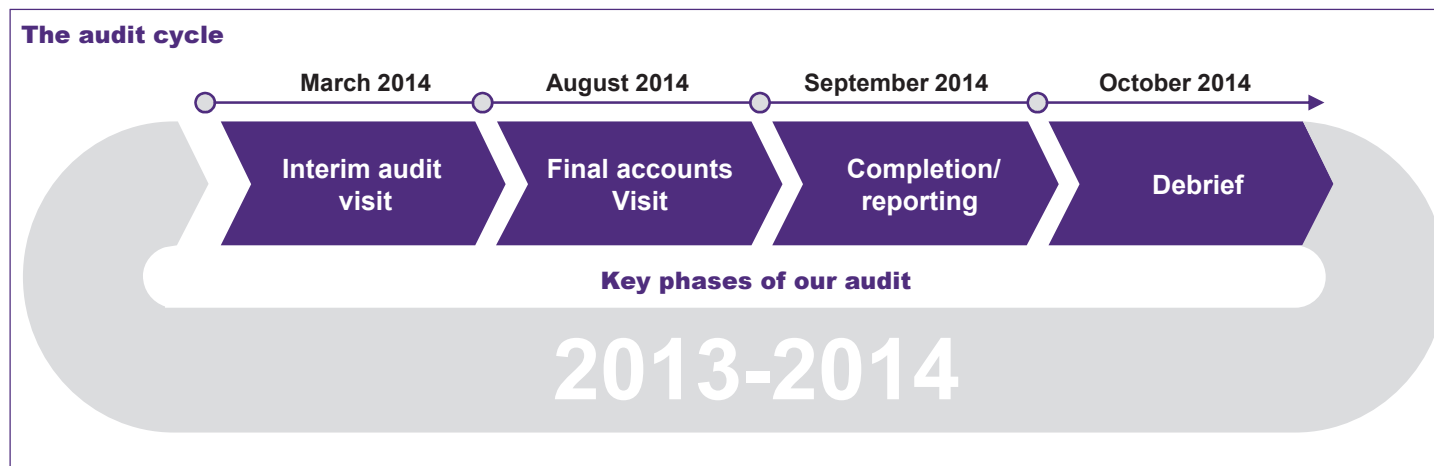
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Entity level controls	As part of our assessment of controls we review the council risk register and performance information	<p>The corporate risk register provided did not link directly with Council strategic priorities or contain clear actions for risk mitigation. We understand that the detailed risk register is being reviewed and therefore was not available to us at the interim visit.</p> <p>Quarterly financial reporting to Cabinet includes comparison of actual performance to budget, however budgets are adjusted for each quarter and do not directly report against the budget at the start of the year, so there is not consistent reporting of performance between quarters. However we noted that that in Q3, the narrative to support the budget variances was more detailed and informative than in previous quarters.</p> <p>We noted that the financial services manager has the ability to post journals, although has not done so in 13/14. You should consider whether this is appropriate.</p>
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities. Much of the work on the key financial systems was in progress at our interim audit and we will therefore review these reports when they are available.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses that we need to report to those charged with governance or which impact on our audit approach.
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work did not identify any weakness that we need to report to those charged with governance. Some more minor deficiencies have been identified and have been reported to management.

Results of Interim Work (cont)

	Work performed	Conclusion
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	There were no risks identified from the work completed to date. Further work on the remaining month will be undertaken as part of our post statements work.
Early substantive testing	We have undertaken the following work as part of our early substantive testing: <ul style="list-style-type: none"> • Testing of a sample of employee remuneration for M1-11 to underlying payroll and HR records • Testing a sample of operating expenditure to supporting documents (e.g. invoices and payment details) • Testing a sample of Council Tax Support to benefit calculations and supporting evidence held on the academy system 	This work is on-going at the date of this report and we will carry out further work in these areas as part of our year end procedures. To date we have not identified any errors or weakness from this testing.
Value for money	We have undertaken an initial risk assessment. This assessment builds on our findings from the 2012/13 VFM conclusion supplemented by discussions with officers and review of committee papers. We have also reviewed the Audit Commission financial profiles to identify an outliers. We have also reviewed the corporate risk register and sought information on performance measures.	<p>We will:</p> <ul style="list-style-type: none"> • Follow up the matters raised in the 12/13 VFM conclusion • Consider the Council's progress towards implementing our recommendations and addressing the Council's on-going financial risks.. <p>At the time of our interim work the risk register was incomplete and did not clearly map to council strategic priorities. No information on performance measures were available for review – so we will follow these matters up in June when we undertake our detailed work.</p> <p>In view of the future financial commitments to capital schemes, we will undertake a high level review of planning around these projects.</p>

Key dates



Date	Activity
March 2014	Planning
March 2014	Interim site visit
April 2014	Presentation of audit plan to Audit Committee
July/August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with the Executive Director of Finance and Resources
September 2014	Report audit findings to those charged with governance (Cabinet)
September 2014	Sign financial statements opinion and issue our VFM conclusion.

Fees and independence

Fees

	£
Council audit	64,006
Grant certification	3,872*
Total fees (excluding VAT)	67,878
* Published fee is further reduced to reflect the reduction in work anticipated around council tax benefits.	

Fees for other services

Service	Fees £
none	n/a

Our fee assumptions include:

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

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).

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

19TH JUNE 2014

GRANT THORNTON PROGRESS UPDATE - 2013/14

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

1. SUMMARY OF PROPOSALS

1.1 To update members on the progress of External Audit for the plan for 2013/14.

2. RECOMMENDATIONS

2.1 **The Committee is asked to note updates as included on Appendix 1.**

3. KEY ISSUES

Financial Implications

3.1 There are no financial implications

Legal Implications

3.2 The Council has a statutory responsibility to comply with financial regulations.

Service / Operational Implications

3.3 At present as can be seen within the progress report there are no issues that have been raised of concern by Grant Thornton.

3.4 In addition there is an update for Members in relation to emerging issues that may be of interest for Members to refer to when discussing the final accounts in September together with a number of events that are being held by the External Audit Team.

3.5 There are no issues that are not being addressed by officers to ensure the Council meets its statutory financial obligations.

Customer / Equalities and Diversity Implications

AUDIT BOARD

19TH JUNE 2014

3.6 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Progress Report Grant Thornton Report

6. BACKGROUND PAPERS

N/A

7. KEY

N/a

AUTHOR OF REPORT

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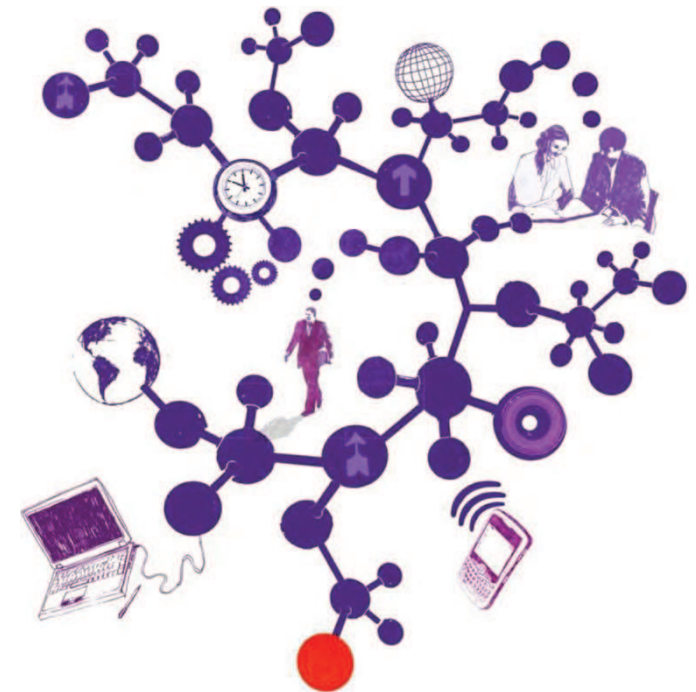
Audit Board Update

Year ended 31 March 2014

May 2014

Phil Jones
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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 Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

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

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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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Zoe Thomas Audit Manager T 0121 232 5277 M 07880 456 119 zoe.thomas@uk.gt.com

Progress at June 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan 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 2013-14 financial statements.</p>	Submitted to the June Audit Board	Y	<p>The audit plan sets out our strategy for addressing our identified risks for 2013/14. It sets out at high level the work we plan to undertake.</p> <p>Our Audit findings report (ISA260) in September will summarise our findings against those risks. That report will be presented to the cabinet.</p>
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	<p>Jan- March 2014</p> <p>June- September</p>	<p>Y</p> <p>N</p>	<p>Matters arising from our interim audit are reported in the audit plan.</p> <p>We have completed our initial risk assessment, and will complete our work to address these risks over the summer.</p>
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July – September	N	We meet with officers regularly to discuss emerging issues and plans .

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

Copies of these are available from your engagement lead and audit manager

Accounts – our top issues

Accounting and audit issues

Top issues for the 2013/14 closedown

Based on the queries we have received from practitioners and auditors, here is a list of key issues to consider for the 2013/14 closedown.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Is the foreword a good summary of the financial year and set out future challenges. Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
 - Have you considered provisions for business rates, equal pay and restoration?
 - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
 - Is there a robust evidence based methodology to support the estimate?
 - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Have you agreed a detailed closedown plan with your auditors? Does this include:
 - how to deal with known major issues?
 - a protocol for dealing with new issues as they arise?
 - a date for a post-implementation review?
6. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs

Accounts – CIPFA bulletin

Accounting and audit issues

LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#). The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs
- disclosure requirements for dedicated schools grant.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15.

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

The Council could use this data to understand how;

- spending on household waste management has changed over time.
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time;
- spending on different components of waste management compares with authorities that have similar or better performance?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Officers and Members should review these case studies and assess whether it is meeting good practice in these areas.
- Our report includes key questions for members to ask officers on risk management and alternative delivery models that officers and members should consider.

Events

Grant Thornton

Events

We are involved in organising and supporting various events for our local government clients including the following.

- We are hosting a Local Government Audit Committee Network at our Birmingham office on 2 July. The theme for this inaugural meeting will be Financial Reporting in Local Government – providing challenges to the draft financial statements including an update on current topics.
- We are also hosting an Alternative Delivery Models seminar at our Birmingham office on 16 July where practitioners will share experiences of setting up and operating various alternative delivery models.
- Following on from our recent national report on welfare reform Reaping the Benefits we are continuing to gather information and examples of good practice from local government and housing around the country. We are presenting our key findings updated information on good practice to CIPFA Benefits and Revenues Network and regional CIPFA events
- We are sponsoring the Centre for Public Scrutiny (CFPS) annual Scrutiny Camp conference in London on 11 June
- We are also sponsoring The Municipal Journal's annual Growth Agenda conference on 4 June where we will be launching our Where Growth Happens report
- For the third year running we are sponsoring the conference drinks reception at CIPFA's Annual Conference, taking place in London on 2 July
- Paul Grady, Grant Thornton's Head of Police, will be speaking at the third Annual National Conference on Police and Crime Commissioners on 10 July, in Nottingham



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BROMSGROVE DISTRICT COUNCIL**AUDIT BOARD****19th June 2014****ANNUAL GOVERNANCE STATEMENT – 2013/14**

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Resources
Wards Affected	None.

1. SUMMARY OF PROPOSALS

To seek Members' approval of the draft Annual Governance Statement (AGS) for signature by the Leader of the Council and the Chief Executive, for inclusion in the Statement of Accounts 2013/14.

2. RECOMMENDATIONS**2.1 The Board is asked to RESOLVE that**

Subject to any member comments the Annual Governance Statement be recommended for inclusion in the Statement of Accounts.

3. KEY ISSUES

3.1 Authorities are expected to publish the Annual Governance Statement (AGS) for 2013/14 with their Statement of Accounts.

3.2 The CIPFA/SOLACE framework for the Annual Governance Statement requires the AGS to be signed by the most senior Officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent).

3.3 There is an expectation in the guidance that the Head of Internal Audit, or equivalent, will provide a written annual report to those charged with governance timed to support the Annual Governance Statement. The report prepared by the Internal Audit Manager has been included in a separate report within the Agenda.

3.4 The AGS should be as up to date as practicable at the time of publication which will follow the completion of the final accounts audit in August.

Financial Implications

3.5 There are no specific financial implications.

BROMSGROVE DISTRICT COUNCIL**AUDIT BOARD**19th June 2014**Legal Implications**

- 3.6 The preparation and publication of an annual governance statement is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment)(England) Regulations 2006 to prepare a Statement on Internal Control (SIC) in accordance with 'proper practices'.

Service/Operational Implications

- 3.7 The Annual Governance Statement (AGS) is a statutory document, which provides an overview of the governance arrangements within the Council.
- 3.8. The purpose of the annual governance statement is not just to be 'compliant' but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.

Customer / Equalities and Diversity Implications

- 3.9 There are no customer/equalities and diversity implications.

4. RISK MANAGEMENT

- 4.1 The Council will not meet the requirements of Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006 if it fails to produce an Annual Governance Statement for publication with the Statement of Accounts.

5. APPENDICES

Appendix 1 - Annual Governance Statement, 2013/14

6. BACKGROUND PAPERS

- 6.1 'Delivering Good Governance in Local Government' – CIPFA/SOLACE (Framework and Guidance Note)
- 6.2. The Annual Governance Statement – Rough Guide for Practitioners – The CIPFA Finance Advisory Network

AUTHOR OF REPORT

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Bromsgrove District Council

Draft Annual Governance Statement 2013/14

1. Scope and responsibility

Bromsgrove District Council is responsible for ensuring that:

- its business is conducted in accordance with legal requirements and proper standards
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Bromsgrove District Council is also responsible for maintaining proper arrangements for the governance of its affairs, which facilitate the effective exercise of its functions, including arrangements for the management of risk.

The Council's Executive Director of Finance and Resources is the officer with statutory responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

2. The purpose of the Governance Framework

The governance framework comprises the cultural values, systems and processes used by the Council to direct and control its activities, enabling it to engage, lead and account to the community. The framework allows the Council to monitor the achievement of its strategic objectives and to consider whether appropriate, cost-effective services have been delivered.

A significant part of the framework is the Council's system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Bromsgrove District Council for the year ended 31 March 2014 and up to the date of approval of the annual report and accounts.

Bromsgrove District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Members, Executive Directors, Heads of Service, and other managers of the Council who have responsibility for the development and maintenance of the Governance environment, and the Internal Audit Manager's annual report, and by the external auditors and other review agencies and inspectorates.

3. The Governance Framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified six principles of corporate governance that underpin the effective governance of all local authorities. Bromsgrove District Council has used these principles when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are listed below:

Core Principle 1: focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

- As part of the Transformation work undertaken clear Strategic Purposes have been developed and agreed by the Corporate Management Team and Members. Work is also being undertaken to link these purposes to the budgets in the authority..
- The residents magazine "Together Bromsgrove" is sent to all households twice a year
- Regular staff forums are held by Senior Management Team to communicate key issues and aims and purposes of the Council
- The Bromsgrove Partnership provides a partnership review forum
- Use of Worcestershire Viewpoint to support the measurement of resident satisfaction
- Consultation informs our Community Strategy which is available to the public
- The Council's budget monitoring statements show financial plans at a detailed level for the financial year
- Effective budgetary monitoring takes place monthly and is reported on a quarterly basis to Cabinet, Overview and Scrutiny and Full Council
- Savings have exceeded expectations
- Service standards have been published and are available to the public
- Scrutiny task groups are supported by Officers and have delivered tangible outcomes

Core Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

- The Council's Constitution clearly sets out the roles and responsibilities of Councillors, and the procedural rules for Full Council, Cabinet and the other Boards operated by the Council
- Terms of reference for member working groups (e.g. Scrutiny Task Groups) are clearly defined
- Officers are appointed with clear job descriptions
- Adoption of statutory and professional standards
- Compliance with Financial Regulations and Contract Procedure Rules that are reviewed and approved by the Council
- Financial administration procedures are agreed by the Executive Director of Finance and Resources
- Appropriate segregation of duties and management supervision.
- A clear scheme of Councillor/Officer delegation exists to provide clarity on the powers entrusted to those appointed to make decisions on behalf of the Council.
- The roles and responsibilities of Councillors are underpinned by an extensive Member Development Programme to include both mandatory and discretionary training.
- Overarching legal agreement between Bromsgrove District Council and Redditch Borough Council clearly defines the roles and responsibilities and the support from officers to deliver the joint services

Core Principle 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The Council's priorities and aims clearly demonstrate its vision and values
- A Member/ Officer protocol is set out within the Constitution
- The behaviour of Councillors is regulated by the Member Code of Conduct and is supported by a number of protocols.
- There is an established and effective Standards Committee

Core Principle 4: taking informed and transparent decisions which are subject to effective scrutiny and management of risk

- There is an established and effective Overview and Scrutiny Board
- There is an established and effective Audit Board to advise Council on the effectiveness of Internal Control arrangements
- Shared Service Board receives regular progress and benefit realisation updates
- A review of the constitution is undertaken on a regular basis to ensure it enables members to make informed and transparent decisions

Agenda Item 10

- A formal Service Level Agreement is in place with Worcester City Council to ensure Internal Control arrangements are reviewed in a consistent and professional way
- Decisions taken are formally minuted
- An amended standard report template is in place which is subject to regular review by Officers to ensure appropriate information is available to members in making informed decisions.
- The Cabinet forward plan is rolled forward and reviewed weekly at Corporate Management Team.
- Overview and Scrutiny have an annual workplan supported by any considerations from the forward plan and have the authority to pre-scrutinise any Cabinet decisions. During 2013/14 Overview and Scrutiny undertook pre-scrutiny of :
 - Town Centre Regeneration and Public Realm improvements
 - Bromsgrove Parking Review
 - CCTV Code of Practice
- Regular Task Groups are established to review service areas and to make recommendations for their improvement. These have included during 2013/14:
 - Artrix Outreach Work
 - Youth provision
 - Air quality
 - Joint Scrutiny of WRS
- Formal governance arrangements are in place for the shared services. The Shared Service Board meets on a regular basis to consider the impact of shared services and the benefits realised from the transformational activities being undertaken by the Council.
- Consideration of risk implications in committee reports and the decision making process
- Audit Board have a workplan that is reviewed at each meeting for completeness
- Full risk register for corporate and shared service risks. In addition the risk management of departmental risks was undertaken for 2013/14 by a web based on-line system to ensure managers control and mitigate risks in a timely manner.
- Active health and safety arrangements, including a robust policy, Member champion, regular consideration of issues at SMT and Health and Safety Committee
- Regular Trade Union liaison meetings with Senior Management Team
- Financial management arrangements, where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures. Elements include:
 - monthly review of budgetary control information by Officers and the appropriate Portfolio Holder, to compare expected and actual performance

- formal quarterly budgetary monitoring reports to the Cabinet and Overview and Scrutiny Board
- A revised and effective complaints/ compliments procedure is in place and is widely publicised.
- A whistle blowing policy is in place and available on the Council's web site
- Freedom of Information requests are dealt with in accordance with established protocols
- All committee reports include reference where relevant to the potential impact on the Council's services

Core Principle 5: developing the capacity and capability of Members and officers to be effective

- The Council operates a Member Development Programme, overseen by a cross party Member Development Steering Group. The Programme is extensive and includes: induction, chairmanship training, performance training, portfolio holder training and mock Full Councils.
- Portfolio Holders meet on a monthly basis with Directors and Heads of Service to ensure they are aware of all issues within their service and to enable them to present reports at Cabinet in relation to their portfolio area
- The shared services have continued to develop across Bromsgrove District Council and Redditch Borough Council to improve resilience and capacity to deliver services
- There have been numerous opportunities for staff to take part in transformation sessions to include an understanding of systems thinking methods and to review current systems to enable an awareness of how improvements could be made.
- All staff have the opportunity to attend training courses, as approved by their Managers, provided through the staff training directory. Each member of staff receives a monthly one to one with their manager, at which training is also discussed.
- An induction programme is in place for Members
- Deputy s151 and Monitoring Officers are in place
- Staff Leadership Training is currently being developed
- Development of roles and responsibilities for staff managing the transformation of services

Core Principle 6: engaging with local people and other stakeholders to ensure robust public accountability

- The Sustainable Community Strategy is positively used and developed in conjunction with the Bromsgrove Partnership.

- The Council has an Equalities Policy which is currently under review, convenes an Equality and Diversity Forum and supports community events that are funded via the Forum's annual community bids process.
- The District Council has a service level agreement with the voluntary sector infrastructure organisation, Bromsgrove and Redditch Network (BARN) to support the Compact and enable BARN to attend Bromsgrove Partnership Board meetings.
- The Council has service agreements with Artrix and Community transport service delivery (WRS) to ensure joint decisions are made on service provision.
- Surveys are conducted on the Council's website, at the Customer Service Centre and resident feedback is obtained at Council events (e.g. Street Theatre) if required as determined by Heads of Service.
- Board, Cabinet and Council meetings are open to the public, with papers available on the internet.
- Clear and colourful publications e.g. Annual Report, residents' magazine "Together Bromsgrove"
- Customer complaints are tracked and monitored and actions reported to residents via the website.

4. Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This responsibility is in practice carried out by Senior and 4th tier Managers, with the S151 officer informing the Cabinet of any significant matters warranting their attention.

The review of effectiveness of the system of internal control is informed by three main sources: the work of Internal Audit; by Managers who have responsibility for the development and maintenance of the internal control environment; and also by comments made by external auditors and other review agencies/inspectorates.

Internal Audit

Bromsgrove's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Executive Director Finance and Resources.

The Worcester City Internal Audit Services Team has been in place since June 2010 and operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the

achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources. All audit reports go to the manager of the service, the appropriate Director and the Chief Executive. The Audit Board receives a quarterly report of internal audit activity and have input and final approval of the annual audit plan for the forthcoming year.

Managers

Individual managers are responsible for establishing and maintaining an adequate system of internal control within their own sections and for contributing to the control environment on a corporate basis. There are a number of significant internal control areas which are subject to review by internal audit. All managers acknowledge their responsibilities and confirm annually that they have implemented and continuously monitored various significant controls. This is done on a checklist covering the following areas: Council objectives and service plans, staffing issues, corporate procedure documents, service specific procedures, risk management, performance management and data quality, and action on independent recommendations. This checklist is reviewed by the Executive Director Finance and Resources.

External auditors and other review agencies/inspectors

Our external auditors have not identified any significant weaknesses in our internal control arrangements when working with us throughout the year and in their annual audit letter.

Other external reviews during the year included:

- External Auditor work, for example subsidy claim audits and annual audit

5. Significant governance and internal control issues *(details to follow)*

During 2013/14 a total of X complaints made to the Standards Committee of alleged breaches of the Code of Conduct. These complaints related to members. Outcomes as follows:

- No further action without an investigation -
- New information coming to light during an investigation –
- Investigation on-going and not yet concluded –

The review of Bromsgrove's system of governance and internal control has not identified any significant weaknesses.

The External Audit Annual Governance Statement and internal reviews have identified a number of actions to be undertaken to improve the governance arrangements these include (with current actions on each issue) :

Approach to Strategic Financial Planning

Work has been undertaken to link budgets to new strategic purposes and decisions over budget allocations and savings. This work has been done as part of the 2014/15 budget setting.

Clearer forward plans should be in place around assets and workforce to underpin the MTFP. Review work to be undertaken during 2014/15.

Approach to Financial Governance

Improve Managers budget management skills to enable more effective forecasting of the projected financial positions.

Managers have been asked what they need to help them develop this skill and training plans are currently being developed.

Approach to Financial Control

Ensure that in year reporting includes review of saving plans – to be in place for 2014/15 budget monitoring.

Risk Management to be embedded into the day to day procedures and corporate risks should be routinely reported.

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BENEFITS FRAUD INVESTIGATIONS UPDATE – QUARTER 4 2013/14

Relevant Portfolio Holder	Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Amanda De Warr, Head of Customer Access and Financial Support
Wards Affected	All Wards
Ward Councillor Consulted	N/A
Non Key Decision	

1. SUMMARY OF PROPOSALS

To advise Members on the performance of the Benefits Services Fraud Investigation service. This report gives performance information for the team from 1st January 2014 to 31st March 2014

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that subject to any comments, the report be noted.

3. KEY ISSUES

Financial Implications

- 3.1 Direct expenditure for the year from 1 April 2013 until 31 March 2014 was £15,893,367.15 in Housing Benefit and £4,618,666.72 in Council Tax Support.
- 3.2 During the 3 month period overpayments of £189,046.77 in Housing Benefit were identified. Council Tax Reduction caused by claimant error is no longer classified as an overpayment and this amount is no longer measured.
- 3.3 Fraud investigation can impact upon other areas of benefit administration. The biggest impact is upon the identification of overpaid Housing Benefit and excess payments of Council Tax Benefit/Reduction. Some of these overpayments can be large and can distort the apparent recovery rate of overpayments. Overpayments on the files closed during the period of this report totalled £8,730.38 in Housing Benefit and £4,926.07 in Council Tax Benefit/Reduction. (The excess Council Tax identified through the Team's actions continue to be recorded even though the total excess cannot be given in 3.2) Some of these overpayments may be included in the totals identified as shown in 3.2 but because investigations can sometimes continue for a

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considerable time after the overpayment is calculated, many of these will have been calculated in prior to 1 January 2014.

Legal Implications

- 3.4 There are no specific legal implications.

Service/Operational Implications

- 3.5 The dedicated counter fraud team's purpose is to prevent and deter fraud in addition to investigating any suspicions of fraudulent activity against the Authority.
- 3.6 The Benefits Service decides entitlement to Housing Benefit and Council Tax Support in the local area. During the period of this report there were 3780 live Housing Benefit claims and 5160 Council Tax Support claims at any one time.
- 3.7 Approximately 45% of the caseload is made up of people of working age which results in a large number of claims from customers who are moving in and out of work and also claiming other out of work benefits.
- 3.8 Although measures have been put in place to make this transition easier for customers, it remains an area of risk of fraud entering the system. As both Housing Benefit and Council Tax Support are means tested benefits there are potential financial incentives to under declare income and savings or not to report a partner who may be working or have other income.
- 3.9 During this quarter 39 fraud referrals were received and considered for investigation by the team.
- 3.10 11 of the referrals came from data-matching. Of these:
- 9 were identified through the Housing Benefit Matching Service (HBMS), a scheme run nationally for Local Authorities by the Department for Work and Pensions (DWP). Our live benefit caseload is matched on a monthly basis against records relating nationally paid benefits and tax credits, records relating to private pensions, HMRC records to identify undeclared work or savings as well as Post Office post redirection records.
 - 2 cases were identified through the 2012/13 National Fraud Initiative, the scheme where public sector organisations are required to submit data to the Audit Commission for the purpose of identifying fraud. Our Benefit data is submitted every alternate year and cross matched against other datasets submitted in order to identify fraudulent claims, mainly where

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income such as earnings, private pensions or student finance has not been declared but also other types of fraud such as non-residency or undeclared capital.

- 3.11 8 of the referrals were from official sources. Of these:
- 2 were joint working invitations received from the DWP, 1 came from a neighbouring council and the remaining 5 from within Bromsgrove District Council (BDC), showing the value of maintaining awareness of benefit fraud with employees.
- 3.12 The remaining 20 referrals came from members of the public, and 17 of these referrals were allegations relating to undeclared partners. This is encouraging because this type of fraud is difficult to identify but there is often little or no evidence available to support the referral and therefore after exhausting all available enquiries many have to be dealt with on an informal basis, usually by a visit from the Benefit Visiting Officer.
- 3.13 An increase in the number of referrals from the public is experienced following reports of successful prosecutions in the local press giving details of the case and how to report suspicions of benefit fraud. This practice is understood to deter fraud as one of the main concerns of customers who are being interviewed under caution for benefit fraud offences is that their name will appear in the paper.
- 3.14 Just over 50% of the referrals from the public were received through the web site fraud referral form and most of the others in telephone calls.
- 3.15 Many fraud referrals relate to benefits paid by both BDC and the DWP. In these cases, a joint approach is taken to ensure that the full extent of offending is uncovered and the appropriate action is taken by both bodies. This also maximises staffing resources by preventing duplicate investigation work and depending on workloads either body can take the lead.
- 3.16 12 investigations were closed during the period and fraud or error was established in 7 of these. Of these:
- 1 customer was prosecuted. The offence in this case related to undeclared capital.
- 1 customer accepted a caution as an alternative to prosecution. The offence in this case related to under-declared work and income.
- No administrative penalties were offered as an alternative to prosecution during the period of this report.

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3 cases were closed without sanctions although overpayments were identified on them. There must be sufficient evidence to prosecute for any sanction to be considered. At times this cannot and the file must therefore be closed without sanction.

- 3.17 Appendix 3 sets out the numbers of referrals and subsequent outcomes for 2013/14, compared with the two previous years.
- 3.18 The trend indicates a reduction in referrals but this is largely due to changes in the way some are recorded and also the automation of a large number of changes which has reduced the likelihood of changes not being picked up.
- 3.19 Quite a large number of the referrals will not be taken up. This can be for a variety of reasons such as duplicate referrals where an investigation is already taking place; no benefit in payment, the information in the allegation is already correctly declared alleged or would have no effect on the claim.
- 3.20 Cases where the allegation will have no effect on the HB/CTS claim but could impact on DWP benefits or Tax Credits are referred to the appropriate organisation to investigate.
- 3.21 In some cases the initial background enquiries will not establish sufficient intelligence for there to be a reasonable likelihood of proving fraud. The majority of these cases will be passed for a review to be carried out on the claim, usually by visit.
- 3.22 Some of the investigations that are carried out will not establish fraud and our aim is to keep this number to a minimum.
- 3.23 The timescale for the implementation of the Single Fraud Investigation Service (SFIS), as announced as part of the Government's Welfare reform plans has now been released and despite the rest of the county joining in November this year, Bromsgrove and Redditch will not join the organisation until February 2016.
- 3.24 Information has been received and a SFIS road show presentation was held in Birmingham on 15 April 2014 giving high level details regarding the transfer process and the duties that will and will not be moving to the new organisation within DWP.
- 3.25 The DWP has concluded that TUPE will not apply as the transfer of administrative functions between public administrative authorities is not a relevant transfer (for the purpose of TUPE). However, DWP is committed to taking employees currently assigned to welfare benefit fraud investigation work.

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- 3.26 The Cabinet Office Statement of Practice for Staff Transfers in the Public Sector says that in circumstances where TUPE does not apply in strict legal terms to a transfer between different parts of the public sector, the principles of TUPE should be followed so far as possible and in accordance with business need. In order to maintain an effective fraud investigation service DWP has decided to adopt this principle.
- 3.27 Our own Human Resources Team have demonstrated their support to the staff likely to be included in the transfer and their commitment for involvement when negotiation starts approximately 6 months before the given date.
- 3.28 This date has also given the service the opportunity to develop and explore options for the future such as a continuing resource for the investigation of non-welfare fraud including Council Tax Support which will remain within local authorities. A shared Investigation Team between Bromsgrove District Council and Redditch Borough Council is in currently the proposal/consultation stage to enable informed decisions to be made.
- 3.29 No further indication of roll out dates in respect of Universal Credit has been received. However, officers are developing an action plan in respect of support for this, based on some of the learning coming out of the pilot areas.
- 3.30 The key themes emerging from the pilots are:
- Partnership working
 - Financial Inclusion
 - Triage
 - Digital Inclusion.
- 3.31 Although it is still DWP's intention that online application will be the primary route for claimants, it is recognised that support needs to be in place for those who do not currently, or cannot, use online services.
- 3.32 DWP is looking to local council to help provide this support and a joint Local Support Services Framework will be developed. In readiness for this officers have mapped all the arrangements currently in place and are developing or strengthening those to ensure that we are prepared once a live date for Universal Credit is known.
- 3.33 The Local Support Services Framework will help to ensure that local arrangements meet local need and take account of the learning through our transformational agenda.
- 3.34 It is important to note that the local authority will not be responsible for monitoring fraud in the Universal Credit system. This will transfer to the Single Fraud Investigation Services. However as noted in 3.22 we do

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retain responsibility to manage non-welfare fraud such as the Council Tax Support Scheme.

Customer / Equalities and Diversity Implications

- 3.35 A robust mechanism for pursuing Housing Benefit and Council Tax Support Fraud is important to customers who expect to see action taken to reduce fraud and overpayment of benefits.

4. RISK MANAGEMENT

- 4.1 Without adequate performance monitoring arrangements there is a risk that the Benefits Service could lose subsidy and that additional costs could be incurred. In addition, without effective counter fraud activity increased numbers of claims where no or reduced entitlement would remain in payment and add to the service cost.

5. APPENDICES

Appendix 1 - Example cases
Appendix 2 - Additional demographic information
Appendix 3 - Trends data

6. BACKGROUND PAPERS

None

7. KEY**AUTHOR OF REPORT**

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APPENDIX 1

Audit Board example cases

Case 1

A 45 year old man was prosecuted for failing to declare capital when claiming Housing Benefit from Bromsgrove District Council (BDC).

The investigation into the claim at BDC began after contact was made by an investigator from a neighbouring authority who was looking into the circumstances of the claim that had been made after moving into their area.

The Department for Work and Pensions were also involved in the investigation

A joint investigation was agreed after evidence was obtained showing that the customer had forged a document to provide to BDC showing that he had received just under £1,000 from the sale of his previous property but records of the sale indicated a substantially higher amount. Evidence was also obtained to show that the customer had continued to work as a financial adviser whilst claiming Jobseeker's Allowance and benefits from BDC and that had not declared his full income from his business to the neighbouring authority when claiming there.

The customer pleaded guilty to all offences and was sentenced to a 12 week prison sentence, suspended for 12 months during which 150 hours of unpaid work must be completed. He was also ordered to pay £1,315 towards the prosecution costs.

Overpayments of £3,590.08 Housing Benefit and £1,069.73 Council Tax Benefit were identified on the BDC claims and are being repaid in monthly instalments.

Case 2

A 31 year old woman offered a caution as an alternative to prosecution after admitting offences of failing to notify increases in her earnings and tax credits.

This investigation was started after a review of the claim was requested after it was identified through the NFI data-matching exercise that although the customer had correctly declared her employment, there had been no change in the amount of earnings on the claim for a considerable time.

The review identified overpayments of £1,636.47 Housing Benefit and £644.05 Council Tax Benefit/Support.

The caution was accepted and the overpayment is being recovered through deductions from the customer's on-going benefit entitlement.

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Case 3

An investigation into the claim of a 34 year old man was closed without sanction as he had left the area and it was considered unlikely that he would co-operate with the investigation by attending an interview under caution even if he could be located.

This case was identified through a Housing Benefit Matching Service data-match showing that the customer had 2 concurrent Housing Benefit claims in payment. Evidence of the 2nd claim was obtained from the other authority but their claim had also ended by that time and no forwarding address was held.

Housing Benefit of £1,038.42 was overpaid and is recoverable from the customer.

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APPENDIX 2

This table gives additional information on the nature and demographic profile of cases of benefit fraud where sanctions were applied during the period covered by this report.

Gender	Status	No. dep children	Tenancy type	Area	Fraud type	Outcome
Male	Partnered	2	P/T	Barnt Green	Capital	Prosecution
Female	Single	1	H/A	Alvechurch	Work/ Other income	Caution

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APPENDIX 3

FRAUD TRENDS DATA

Fraud type	2011/12	2012/13	2013/14
Undeclared income	37	67	46
Working and drawing	19	10	18
Contrived tenancy	2	0	0
Employer fraud	0	1	0
HBMS Data Match	88	12	2
Landlord fraud	1	1	0
Living together	34	36	54
Non-commercial tenancy	1	0	0
Non-dependants	20	13	10
Non-residency	4	8	18
Other	10	9	8
Property owner	0	0	1
Student award	0	0	0
Undeclared capital	11	6	8
Total referrals	227	163	165

Referral source	2011/12	2012/13	2013/14
Members of public	54	32	65
Data matching	114	66	52
Official source	59	65	48
Total referrals	227	163	165

Outcomes	2011/12	2012/13	2013/14
Administrative Penalty	7	6	1
Caution	45	32	21
Prosecution	3	9	10
No sanction	57	26	17

Referrals under fraud type HBMS Data Match have reduced because they are now recorded using the type of discrepancy that the match is identifying, e.g. when identifying an undeclared pension this would be recorded as undeclared income.

HBMS data matches are still correctly included in the Data matching referral source. The significant reduction in the number of referrals from this source is a general trend following the automation of information regarding benefits and Tax Credits between local authorities and DWP. This trend has also decreased the number of cases of lower level fraud where a caution or administrative penalty would quite often have previously been offered.

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2013/14 INTERNAL AUDIT ANNUAL REPORT

Relevant Portfolio Holder	Councillor Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- The 2013/14 Internal Audit Annual Report for the period 1st April 2013 to 31st March 2014 along with the Audit Opinion and Commentary.

2. RECOMMENDATION

2.1 **The Board is asked to RESOLVE that the 2013/14 Internal Audit Annual Report is noted.**

3. KEY ISSUES

Financial Implications

3.1 None as a direct result 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 As reported in **Appendix 1** during 2013/2014 there were 285 chargeable audit days delivered. This equates to a delivery of 95% against a target for the year of 90%.

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- 3.4 **Appendix 2** provides a breakdown of the audits completed and the overall assurance.
- 3.5 **Appendix 3** provides the audit opinion and commentary.
- 3.6 The Worcestershire Internal Audit Shared Service (WIASS) has achieved and delivered the full 2013/2014 internal audit plan.
- 3.7 The Internal Audit Plan for 2013/2014 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk, fraud risk, and external risk) using a predefined scoring system. It included:
- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance and
 - a number of operational systems, for example environmental enforcement, depot and stores and Land Charges were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 3.8 In accordance with best practice the plan is subject to review each year to ensure that identified changes, for example, external influences, risk assessment and process re-engineering are taken into consideration within the annual plan.
- 3.9 The purpose of the 2013/14 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assisted the Authority in meeting its objectives by reviewing the high risk areas, systems and processes,
 - Audit plan delivery was monitored, appropriate action taken and performance reports issued on a regular basis,
 - The key financial systems are reviewed annually, enabling the Authority's external auditors to inform their opinion using the work completed by Internal Audit,
 - An opinion can be formed on the adequacy of the Authority's system of internal control, which feeds into the Annual Governance Statement which is presented with the statement of accounts.
- 3.10 2013/14 was a demanding year for the Internal Audit team with the loss of two Auditors early in the year, managing a return to work after long term sickness as well as training and mentoring two new auditors who joined the team. There was a need to vacancy manage posts for a significant proportion of the year in order to offset the interim resource that was used to ensure WIASS could deliver the risk based internal audit plan. Internal Audit has carefully managed its resource and worked

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with partners to deliver the full audit programme for Bromsgrove District Council for 2013/14.

Work of interest to the External Auditor

- 3.11 To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is shared with the external auditors for information. The results of the work that we perform on five systems audits will be of direct interest to External Audit. Audit reports are passed to the external auditor on request for their information.

External Work

- 3.12 The work to deliver the Hereford and Worcester Fire and Rescue Service internal audit contract was predominantly completed during 2013/14 with only management responses awaited in order to finalise two audits. A smaller contract for Threadneedle House in Redditch was also delivered during 2013/14.

Quality Measures

- 3.13 Managers are asked to provide feedback on systems audits by completing a questionnaire. At the conclusion of each audit a feedback questionnaire is sent to the Responsible Manager and an analysis of those returned during the year shows very high satisfaction with the audit product – see Appendix 2.
- 3.14 To further assist the Board with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conform to the Public Sector Internal Audit Standards.
- 3.15 Worcestershire Internal Audit Shared Service Internal Audit activity is organisationally independent. Internal Audit reports to the s151 Officer but has a direct and unrestricted access to senior management and the Audit Board.
- 3.16 Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit manual and Charter which has been updated to reflect the requirements of the standards.

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- 3.17 The Client Officer group meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan, and, promote continuous improvement.
- 3.18 WIASS has delivered the audit programme in conformance with the UK Public Sector Internal Audit Standards as published by the Institute of Internal Auditors.
- 3.19 Risk Management features as part of the audit programme for the year. Reports are brought before the Audit Board for consideration.
- 3.20 Work is continuing in respect of the NFI exercise. Appropriate action is being taken and work is progressing to identify any potential fraudulent activity for example overpayment for housing benefits, income support, etc. The amount of fraudulent activity identified by the 2012/13 exercise as at the 29th April 2014 for Bromsgrove District Council was £13,339.21.
- 3.21 We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's operations. Where possible we will seek to place reliance on such work thus reducing the internal audit coverage as required.

3.22 Anti-Fraud and Corruption Survey.

The anti fraud and corruption survey was completed by Internal Audit and submitted on the 16th May 2014 in respect of financial year 2013/14. The survey examined several key anti fraud measures that exist within the Council. Further work was also completed as part of the audit programme in this area. There were some weaknesses found during the audit to which action will be taken to strengthen them.

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

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

- Non-compliance with statutory requirements.

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5. APPENDICES

Appendix 1 ~ Delivery against plan 2013/14

Appendix 2 ~ Audits completed with assurance for 2013/14

Appendix 3 ~ Audit Opinion and Commentary

6. BACKGROUND PAPERS

None.

7. Key

N/a

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APPENDIX 1

Delivery against Internal Audit Plan for 2013/14
1st April 2013 to 31st March 2014

Audit Area	DAYS USED TO 31/03/14	2013/14 PLANNED DAYS
Core Financial Systems	88	87
Corporate Audits	66	68
Other Systems Audits	*92	109
TOTAL	246	264
Audit Management Meetings	15	15
Corporate Meetings / Reading	5	5
Annual Plans and Reports	8	8
Audit Board support	8	8
Other chargeable	**3	0
TOTAL	39	36
TOTAL	285	300

Note:

*Full number of budgeted days not used due to some a small 'call off' budgets, e.g. consultancy, investigations, not being fully utilised.

** 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

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APPENDIX 1

Key Performance Indicators (KPIs) for 01st April 2013 to 31st March 2014.

The success or otherwise of the Internal Audit Shared Service can be measured against some of the following key performance indicators for 2013/14 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Bromsgrove District Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Position (as at March 2014)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	8	*8	Quarterly
2	No. of moderate or below assurances	Downward	3	8	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	2	4 (5 issued: 4x Excellent & 1x Good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 21 Delivered = 21	Target = 15 (minimum) Delivered = 14 (with a further 7 in draft)	Quarterly

*This figure only includes finalised audit report recommendations therefore is subject to change (i.e. increase) depending on the draft report outcomes.

WIASS operates within and conforms to the Public Sector Internal Audit Standards 2013.

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Appendix 2

Audit Opinion Analysis ~ Audits completed during financial year 2013/2014:

Audit Report / Title	Final Report issued	Assurance
Land Charges	29 th July 2013	Full
BURT Dial a Ride	10 th October 2013	Significant
Development Control	29 th October 2013	Significant
Cash, General ledger, Budgetary Control and Bank Reconciliation	19 th February 2014	Significant
Debtors	27 th February 2014	Significant
Treasury Management	16 th April 2014	Significant
Asset Management	16 th April 2014	Significant
Benefits	7 th March 2014	Significant
Council Tax	24 th March 2014	Moderate
Creditors	1 st April 2014	Moderate
Shared Services (Regulatory)	30 th May 2014	Moderate
Depot and Stores	14 th May 2014 (D)	Moderate (D)
Regulatory Services (Hackney Carriage Licensing)	30 th May 2014 (D)	Moderate (D)
Risk Management	30 th April 2014	Limited
NDR	25 th March 2014	Limited
Corporate Governance (Fraud)	9 th May 2014 (D)	Limited (D)
Protecting the Public Purse (Transformation)	9 th May 2014 (D)	N/a ~ Critical Review
ICT incl. Project Auditing	9 th May 2014 (D)	No (D)
Environmental Crime Enforcement	16 th July 2013	N/a ~ Critical Review
Strategic Housing	30 th May 2014 (D)	N/a ~ Critical Review
S106 Agreements	Clearance Mtg (D)	To be confirmed

Note: (D) denotes audit is currently in draft but unlikely the assurance level will change.

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Summary of 2013/14 Audits Assurance Levels.

2013/14	Number of BDC Audits	Assurance	Overall % (rounded)
From 21 audits	1	Full	5
	7	Significant	33
	5	Moderate	24
	3	Limited	14
	1	No	5
	1	To be confirmed	5
	3	N/a	14

Client Feedback Analysis ~ IA Reporting

Feedback is sought after the issue of the final audit report either verbally or via a feedback questionnaire. The feedback is used to assess the effectiveness of internal audit and to help improve and enhance the internal audit function. Feedback during the 2013/14 financial year has been received indicating that:

- auditee was more than happy with the process and format of the audits. This continues to be further developed.
- Recommendations made would help to support and give assurance on recently implemented changes.
- There is a high satisfaction rate with the audit product from the data received.

4 questionnaires were returned as 'excellent' and 1 as 'good'.

Overall Conclusions:

- 76% of the audits undertaken for 2013/14 which have received an assurance allocated returned an assurance of 'moderate' or above. This figure is inclusive of the critical friend audits i.e. 'N/A'.
- Clients are satisfied with the audit process and service from the data received.

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APPENDIX 3

Worcestershire Internal Audit Shared Services Manager's Opinion on the Effectiveness of the System of Internal Control at Bromsgrove District Council (the Council) for the Year Ended 31st March 2014

1. Audit Opinion

- 1.1 The internal audit of Bromsgrove District Council's systems and operations during 2013/14 was conducted in accordance with the Internal Audit Annual plan which was approved by the Audit Board on 14th March 2013.
- 1.2 The Internal Audit function was set up as a shared service in 2010/11 and hosted by Worcester City, for 5 district councils. The shared service operates in accordance with the Institute of Internal Auditors Public Sector Internal Audit Standards 2013.
- 1.3 The Internal Audit Plan for 2013/2014 was risk based (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk fraud risk, and external risk) using a predefined scoring system. It included:
 - a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' other corporate systems for example governance and
 - a number of operational systems, for example environmental enforcement, depot and stores and Land Charges were looked at to maintain and improve its control systems and risk management processes or reinforce its oversight of such systems.
- 1.4 The 2013/14 internal audit plan was delivered in full providing sufficient coverage for the s151 and Internal Audit Service Manager to form an overall opinion.
- 1.5 In relation to the twenty one reviews that have been undertaken, fourteen audits have been finalised and seven are nearing completion at clearance meeting or draft report stage. Risk management was re-launched during 2012/13 with a Corporate Risk Register being formulated and training being provided. However, further development and embedding is required to move towards a trustworthy system which

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can be relied upon. An audit in this area returned an assurance level of 'limited assurance'. Further work is required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Group. Other areas which also returned an assurance level of 'limited' included Corporate Governance ~ Fraud and, NDR. A key area which returned a 'no' assurance level was ICT. All areas where assurance was 'limited' or below will be addressed by management and have a defined action plan in place in order to address the weaknesses and issues identified. Where audits are to be finalised a comprehensive management action plan will be required and agreed by the s151 Officer.

- 1.6 As part of the process of assessing the Council's control environment, senior officers within the Council are required to complete an annual "Internal Control Assurance Statement" to confirm that the controls in the areas for which they are responsible are operating effectively. Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they are responsible and confirming that those controls were operating effectively except where reported otherwise. For the majority of areas no areas of significant risk have been identified. Any concerns raised by managers will be assessed and addressed by the Authorities Corporate Management Team.
- 1.7 The majority of the completed audits have been allocated an audit assurance of either 'moderate' or above meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified during a time of continuing significant transformation and change.
- 1.8 WIASS can conclude that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan and the scoping therein. Based on the audits performed in accordance with the approved plan, the Worcestershire Internal Audit Shared Service Manager has concluded that the internal control arrangements during 2013/14 managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Council's corporate objectives have been met.

Andy Bromage

Worcestershire Internal Audit Shared Services Manager

June 2014

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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	Sam Morgan, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non–Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- the monitoring report of internal audit work and performance for 2013/14

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.

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This section of the report provides commentary on Internal Audit's performance for the period 01st April 2013 to 31st May 2014 against the performance indicators agreed for the service. Also included, is the 2012-2013 audit where further work was requested and has been undertaken throughout the 2013/14 audit year.

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST REPORT:2013/14 AUDITS COMPLETEDCreditors

The review was a full system audit concentrating on the Creditor System including areas of segregation, supplier details, reconciliations, system access and requirements of the HMRC's Real Time information reporting are met in relation to any payments made to sub-contractors. The audit did not cover the procurement process. The review found there was generally a good system of internal control in place but some of the expected controls are not in place and are not operating effectively within the Creditors' system. Internal Audit testing identified that payments are made when purchase orders have been raised and the receipt of goods/services unless specifically excluded and are appropriately authorised. Regular reconciliations are undertaken between the Creditors' system and the main ledger. There is no requirement for the Creditors' team to report on the HMRC's Real Time Information as they do not make any payments to subcontractors unless they have a Self-Employed Tax Reference. All other payments to sub-contractors are sent back to the relevant department and/or forwarded to the Human Resources team to process through payroll. However, areas of control weakness identified in the audit included the monitoring of late payments and the regular reviews of the creditors' system access rights.

Final Report Issued: 1st April 2014

Assurance level: Moderate

Housing and Council Tax Benefits

The review was a full system audit concentrating on areas including overpayments occurring as a result of Local Authority error, emergency loan payments, fraud identification, assessment and recovery, and, reconciliations of Benefits including Council Tax and general ledger entries. The review found there is a generally sound system of control in place, but audit testing has determined isolated weaknesses in a few control areas. Controls in place for dealing with incidences of benefit overpayment and fraud are considered to be satisfactory. However, recommendations have been provided in respect of improving controls over reconciling benefit payments with records on other key Council systems. In April 2013 Bromsgrove District Council took on responsibility for the

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management of a new discretionary Emergency Living Fund scheme, which has replaced the Crisis Loan and Community Care Grant schemes as per changes in the Welfare Reform Act 2012, to be managed by the Benefits Service. Several recommendations have been reported during the audit work with regards to improving the management controls over the scheme. There were no high priority recommendations reported.

Final Report Issued: 7th March 2014
Assurance level: Significant

NNDR

The review was a full system audit concentrating on areas including empty property monitoring and billing, reconciliations from the NNDR system to feeder systems (i.e. Cash Receipting, Benefits system and Financial ledger), effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, accounts with credit balances are regularly reviewed and appropriate action taken, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, system access is appropriate. The review identified weaknesses in the design and inconsistent application of controls in many of the areas reviewed therefore assurance is limited to the few areas of the system where controls are in place and are operating effectively. The recovery process is working effectively and system access is controlled and regularly reviewed. Weaknesses have been identified in several areas such as review of empty properties, referral of new build to the valuation office and lack of reconciliation of the NNDR system to the financial ledger in the 13/14 financial period. There were no high priority recommendations reported.

Final Report Issued: 25th March 2014
Assurance level: Limited

Council Tax

The review was a full system audit concentrating on areas including regular reconciliations from Council Tax system to feeder systems (i.e. Cash Receipting, Benefits system and Financial ledger), empty properties are monitored and billed promptly, accounts with credit balances are regularly reviewed and appropriate action taken, effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, systems access is appropriate. The review found although some areas are working effectively there are some expected controls not in

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place so therefore assurance can only be given over some areas of the system. There are effective recovery procedures in place and the opening debit is reconciled at the beginning of each financial year. Although there are no outside inspectors in post the Council has made good use of external providers in carrying out a review of empty properties. Control weaknesses were identified in areas including financial reconciliation, unbanded properties and credit balances.

Final Report Issued: 24th March 2014

Assurance level: Moderate

Shared Services (Client) ~ Regulatory Services

The review was a full system audit concentrating on the Shared Services – Worcestershire Regulatory Services Management process from the host authority's perspective. The audit did not cover the individual services undertaken for and on behalf of other clients of Worcestershire Regulatory Services. The review assessed whether control objectives of the Shared Services – Worcestershire Regulatory Services Management process are being achieved including whether budget holder responsibilities have been defined for each budget area, budget monitoring practices occur in a regular and timely manner, financial performance targets have been defined in the service business case, (including, the identification and monitoring of efficiency savings, cost reductions and income generation), financial savings identified by partner Councils are assessed for their impact on service delivery, non-financial performance targets have been formally defined and built into the service business case to critically evaluate service delivery, and, financial reporting practices have been fully defined and notified to all necessary personnel, including the reporting of service recharges and efficiency savings to be achieved. The review also confirmed whether there are appropriate procedures in place to ensure reporting of financial information to the Worcestershire Shared Services Joint Committee and the Worcestershire Regulatory Services Management Board is correct, and represents a fair view of the current financial position of the service. The review found there is a generally sound system of financial control in place, albeit recent events concerning the need to make high value savings within the service have been problematic including a delayed agreement of the Service budget, which had a knock-on affect on the ability to achieve the desired savings in the necessary timeframe. Several areas of system weakness have been identified with regards to the performance monitoring process, (following the recent implementation of the new Uniform system developed from the merger of multiple different systems previously managed by the different partner organisations), which monitors work activity undertaken by the shared service. The information on this new system is currently subject to extensive data cleansing, although management practices have been recently introduced to identify and rectify these issues. A full reconciliation between license records held by Worcestershire Regulatory Services and the payments received by District Councils is not being completed.

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The issue is currently being addressed, however, this had an impact on the overall audit assurance level for this work.

Final Report Issued: 30th May 2014
Assurance level: Moderate

Risk Management

The review was a full system audit concentrating on areas including the 4Risk Management System, Corporate and Service Risk Registers, and, the minutes for Risk Management meetings. The audit work did not cover the scoring of individual risk register entries. The review considered control objectives to ensure there is an appropriate Risk Management framework in place, including all necessary policies and procedures and an appropriate system for managing the process. Also included were whether regular reviews take place to identify new risks and to assess the changing risk environment for those already defined, whether mitigation activities have been determined and successfully implemented where appropriate, the minimisation of impact and likelihood of risk occurrence, and, managing and assessing of risks is embedded throughout all Services with the risk management process used as a tool for informed decision making. The review found some of the expected controls for this process are not in place or operating effectively. The Council has operated the 4Risk system for the past year, which records all risk register entries and assigns these risks to specific Risk Owners. Audit testing identified that this process has not been embedded fully, with further training required for some members of staff to promote the process. Several risk registers have not been reviewed in a regular and timely manner, and in some cases these entries have not been fully completed for use. The process has been more effectively embedded with senior management, with a process requiring officers to make presentations of key service risks to Members, and with improved engagement and accountability following the recent re-introduction of the Risk Monitoring Group. Additional work on embedding of the risk management process would be required to ensure consistency across all business aspects of the organisation.

Final Report Issued: 30th April 2014
Assurance level: Limited

Summary of Assurance Levels:

Audit	Assurance Level
2013/2014	
Creditors	Moderate
Benefits	Significant
NNDR	Limited
Council Tax	Moderate
Shared Services (Client)~ Regulatory Services	Moderate
Risk Management	Limited

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2012/13 AUDITShared Service ~ (Shared Service/Transformation Savings and Clarity of Reporting to the Members)

The critical review of the Corporate Governance (Shared Service/Transformation Savings and Clarity of Reporting to the Members) was requested by the members of the Shared Services Committee to review the accuracy of the savings and the clarity of the information provided to the committee. It was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Bromsgrove District Council for 2012/13. This audit reached draft report stage but, in discussion, the s151 Officer requested further work to be undertaken in this area. The audit, therefore, continued during 2013/14 and has now been finalised. The outcome of the review was although management have a clear understanding of Transformation of services there is room for improvements to be made in the way that this is captured and reported to Members. To address this discussions have taken place with the Executive Director ~ Finance and Corporate Resources on areas for consideration.

2013/14 AUDITS (in the process of being finalised)ICT (Draft Report stage)

The review is a full systems audit concentrating on the controls in operation by IT Services to provide measures of success including ICT helpdesk functionality since the merging of the service for Redditch Borough Council and Bromsgrove District Council. Also included is the control around the starters and leavers from the point where network access is requested, and, whether there is effective and efficient control around the disposal of IT equipment. The audit will not cover the starters and leavers procedures followed by Human Resources, or, the controls around the acquisition of IT equipment as this is covered under Procurement.

Strategic Housing (Draft Report stage)

The review is a critical appraisal concentrating on the Choice Based Letting process as it is provided, in partnership, by Bromsgrove District Council. The appraisal includes consideration of the plans to develop housing allocation processes to ensure value for money and financial efficiencies to best meet the needs of local residents. This review will not give an assurance opinion over the control environment due to its nature as a critical appraisal. The review is also critically reviewing control objectives including Choice Based Lettings, administered through the Home Choice Plus Partnership to ensure that are fully meeting the needs of Bromsgrove District Council's local community and is

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providing value for money. Also, it is assessing whether there are fit for purpose alternative processes for addressing the housing allocation needs of local residents being fully developed, including consideration of good practice, any alternate processes developed are fully considered in order to determine if Choice Based Letting and the Partnership model is the most appropriate, cost effective and efficient method for allocating housing provision, and, the outcome of any scrutiny of local social housing providers undertaken by the Homes and Communities Agency (HCA) is utilised by the council to ensure the quality of provision in the council's area.

Regulatory Services ~ Hackney Carriage and Private Hire(Draft Report stage)

The review is a full system audit concentrating on Hackney Carriage / Private Hire Taxi Licencing processes and enforcement activity of Worcestershire Regulatory Services Shared Service. The audit did not cover any other types of licencing carried out by Worcestershire Regulatory Services as a shared service, for example Alcohol Licences etc. The review considered whether control objectives of Regulatory Services (Hackney Carriage//Private Hire Taxi Licencing) were being achieved including areas such as Hackney Carriage and Private Hire Taxi new application licences are only being granted with the appropriate supporting evidence and payment as well as being in line with legislation and each council's agreed Policy. Also, renewal application licences are only being granted with the appropriate supporting evidence and payment and are in line with legislation and each council's agreed Policy, a process is in place to ensure licences are renewed at the appropriate time, and, monitoring and enforcement arrangements are in place to ensure the public is protected.

Depot and Stores(Draft Report stage)

The review is a full system audit concentrating on the Small Tools and Plant system. It is reviewing control objectives of the Small Tools and Plant systems to ensure that Inventories are maintained for all small tools and plant, all small tools and plant is purchased and disposed of in accordance with the Council's policies and financial regulations, servicing and maintenance records are kept for all small tools and plant where appropriate, stock including fuel is secure, controlled and can be accounted for, and, adequate insurance coverage is maintained for all plant and machinery.

Corporate Governance (Protecting the Public Purse) (Draft Report stage)

The review is a full review concentrating on the policies and procedures in place. The review will not give an assurance level or provide recommendations but will provide evidence of how the Council is or is not conforming to Protecting the

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Public Purse 2013 as well as assessing policies and procedures in relation to the Audit Commissions Protecting the Public Purse 2014.

Transformation ~ Corporate Fraud(Draft Report stage)

The review is a full system audit concentrating on areas for Corporate Fraud including policies and the strategic overview to reduce opportunity for fraud and corruption, promote awareness of potential fraud to all staff members, how the organisation manages it's policies to include new legislation, and, declaration registers are in place and monitored.

S106's(Clearance stage)

The review is a full system audit concentrating on S106 Agreements from the point the agreement is signed and will cover the S106 Agreements in place at the time of the audit. The review will not cover the reasoning behind or procedures undertaken to obtain agreement to a S106 Agreements.

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 31st March 2014 a total of 285 days had been delivered against a target of 300 days for 2013/14.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Board on the 14th March 2013 for 2013/14.

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 provides the Board with an analysis of audit report 'Follow Ups' that have been undertaken to monitor audit recommendation implementation progress by management.

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:

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- Governance for example assisting with the Annual Government Statement
- Risk management
- Transformation review providing support as a critical review
- 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 Due to natural turnover WIASS currently has two establishment posts vacant with active recruitment taking place to replace a permanent member of staff who left recently. Close monitoring of resource is continual using the current management information to assist the delivery of the Partner's plans throughout the year. WIASS is committed to delivering all audits as indicated in the 2013/14 plan for Bromsgrove District Council and ensure that those currently requiring finalisation will take place as soon as practically possible. For the year ended 31st March 2014 there was a small reduction in contribution for Bromsgrove District Council due to overall savings achieved in the Shared Service throughout the year.

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

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.

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5. APPENDICES

- Appendix 1 ~ Internal Audit Plan delivery 2013/14
- Appendix 2 ~ Key performance indicators 2013/14
- Appendix 3 ~ 'High' and 'Medium' priority recommendations summary with finalised reports
- Appendix 4 ~ Follow up summary

6. BACKGROUND PAPERS

Individual Internal Audit reports held by Internal Audit.

7. KEY

N/a

AUTHOR OF REPORT

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APPENDIX 1

Delivery against Internal Audit Plan for 2013/14
1st April 2013 to 31st March 2014

Audit Area	DAYS USED TO 31/03/14	2013/14 PLANNED DAYS
Core Financial Systems	88	87
Corporate Audits	66	68
Other Systems Audits	*92	109
TOTAL	246	264
Audit Management Meetings	15	15
Corporate Meetings / Reading	5	5
Annual Plans and Reports	8	8
Audit Committee support	8	8
Other chargeable	**3	0
TOTAL	39	36
TOTAL	285	300

Note:

*Full number of budgeted days not used due to some a small 'call off' budgets, e.g. consultancy, investigations, not being fully utilised.

** 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

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KEY PERFORMANCE INDICATORS 2013/14

APPENDIX 2

Key Performance Indicators (KPIs) for 01st April 2013 to 31st March 2014.

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2013/14 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Bromsgrove District Council.

	KPI	Trend requirement	2012/13 Year End Position	2013/14 Position (as at March 2014)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	8	*8	Quarterly
2	No. of moderate or below assurances	Downward	3	8	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	2	4 (5 issued: 4x Excellent & 1x Good)	Quarterly
4	No. of audits achieved during the year	Per target	Target = 21 Delivered = 21	Target = 15 (minimum) Delivered = 14 (with a further 7 in draft)	Quarterly

*This figure only includes finalised audit report recommendations therefore is subject to change (i.e. increase) depending on the draft report outcomes.

WIASS operates within and conforms to the Public Sector Internal Audit Standards 2013.

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APPENDIX 3

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

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Definition of Priority of Recommendations

Priority	Definition
H	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.</p>
M	<p>Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.</p>
L	<p>Control weakness that has a low impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation is desirable as it will improve overall control within the system.</p>

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APPENDIX 3

‘High’ & ‘Medium’ Priority Recommendations Summary for finalised audits.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Creditors 2013/14					
Summary: The review was a full system audit concentrating on the Creditor System including areas of segregation, supplier details, reconciliations, system access and requirements of the HMRC’s Real Time information reporting are met in relation to any payments made to sub-contractors. The audit did not cover the procurement process.					
Assurance: Moderate					
1	High	<p><u>Outstanding payments</u></p> <p>There is currently no review or evidence of monitoring RBC and BDC outstanding payments over 30 days, including invoices that have been coded ‘in dispute’, for the financial year beginning 1st of April 2013.</p> <p>Creditors are paid within 30 days from the date of receipt of the invoice. This is within the Councils payment terms. However legislation requires the payments to be made within 30 days of the tax date.</p> <p>2 out of a sample of 25 invoices tested were paid within the Councils payment terms but could have been classed as late payments under the Late</p>	<p>Reputation damage, financial loss through late payment charges.</p> <p>Possible loss of prompt payment discounts and impaired relations with suppliers.</p> <p>There is also a risk of non compliance with the Late Payments Regulations Act 2013.</p>	<p>Monitoring of payments over 30 days from the tax point and invoices placed ‘in dispute’ must be completed on a regular basis by the Payments team and the reasons notated on the creditors system.</p> <p>Officers must ensure that where there is a query on an invoice and it is likely to cause a delay in payment, the invoice must be placed in dispute. The reasons for the dispute and any work undertaken to resolve the dispute must be placed on the system in case the Council’s are challenged at a later date.</p>	<p>Financial Services Manager will put out communication to all staff via the Council Intranet page about the Late Payments Regulations Act 2013.</p> <p>A reminder will also be sent to Senior Management to ensure all efforts are made for payments to be made in accordance with the supplier’s terms.</p> <p>The payments team will ensure that Creditor’s files are updated to reflect any queries or disputes on an invoice that may cause delay in payment as soon as possible with regular reviews of these accounts taking place.</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>Payments Regulations Act 2013.</p> <p>It was also noted that the system is not being fully utilised by the payments team as the late payments did not have any notes on file detailing reasons of delay.</p> <p>The audit did not highlight any areas where late payment interest had been claimed.</p>		<p>Senior Managements need to ensure that the Payments team is fully aware of and operates in compliance with the Late Payments Regulations Act 2013.</p>	<p>Responsible Manager: Financial Services Manager</p> <p>Implementation date: 01/05/2014</p>
Audit: Benefits 2013/14					
Summary: The review was a full system audit concentrating on areas including overpayments occurring as a result of Local Authority error, emergency loan payments, fraud identification, assessment and recovery, and, reconciliations of Benefits including Council Tax and general ledger entries.					
Assurance: Significant					
1	Medium	<p><u>Reconciliations – Council Tax</u></p> <p>Reconciliations between Council Tax and Benefits records are done on a weekly basis.</p> <p>As at November 2013, there were 16 individual discrepancies with a net value of £1,308.24 dating back to April 2013.</p> <p>The reconciliation process is not currently subject to review by an independent officer, to ensure timely and accurate completion of the work.</p>	<p>Discrepancies are not being corrected in a timely manner, resulting in poor management information, and potential financial loss to the authority.</p>	<p>Timescales for investigating and resolving discrepancies to be formally defined and monitored, to ensure the integrity of financial information held on key systems.</p> <p>Reconciliations to be reviewed/ monitored by senior staff to ensure timely completion.</p>	<p>Management Response: Process will be put in place before end of financial year and then maintained going forward</p> <p>Responsible Manager: Benefits Service Manager</p> <p>Implementation date: March 2014</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
2	Medium	<p><u>Reconciliations – General Ledger</u></p> <p>At the time of the audit fieldwork in November 2013, the reconciliations between the Benefits records and the General Ledger had not been completed since August 2013.</p> <p>The reconciliation process is not currently subject to review by an independent officer, to ensure timely and accurate completion of the work.</p>	Discrepancies are not being corrected in a timely manner, resulting in poor management information, and potential financial loss to the authority.	Reconciliations between all systems to be completed monthly.	<p>Management Response: Agreed</p> <p>Responsible Manager: Benefits Service Manager</p> <p>Implementation date: March 2014</p>
3	Medium	<p><u>Essential Living Fund Management</u></p> <p>A spreadsheet record for monitoring expenditure is maintained by the Senior Benefits Officer. This monitoring is not a mandatory reconciliation exercise, but is primarily used as a means of reference.</p> <p>There is no control to ensure that all applications are passed to the Senior Benefits Officer for entry onto the spreadsheet.</p>	Inaccurate management information for performance reporting, resulting in reputational damage to the Service.	<p>The planned computerised system for managing Essential Living Fund claims to be implemented in accordance with timescales to be defined by management, in order to facilitate an improved process for controlling and monitoring applications and scheme expenditure.</p> <p>Management should consider the use of controlled stationary if the</p>	<p>Management Response: Database now installed and staff training imminent with a view to being live by April 1st.</p> <p>Responsible Manager: Benefits Service Manager</p> <p>Implementation date: End March 2014</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>The applications are filed by applicant name and date applied. There are no unique identifiers on each application, i.e. controlled stationary is not used for this process.</p> <p>Of a random sample of 30 applications during the 2013 period to date, 4 had not been signed by the assessing officer to ensure a full audit trail of the approval process. The process has since been improved to require this information as standard.</p> <p>There are plans for maintaining Essential Living Fund claim records using a computerised system, which would automatically assign a unique identifier to each application, record the name of the assessing officer, and provide a more effective monitoring tool. Timescales for this implementation have not yet been formally defined.</p>		<p>planned electronic system is not implemented. Staff should be reminded to fully complete all necessary form fields during the application process.</p>	

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
4	Medium	<p><u>Cash Voucher Reconciliation – Essential Living Fund</u></p> <p>The distribution of vouchers is monitored on a manual paper list. Each voucher is numbered by the Senior Benefits Officer, with these numbers then written down onto this paper document.</p> <p>When distributed, the Benefits Assessors write the name of the applicant next to the number on the list. It is evident that this list is not checked by a senior officer to monitor the distribution of these monetary items, to ensure all have been utilised in accordance with the scheme policy.</p>	Lost or stolen vouchers may not be identified in a timely manner, resulting in a financial loss to the authority.	Voucher distribution lists to be reconciled by a Senior Benefits Officer on a monthly basis, comparing voucher records with customer receipt documents.	<p>Management Response: Stock balancing procedures to be put in place.</p> <p>Responsible Manager: Benefits Service Manager</p> <p>Implementation date: February 2014</p>
Audit: NNDR 2013/14					
Summary: The review was a full system audit concentrating on areas including empty property monitoring and billing, reconciliations from the NNDR system to feeder systems (i.e. Cash Receipting, Benefits system and Financial ledger), effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, accounts with credit balances are regularly reviewed and appropriate action taken, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, system access is appropriate.					
Assurance: Limited					
Issues brought forward from previous audit					
1	Medium	<p>Property reconciliation</p> <p>Although system Rateable Value totals agree to Valuation Office reports, there has been a difference between property totals</p>	Inconsistencies could lead to incorrect billing.	An explanation should be sought for the differences in the property totals in the VO reports and Academy system.	<p>Management Response</p> <p>This will be combined with guidance to be provided to staff re empty properties& proposed changes to the way in the</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>since 20/06/2012.</p> <p>During testing carried out to review the debit raise process for 2013/14; a variance of four properties was identified between the Valuation Office records and the system totals.</p>			<p>treatment of annexes</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation date:</p> <p>31st March 2014</p>
2	Medium	<p>Valuation Officer referrals</p> <p>Requests sent to the Valuation Office for property additions, deletions and amendments are not being monitored to ensure they are being actioned timely.</p> <p>Audit testing indicated that Revenues Officers were not 'closing' cases actioned correctly as an Academy system listing shows that there are 453 outstanding.</p>	<p>Failure to timely pursue arrears leading to increase in arrears/ worsening collection rates.</p>	<p>System of monitoring/ re referring cases reported to the Valuation Office to be introduced.</p>	<p>Management Response</p> <p>This implementation of this recommendation was delayed pending discussions with ACADEMY. Some work has been completed to remove CR10 (property improvement) referrals.</p> <p>It is likely that incorrect use of the system may have also been a contributory factor and will also need to be addressed</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation date</p> <p>31st March 2014</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
New Matters Arising					
3	High	<p>Financial reconciliations</p> <p>No reconciliations between the general ledger and the Academy system have taken place this financial year</p>	<p>Errors will not be promptly identified and resolved leading to incorrect accounting entries and reputational damage.</p>	<p>Academy and general Ledger reconciliations to be brought up to date as soon as possible.</p>	<p>Management Response</p> <p>The delay is due to reduced resources due to maternity leave.</p> <p>Responsible Manager</p> <p>Financial Services Manager</p> <p>Implementation date</p> <p>30th April 2014</p>
4	Medium	<p>Empty property inspection</p> <p>Following the loss of the outside inspector, there are no regular scheduled reviews of empty properties.</p>	<p>Potential for loss of income/revenue.</p>	<p>Consideration should be given to introducing a desk based review of empty properties as carried out at Redditch BC.</p>	<p>Management Response</p> <p>Bulk review was completed in September 2013 – procedures for monthly rolling review to be implemented in new charge year.</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation date</p> <p>30th June 2014</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
5	Medium	<p>New properties</p> <p>There is no proactive approach to recording new properties and for referral to the Valuation Officer.</p>	Potential for loss of income/revenue.	Procedures should be introduced for referring new build to the Valuation Officer.	<p>Management Response</p> <p>In future 'skeleton' properties will be created on the system once we are notified of commencement.</p> <p>Thereafter quarterly reviews will be carried out with the developers/builders to ascertain progress</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation date</p> <p>30th June 2014</p>
6	Medium	<p>Credit balances</p> <p>Credit balances on accounts are not reviewed regularly. Credit balances last reviewed in July 2013.</p>	Potential for inappropriate recovery action to be taken leading to reputational damage.	Review process needs to be established.	<p>Management Response:</p> <p>Process for review of credit balances to be implemented</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation date</p> <p>31st May 2014</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Council Tax 2013/14					
Summary: The review was a full system audit concentrating on areas including regular reconciliations from Council Tax system to feeder systems (i.e. Cash Receipting, Benefits system and Financial ledger), empty properties are monitored and billed promptly, accounts with credit balances are regularly reviewed and appropriate action taken, effective procedures are in place to ensure all new build is monitored and brought into valuation at the earliest possible date, prompt recovery action is taken in accordance with agreed recovery timetable and procedures, and, systems access is appropriate.					
Assurance: Moderate					
Issues brought forward from previous audit					
1	Medium	<p>Discounts & exemptions</p> <p>Audit testing identified that officers undertaking reviews of discounts and exemptions on occasions are accepting a low level of evidence to support the continued application of a reduction; for example repeatedly accepting the word of neighbours.</p>	<p>Inappropriate discounts and exemptions applied to accounts resulting in unnecessary financial loss.</p>	<p>Officers need to seek and record an appropriate level of evidence prior to applying account discounts and exemptions.</p> <p>The level of acceptable evidence to be defined.</p>	<p>Management Response:</p> <p>This will be combined with guidance to be provided to staff re empty properties & proposed changes to the way in the treatment of annexes</p> <p>Responsible Manager</p> <p>Revenue Services Manager</p> <p>Implementation Date</p> <p>31st March 2014</p>
2	Medium	<p>Valuation Officer referrals</p> <p>Requests sent to the Valuation Office for property additions, deletions and amendments were not being monitored to ensure they were being actioned timely.</p>	<p>Potential for incorrect/untimely billing resulting in higher arrears o/s balances leading to over-stated position and reputation damage.</p>	<p>A system of monitoring and referring cases reported to the Valuation Office needs to be introduced.</p>	<p>Management Response</p> <p>This implementation of this recommendation was delayed pending discussions with ACADEMY. Some work has been completed to remove CR10 (property improvement) referrals.</p> <p>It is likely that incorrect use of</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					<p>the system may have also been a contributory factor and will also need to be addressed</p> <p>Responsible Manager Revenue Services Manager</p> <p>Implementation date 30th June 2014</p>
New matters arising					
3	High	<p>Financial reconciliations</p> <p>Whilst reviewing Council Tax to the general ledger reconciliations it was noted that they were not up to date and only one month had been undertaken in this financial year.</p>	<p>Errors will not be promptly identified and resolved leading to incorrect accounting entries and reputational damage.</p>	<p>Council Tax to general ledger reconciliations to be brought up to date as soon as possible.</p>	<p>Management Response</p> <p>The delay is due to reduced resources due to maternity leave.</p> <p>Responsible Manager Financial Services Manager</p> <p>Implementation Date 30th April 2014</p>
4	Medium	<p>Unbanded properties</p> <p>There are currently 1540 unbanded properties listed of</p>	<p>Potential for live properties to remain unbanded and not billed leading to loss of revenue to the Council.</p>	<p>The unbanded list should be reviewed to ensure that current properties are effectively managed and any</p>	<p>Management Response</p> <p>Consultancy days now agreed with software suppliers to</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		which there remains a number of properties that are no longer in the district following a boundary change review.		revenue due collected without delay.	<p>remove unnecessary properties form the list</p> <p>Responsible Manager Revenue Services Manager</p> <p>Implementation Date 30th June 2014</p>
5	Medium	<p>New properties</p> <p>There is no formal proactive system in place to record and refer new properties to the Valuation Officer.</p>	Properties remain unbanded and unbilled resulting in loss of revenue.	Formal procedure to be introduced.	<p>Management Response</p> <p>In future 'skeleton' properties will be created on the system once we are notified of commencement.</p> <p>Thereafter quarterly reviews will be carried out with the developers/builders to ascertain progress</p> <p>Responsible Manager Revenue Services Manager</p> <p>Implementation Date 30th June 2014</p>
6	Medium	Credit balances	Potential for inappropriate recovery action to be taken	Review process needs to be established to review credit	Management Response Process for Review of Credit

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		Credit balances on account are not reviewed on a regular basis. Credit balances were last reviewed in July 2013.	leading to reputational damage.	balances on an ongoing basis.	<p>Balances will be agreed.</p> <p>Responsible Manager Revenue Services Manager</p> <p>Implementation Date 31st March 2014</p>
Audit: Shared Services(Client)~ Regulatory Services 2013/14					
Summary: The review was a full system audit concentrating on the Shared Services – Worcestershire Regulatory Services Management process from the host authority’s perspective. The audit did not cover the individual services undertaken for and on behalf of other clients of Worcestershire Regulatory Services. The review assessed whether control objectives of the Shared Services – Worcestershire Regulatory Services Management process are being achieved					
Assurance: Moderate					
1	High	<p><u>Performance Monitoring Data</u></p> <p>There have been a number of issues with the implementation of the new Idox Uniform system during the 2013/14 financial period.</p> <p>Difficulties have been experienced with historic data from previous systems being merged together into the single system. A number of duplicated records have been found, as well as incomplete information. Temporary staff</p>	Inaccurate or incomplete data used for performance monitoring, leading to reputational damage.	Additional development is required on the recently implemented Idox Uniform system to normalise the quality of entered information, to enable a more time effective and reliable performance reporting process, and to provide a consistent approach to data management and reporting within the Service across all	<p>Responsible Manager: Licensing and Support Services Team Manager</p> <p>Implementation date: On-going data cleansing of all permanent licensing records i.e. Premises Licenses to be cleaned and finalised by September 2014.</p> <p>Annual licenses should be cleansed and finalised at the end of the implementation year December 2014.</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>members have been hired to rectify many of the records.</p> <p>The individual teams are managing information in an inconsistent manner, requiring different key fields to be completed. Mandatory field entries are not required on this system.</p> <p>These errors and inconsistencies with information management have resulted in the need to perform extensive cleansing and manipulate extracted information to ensure integrity and suitability of the data provided for performance monitoring purposes.</p>		partner organisations.	<p>On-going training in the use of the software system will be provided to support consistency of data inputting.</p> <p>Training on software changes/updates will be given as and when necessary.</p>
2	Medium	<p><u>Budget Setting</u></p> <p>The setting of the Worcestershire Regulatory Service budget should be approved by September prior to the financial period in question.</p> <p>The budget for 2014/15 was not approved until 20th February 2014 due to on-going negotiations regarding the individual financial savings required, and the timing of individual partner budget setting practices.</p>	Lack of timely approval, leading to reduced capacity to achieve identified savings reductions in the desired financial period.	<p>The timing of the budget preparation needs to be re-assessed to synchronise with the different budget setting practices at each partner organisation.</p> <p>All reported budget information should be correct at the time of approval by the Worcestershire Shared Service Joint Committee.</p>	<p>Responsible Manager: Head of Worcestershire Regulatory Services</p> <p>Implementation date: There is a process for agreeing the WRS budget clearly laid out in the SLA, however due to some partners having to respond to a changing financial position during this period, final agreement was not reached until after the due date. Plans to better align WRS budget setting</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		In addition, the final approved budget for Worcestershire Regulatory Services does not correspond with the financial information provided in the Service Plan for 2014/15.			with partner budget setting processes are being developed by the WRS Management Board in time for the 2014/15 financial year.
3	Medium	<p>Information for Fee Setting</p> <p>Partner Councils are expected to provide information to the Worcestershire Regulatory Services on the income received for each licensing activity, along with their individual costs for supporting the process.</p> <p>The Service is then required to proportion the costs of managing license arrangements. Currently this is being done using the number of applications per district, and does not currently take into account individual time requirements of each type of work. This information is to be recorded during 2014/15, for use in future fee setting activities. Once done, the Service recommends whether each partner Council should change their license fees for the period.</p>	Incorrect charging leading to inappropriate profits or unacceptable losses for this process.	There needs to be a formal process for requesting and receiving financial information from each of the district partners, for the purposes of setting license fees.	<p>Responsible Manager: Head of Worcestershire Regulatory Services</p> <p>Implementation date: There is a formal process currently in place but not written down.</p> <p>A review of the roles and responsibilities and operation of the Management Board is currently being undertaken by the Chairman of MB. Management board representatives will be contacted in future where partners fail to respond to financial information requests in a timely manner.</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>There is no formal procedure for receiving financial information from each of the partner councils. At the time of the audit, information had not been received for Malvern Hills District Council or Worcester City Council.</p> <p>Councils are not allowed to make a profit on licensing activities over a 3-yearly rolling period. Each individual council is liable for their own profits and losses incurred.</p>			
end					

AUDIT BOARD

APPENDIX 4

Follow Up

Planned Follow Ups:

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports is logged. The table provides an indication of the action taken against those audits and whether further follow up is planned. Commentary is provided on those audits that have already been followed up and audits in the process of being followed up to the end of 2014. Exceptions will be reported to the Committee.

For some audits undertaken each year follow-ups may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the overall work load.

Follow up in connection with the core financials is undertaken as part of the routine audits that are performed during quarter 3.

AUDIT BOARD

Audit	<u>Date Final Audit Report Issued</u>	<u>Responsible Officer</u>	<u>1st Follow up</u>	<u>2nd</u>	<u>3rd</u>
			High and Medium Priorities 6mths after final report issued as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed
2012-13 Audits					
Shared Services	Draft report stage	Executive Director (Finance & Corporate Resources)	Extended scope agreed and delivered. To be followed up 6 months after final report issued.		
Governance inc Procurement	20th May 2013	Financial Services Manager	No High priority recommendations. Medium Priority recommendations will be followed up in April 2014		
Markets	21st March 2013	Head of Planning Services	There were 3 high priority recommendations and 3 medium priority recommendations. The 3 high priority recommendations have seen systems implemented to minimise the risk to the Council. There is a plan to review this area in April 2014 to ascertain the continuing progress made with the implementation of all the recommendations.		

AUDIT BOARD

Street Scene inc abandoned vehicles, fly tipping, etc.	7th January 2013	Head of Environmental Services	No High priority recommendations. Medium Priority recommendations will be followed up in April 2014		
Cemeteries	26th April 2013	Head of Environmental Services	1 High Priority recommendation - Followed up February 2014 and has been implemented. Moderate priority recommendations will be followed up in April 2014		
Parks & Open Spaces (Sanders Park)	18th March 2013	Capital Project & Greenspace Manager	No High priority recommendations. Medium Priority recommendations will be followed up in April 2014		
Regulatory Service/Environmental Health	2 nd August 2013	Regulatory Services Shared Service Manager	There were 3 high priority recommendations and 1 medium. There is an annual audit due to the risk associated with this area of operation. On going monitoring continues to take place. Of the 3 high priority recommendations 1 has been satisfied and 2 are in progress. Work on the medium priority recommendation is planned for July 2014.		
2013-14 Audits					
Building Control	29th October 2013	Building Control Manager	Apr-14		
BURT - Community Transport	10th October 2013	Acting Head of Community Services	Apr-14		
Core Financial audits	Various dates	To be followed up as part of the 2014/15	Oct to December- 14		

AUDIT BOARD

		core financial audit work.			
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AUDIT BOARD

19TH JUNE 2014

CORPORATE RISK REGISTER

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

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the updated 2014/15 corporate risks to be included in the Corporate Risk Register.

2. RECOMMENDATIONS

- 2.1 **The Board is asked to agree the corporate risks to be managed during 2014/15.**

3. KEY ISSUES

Financial Implications

- 3.1 Effective management of Corporate Risks ensures that the Council's financial position is protected.

Legal Implications

- 3.2 By ensuring the Council has a robust framework for Risk Management, there should be assurance that effective controls are in place to mitigate legal challenge and support compliance to legal duties.

Service / Operational Implications

- 3.3 A new framework for corporate risk has been developed following discussions with service teams, managers and is currently being audited as part of the Annual Audit Plan. The list of strategic risks included below also includes the risk associated with Corporate Fraud as requested at the last meeting. The risks link to the individual departmental registers that have been regularly presented to this Board. Occasionally risks are moved from the departmental to the corporate register if their effect is seen to be of a wider strategic nature than originally anticipated. Once agreed by Members the detailed Corporate Risk Register will be developed for management by officers and reported to this Board on a quarterly basis.

AUDIT BOARD19TH JUNE 2014

- 3.4 The risks to be contained within the Corporate Register are deemed as Strategic as they have the following impact:
- if realised, could fundamentally affect the way in which the Council exists or provides services in the next five years.
 - These risks will have a detrimental effect on the Councils' achievement of the key purposes
 - Risk realisation will lead to material failure, reputation damage, loss or lost opportunity across the Council
- 3.5 The risks identified below are managed by the Heads of Service and Directors. The risks are monitored on a quarterly basis and actions are undertaken to ensure adequate and robust controls are in place to mitigate any risk.

CORPORATE RISKS 2014/15

- **Commissioning role of County Council is not delivered effectively which impacts upon the Council**
- **Council does not respond to financial constraints effectively**
- **Impact of Political Change ; National , Regional or Local**
- **Interactions with LEP and stakeholders fail to operate effectively**
- **Council fails to deliver transformed services**
- **Partners / Stakeholders unwilling to change how they deliver services (transformation)**
- **Shared Services fail to deliver / satisfy the needs of the Council**
- **Corporate Fraud is not managed across the Organisation**
- **Failure to effectively implement Individual Electoral Registration**

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

- 4.1 The corporate risk register is part of the wider risk framework currently in place at the Council.

AUDIT BOARD

19TH JUNE 2014

5. **APPENDICES**

None

6. **BACKGROUND PAPERS**

Department Risk Registers

7. **KEY**

N/a

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Bromsgrove District Council



AUDIT BOARD ANNUAL REPORT

2013 / 2014



Bromsgrove
District Council

www.bromsgrove.gov.uk

AUDIT BOARD ANNUAL REPORT 2013 / 2014

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FOREWORD BY THE CHAIRMAN

Chairman of the Audit Board



Welcome to this second report produced by Bromsgrove District Council Audit Board.

Once again the Board has been fairly active based on the previously developed work programme, being extremely conscious of the responsibility of the Board.

Members of the Audit Board had raised several queries with officers related to value for money, risk management and corporate fraud; all of which had been answered to the satisfaction of the Board Members.

Members of the Board take very seriously their responsibilities ensuring that any weaknesses are addressed as soon as possible.

My thanks go to all the Members of the Board and the Vice Chairman, Councillor B. Cooper, the officers who have supported the Board so efficiently with special thanks to Pauline Ross and the Democratic Services Team for their excellent support throughout the year.

Councillor Patricia Harrison

INTRODUCTION

Audit Board Members are pleased to introduce the second Audit Board Annual Report. The report provides an overview of the Audit Board's activity during the municipal year 2013/2014.

The Audit Board works in partnership with the Cabinet and officers to ensure good stewardship of the Council's resources and delivery outcomes for the people of the District.

The Audit Board has a responsibility to consider the effectiveness of the Council's internal control environment. The ultimate responsibility for audit rests with the Portfolio Holder with responsibility for finance and the Council's Section 151 Officer.

The Audit Board continuously reviews Internal Audit's progress against the audit plan and considers Internal Audit performance measures.

The Audit Board receives and considers:

- Reports from the External Auditors – Grant Thornton
- A summary of work undertaken by Internal Audit
- Financial process/procedures
- Value For Money reports
- Any special investigations undertaken by Internal Audit
- Risk Management, including Departmental Risk Management Presentations
- Corporate Fraud
- Benefits Investigations

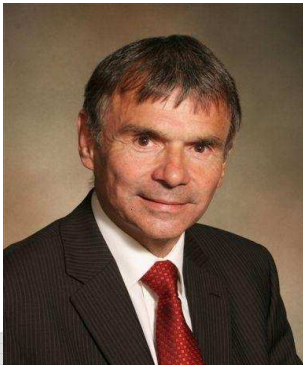
AUDIT BOARD MEMBERS 2013 / 2014



Councillor H. J. Jones



Councillor J. R. Boulter



Councillor P. M. McDonald



Councillor S. J. Dudley



Councillor B. T. Cooper



Councillor M. T. Buxton

THE ROLE OF THE AUDIT BOARD

Scope and Responsibility

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

The Audit Board's Terms of Reference are detailed at Appendix 1.

Meetings of the Board

The Council's constitution requires the Audit Board to hold quarterly meetings. During the municipal year 2013/2014 meetings were held in September, December 2013 and March 2014. The meeting scheduled for 20th June 2013 was postponed following discussions with Leading Group Members and rescheduled for 4th July 2013; this meeting was inquorate, so agenda items were included on the agenda for the meeting held on 19th September 2013. The Audit Board Work Programme for 2013/2014 was agreed at this meeting, as detailed at Appendix 2. The work programme continued to be a working document and was reviewed at every meeting with items included as and when considered and agreed by the Board.

Audit Board procedure rules permitted the use of trained substitutes with each Board Member able to appoint a trained substitute to attend on their behalf, limited to no more than two meetings in any municipal year. Trained substitutes were in attendance at the meetings held on 19th September 2013 and 20th March 2014.

MEMBER TRAINING

The Council's external auditors Grant Thornton provided Audit Board Members with training on 2nd September 2013. Mr. P. Jones, Engagement Lead carried out the training session, which focussed on 'Improving your Audit Committee effectiveness'.

The two main areas of Audit Committee responsibility –

- Financial Reporting
- Risk Management / Internal Control

The training also covered 'making a difference in challenging times' –

- Where joint arrangements or shared services are being introduced
- When major organisational change is being undertaken
- and how Audit Committees can increase their effectiveness

The training concluded with top tips for effectiveness –

During the year:

- pre-meeting (including audit) to organise and prioritise agenda
- obsessive focus on assurance gathering for the Annual Governance Statement and speaking up / call officers in if not getting what is needed
- hard challenge on anything that threatens to soak up committee time that is not key to assurance gathering (interesting distractions / too much detail)
- awareness of tendency to drift into scrutiny / executive / management roles (policing role but assurance that it is being covered in the appropriate place)
- willingness to flex work plan / additional meeting / subgroup to deal with emerging important issues and risks

Year end:

- challenge the effectiveness of the Annual Governance Statement
- ensure explanations on the accounts are clear and satisfactory
- prepare a report on the effectiveness of the committee during the year
- feed improvement's into next year's plan

The Service Manager, Worcestershire Internal Audit Shared Service, provided refresher training for Members in September 2013. The Member Development Steering Group agreed that refresher training be made mandatory and that all Audit Board Members and named substitutes attended appropriate training prior to attending Audit Board meetings, to allow them to discharge their responsibilities.

The training highlighted the role of a functional internal audit service, with key findings and progress reported to the Audit Board:

- Service to management.
- Continuous examination of the day to day risks, transactions, systems and methods.
- Provision of independent verification, assurance of risk mitigation, accuracy of records as an indicator of effective management and governance.
- ‘Managed audit’ agreement: reliance placed by External Audit (EA) on Internal Audit (IA) testing of core financial systems.
- Value Added audits to include economy, efficiency and effectiveness.
- Fraud Prevention and Detection.
- Critical Friend, Consultancy and advice.

ANNUAL GOVERNANCE STATEMENT 2012 / 2013

The Annual Governance Statement is a statutory document, which provides an overview of the governance arrangements within the Council.

Bromsgrove District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Members, Executive Directors, Heads of Service, and other managers of the Council, who are responsible for the development and maintenance of the Governance environment, the Internal Audit Manager's annual report, and the external auditors and other review agencies and inspectorates.

The Annual Governance Statement 2012/2013 was due to be presented to the Board at the meeting on 4th July 2013. The meeting was inquorate so the agenda items were carried forward to the meeting on 19th September 2013.

The Cabinet considered the Annual Governance Statement for inclusion in the Statement of Accounts 2012/2013 on 4th September 2013. Members were asked to note the Internal Audit Opinion for inclusion in the Annual Governance Statement, which would be included as part of the Annual Governance Statement and included in the Statement of Accounts for 2012/2013.

INTERNAL AUDIT

The Worcestershire Internal Audit Shared Services Team has been in place since June 2010 and operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews, on a continuous basis the extent to which the internal control environment supports and promotes the efficient and effective use of resources. All audit reports go to the manager of the service, the appropriate Director and the Chief Executive. The Audit Board receives a quarterly report of the internal audit activity and has input and final approval of the annual audit plan for the forthcoming year.

Internal Audit continuously reviews and reports on risk and the adequacy of systems in place to ensure compliance with Council policies and procedures and assists Service Managers to add value to service areas.

Internal Audit has developed a methodology which sets out how they:

- Risk assesses the organisation in key areas.
- Engage with Senior Management
- Formulate the Audit Plan
- Scope and plan the audit
- Through fieldwork obtain evidence and assurance in a structured way
- Decide what assurance has been attained against a given criteria
- Report to management
- Follow up recommendations
- Report key findings and progress to the Audit Board

There is a clear reporting mechanism which provides assurance to the Manager and the Audit Board. The final report provides:

- The reason for the audit
- Scope and objectives of the audit
- Audit opinion and executive summary
- Detailed findings and recommendations with priority, along with a management action plan

How does Internal Audit provide a service to management?

- Highlight risk considerations
- Review and test internal controls for a particular service/function
- Use preventive controls and detective controls
- Assurance to managers, recommendations to improve
- Quality work - what the manager wants, appropriate and timely, value added, assist with transformation

Internal Audit Monitoring Report

The Service Manager, Worcestershire Internal Audit Shared Service provided the Audit Board with quarterly reports detailing internal audit work and performance. The involvement of Members in progress monitoring was considered to be an important facet of good corporate governance, which contributed to the internal control assurance given in the Council's Annual Governance Statement. Individual reports for completed audits were presented to Audit Board Members.

A considerable amount of 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.

During the Audit Board meeting held on 19th September 2013, Members were informed that due to natural turnover Worcestershire Internal Audit Shared Service had three established posts vacant, one was due to be filled at the start of October 2013. Further active recruitment was planned for later in the year with interim cover being organised. Close monitoring of resource was continuing using current management demand for the remainder of the year. Worcestershire Internal Audit Shared Service was committed to delivering all audits as indicated in the 2013/2014 plan for Bromsgrove District Council and would continue to take active steps to achieve this.

Internal Audit Manager's Draft Audit Opinion 2012 / 2013

The Service Manager, Worcestershire Internal Audit Shared Service presented this report to Members on 19th September 2013. The report provided Members with the proposed Worcestershire Internal Audit Services Manager opinion, which would be included as part of the Annual Governance Statement and included with the Statement of Accounts for 2012/2013.

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

The Internal Audit Plan for 2012/2013 was a risk based plan (assessing audit and assurance factors, materiality risk, impact of failure, system risk, resource risk, fraud risk and external risk) using a predefined scoring system.

The 2012/2013 internal audit plan was delivered in full providing sufficient coverage for the Service Manager to form an overall opinion.

Based on the audits performed in accordance with the approved plan, the Worcestershire Internal Audit Shared Services Manager concluded that the internal control arrangements during 2012/2013 effectively managed the principal risks identified in the audit plan and could be reasonably relied upon to ensure that the Council's corporate objectives had been met.

In relation to the twenty one reviews that had been undertaken, seventeen audits were finalised and four were nearing completion. Risk management had been re-launched during 2012/2013 with a Corporate Risk Register being formulated and training provided. Further work was required to embed this throughout the organisation with the outcomes being monitored by the Risk Management Monitoring Group.

As part of the process of assessing the Council's control environment, senior officers within the Council were required to complete an annual "Internal Control Assurance Statement" to confirm that the controls in the area for which they were responsible were operating effectively. Officers were required to acknowledge their responsibilities for establishing and maintaining adequate and effective systems of internal control in the services for which they were responsible and confirming that those controls were operating effectively except where reported otherwise. No areas of significant risk were identified. Any concerns raised by managers were assessed and addressed by the Council's Corporate Management Team.

The majority of the completed audits had been allocated an audit assurance of either moderate or above meaning that there was generally a sound system of internal control in place, no significant control issues had been encountered and no material losses had been identified during the time of continuing significant transformation and change.

Internal Audit Annual Report 2012 / 2013

The Internal Audit Annual Report 2012/2013 was presented to Members on 19th September 2013. To aid compliance with the Regulation, the CIPFA Code of Practice for Internal Audit in Local Governance 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".

The report highlighted that during 2012/2013, 284 chargeable audit days were delivered. This equated to a delivery of 94.7% against a target for the year of 90%.

In accordance with best practice the plan was subject to review each year to ensure that identified changes, for example, external influences, risk assessment and process re-engineering were taken into consideration within the annual plan.

The purpose of the 2013/2013 Annual Plan was to aid the effectiveness of the Internal Audit function and ensure that:

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

2012/2013 was a demanding year for the Internal Audit Team with the loss of a Lead Auditor earlier in the year, the departure of an Auditor in November 2012 who had not been in post long, the uncertainty over the permanent appointment of the Service Manager post and a couple of office moves. There was a need to vacancy manage posts for a significant proportion of the year in order to ensure correct resourcing was available to deliver the risk based internal audit plan. In addition there was 'managed' long term sickness as well as significant unforeseen long term sickness absence within the service which placed further pressure on the service and its ability to deliver the internal audit programme.

Internal Audit had carefully managed its resource and worked with partners to deliver the full audit programme for Bromsgrove District Council for 2012/2013.

Managers were asked to provide feedback on systems audits by completing a questionnaire. At the conclusion of each audit a feedback questionnaire was sent to the responsible Manager and an analysis of those returned during the year showed a very high satisfaction with the audit product.

To further assist the Audit Board with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conform to the Public Sector Audit Standards and use the CIPFA Self-Assessment questionnaire to self-assess the service on an annual basis. The outcome indicated that there was a sound basis from which the shared service would work and which would be enhanced as certain key developments were implemented, for example the audit software, over the next twelve months and further development of the Shared Service. Any areas of non-compliance with the Standards or Code would be reported as exceptions to the Client Officer Group and Audit Board. There were no known exceptions to report.

The anti-fraud and corruption survey was completed by Internal Audit and submitted on the 17th May 2013 in respect of the financial year 2012/2013. The survey examined several key anti-fraud measures that exist within the Council. There were no significant weaknesses identified by the survey.

Provisional Internal Audit Plan 2014 / 2015

The Internal Audit Plan for 2014/2015 was a risk based plan which took into account the adequacy of the Council's risk management, performance management and other assurance processes. It was based upon the risk priorities and dialogue with the Section 151 (s151) officer and Head of Service as well as an independent risk assessment of the audit universe by Internal Audit. The Internal Audit Plan for 2014/2015 was agreed with the Council's s151 officer.

At the Audit Board meeting on 12th December 2013, Members received a report detailing a provisional plan of work. By bringing a provisional plan of work before the Audit Board it allowed Members to have a positive input into the audit work programme for 2014/2015, and to make suggestions as to where Members felt audit resources may be required under the direction of the s151 officer. As with all plans it would be subject to review and update as the year progressed in consultation with the s151 officer. The report also detailed the key performance indicators for 2014/2015 as agreed with the Council's s151 officer. The success or otherwise of the Internal Audit Shared Service would be determined by the performance against the set of key performance indicators which had been developed for the service.

The operational progress against the Internal Audit Plan for 2014/2015 will be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service and reported to the Shared Service's Client Officer Group (which comprises the s151 officers from partner organisations), and to the Audit Board on a quarterly basis.

On the 20th March 2014, Members were presented with and approved the Internal Audit Operational Plan and the key performance indicators for the Worcestershire Internal Audit Shared Service 2014/2015. The Service Manager, Worcestershire Internal Audit Shared Services highlighted that with the resource allocation of 300 chargeable days for 2014/2015, he was confident that he could provide management, external audit and those charged with governance with the assurances and coverage that they required over the system of internal control, annual governance and statement of accounts.

CORPORATE RISK REGISTER / **RISK MANAGEMENT**

The Corporate Risk Register recognises the need to monitor the budget to ensure that the Council are able to deliver services within the budget allocated. A robust risk management framework supports the Council in delivering its services in a compliant way and therefore reducing the opportunity of legal challenge.

A joint shared approach was taken with regard to risk identification, recording and monitoring. The Corporate Level – Risk Register was presented to the Audit Board on 20th March 2014. The Corporate Risk Register was closely monitored by the Corporate Management Team (CMT). The Risk Management Monitoring Group would monitor the operational risks and where appropriate escalate these for discussion and inclusion in the Corporate Risk Register. The Risk Management Monitoring Group would also ensure on-going corporate monitoring and would challenge risks. Councillor H. J. Jones was nominated by the Board to attend meetings of the Risk Management Monitoring Group as a representative of the Audit Board.

On the 12th December 2014, Members were provided with a verbal update from the Executive Director, Finance and Corporate Resources. Members were informed that she was now responsible for developing Risk Management with support from the Financial Services Manager. The Terms of Reference for the Risk Management Monitoring Group were agreed and Insurance Claim statistics were looked at during their meeting on 10th October 2013.

Departmental Risk Registers

During 2013/2014 Members received risk management presentations from:-

- Customer Services Manager
- Head of Planning and Regeneration

The presentations detailed the risk management for their specific service areas. The presentations highlighted that good management required an understanding of risks- health and safety, operational and exceptional (project related). Risk Management should provide a positive and practical way of treating and managing the risks or threats to the organisation, the service and those working in or using the service. Risk Management was a continuous and developing process within each of the service areas with an on-going review of known operational risks.

FRAUD PREVENTION & DETECTION

During the meeting on 12th December 2013, Members received the following two reports from the Council's External Auditors, Grant Thornton: –

The Audit Findings 2012/2013 – Matters in relation to fraud:

Grant Thornton had previously discussed the risk of fraud with the Audit Board and no material frauds had been disclosed. Grant Thornton had not been made aware of any other incidents in the period and no other issues had been identified during the course of their audit procedures.

Audit Board Update 2013/2014 - Potential for procurement fraud:

The Chancellor's Spending Round announcement earlier this summer had forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP wrote in Local Government News, the National Fraud Authority estimated that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process was key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Corporate Fraud

During the meeting on 12th December 2013, the Executive Director, Finance and Corporate Resources provided Members with a verbal update on the staff survey and the results of the staff survey, in respect of the specific questions asked on the Council's whistleblowing procedure.

The Executive Director, Finance and Corporate Resources provided Members with the following brief update:-

- Over 800 individual comments in addition to the tick box and rating responses had been received.
- Approximately 40% of staff polled responded to the survey.

- 78% felt that they were able to meet the needs of the customers (both internal and external) on a daily basis.
- 76% of the respondents felt that they had the opportunity to do what they do best on a daily basis.
- 50% said that they did not get regular feedback from their manager about how they were doing.
- 45% of respondents said that they did not have regular team meeting.

Following on from the staff survey a steering group, consisting of staff and union representatives was set up to look at the following main themes:

- Communication
- Management
- ICT
- Working Environment

The Executive Director, Finance and Corporate Resources informed Members that there was a framework in place with regard to staff supervision, which included regular team meetings and regular one-to-one staff meetings and that Managers were aware of this framework.

On the 20th March 2014 the Board received a report on the Corporate Fraud – Audit Review. As part of the Worcestershire Internal Audit Shared Service Plan 2013/2014 a review of the Councils policies and practices in relation to Corporate Fraud and Whistleblowing had been requested. This was to look at any revisions to the current policies to ensure that the Council had robust controls in place to prevent corporate fraud and was supporting staff with any concerns they wished to raise. The Council's current whistleblowing policy would be one of the policies reviewed by the Audit Team.

The review would assess whether the following control objectives of Corporate Fraud were being achieved:

- There are up to date policies for example Anti-Fraud and Corruption and Whistle-blowing within the Council and a strategic overview to ensure that the opportunity for fraud and corruption was reduced to a minimum;
- The Council was promoting awareness of fraud to all staff members;
- The Council are keeping all policies up to date and reviewing in line with new legislation to ensure that they are fit for purpose e.g. Bribery Act 2010;
- Declaration of interests and Hospitality Registers are completed by Members and officers with regular monitoring in place.

The areas covered would address current policies and procedures whilst identifying best practice across the audit environment. The results of the audit review would be presented to the June 2014 Audit Board meeting where Members would have the opportunity to consider the action plans in place to improve the controls currently in place to manage this issue.

Benefits Investigations

The Benefits Service decides entitlement to Housing Benefit and Council Tax Benefit. Within the Finance and Resources Service there is a dedicated counter fraud team whose purpose was to prevent and deter fraud as well as investigate any suspicions of fraudulent activity against the Council. The Fraud Team comprises of a manager, two investigation officers and a support officer. All of the team has completed the nationally recognised best practice Qualifications in Professionalism in Security (PinS) appropriate to their role.

Members received reports on the performance of the Benefits Services Fraud Investigation Service for 2013/2014. The reports detailed the number of fraud referrals received by the team and the percentage of referrals from data-matching. The reports also detailed the actions taken: number of cautions accepted, number of administrative penalties accepted and the number of successful prosecutions. Reports also provided details of example cases.

Approximately 45% of the caseload was made up of people of working age which resulted in a large number of claims from customers who moved in and out of work and claimed other out of work benefits.

Although measures had been put in place to make this transition easier for customers, it remained an area of risk of fraud entering the system. As both Housing Benefit and Council Tax Support were means tested benefits, there were potential financial incentives to under declare income and savings or not to report a partner who may be working or have other income.

Many fraud referrals related to benefits paid by both Bromsgrove District Council and the Department for Works and Pensions (DWP). In these cases, a Joint approach is taken to ensure that the full extent of offending was uncovered and that appropriate action was taken by both bodies. This also maximised staffing resources by preventing duplicate investigation work.

Fraud investigation can impact upon other areas of benefit administration. The biggest impact was upon overpaid Housing Benefit and excess payments of Council Tax Benefit. Some of these overpayments can be extremely large and can distort the apparent recovery rate of overpayments.

At the meeting on 20th March 2014, Members raised questions with regard to files being closed without sanction and the new benefit system, Universal Credit, and the potential for increased benefit fraud.

The Head of Customer Access and Financial Support informed Members that in answer to the question regarding closing cases without sanctions. That before closing a case without sanction they would have gone as far as they could with the investigation at that time. But where they think something may come to light later on, they set up a case control on the claim for a follow up visit in three or six month's time. The situation can then be discussed again and referred back for further investigation if considered appropriate

If cases are closed with a positive outcome the full facts of the case are taken into consideration in deciding whether a sanction is appropriate. This will include things such as the period and amount of benefit overpaid, how the error/offences came to light, whether there is anything lacking in our own systems that allowed it to happen, the customer's personal circumstances, particularly any social or medical considerations and anything else identified of any relevance. All evidence would have been gathered at this stage before a decision was taken not to sanction but only to recover the overpayment.

If the case is closed with a negative outcome they would have done all that they could to obtain evidence but would have to accept that they were not going to be able to prove the allegation. They need to remain conscious that some allegations can be malicious or made with genuine intent without full knowledge of the situation. If there was any substance to the allegation it would often re-emerge either through another referral or data-matching.

The Benefits Service would not and will not be responsible for Universal Credit and will not be monitoring fraud in that system. It is the responsibility of the Department for Works and Pensions (DWP).

At the meeting on 20th March 2014, Members were provided with further information with regard to the Single Fraud Investigation Service (SFIS), as part of the Government's Welfare reform plans and announced in the Autumn Statement by the Chancellor of the Exchequer on Thursday 5th December 2013.

EXTERNAL AUDITORS - GRANT THORNTON **REPORTS**

Reports presented by the Council's External Auditors, Engagement Lead and Engagement Manager, Grant Thornton:-

Certification Report 2011 / 2012

This report was considered in March 2013. The report summarised the external auditor's overall assessment of the Council's management arrangements in respect of certification process and drew attention to significant matters in relation to individual claims. The report also detailed the following key messages from the Audits:

- All claims were submitted on time to audit and all claims were certified within the required deadline.
- 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 were generally of a good standard, which enabled certification within the deadlines.

Reports received in December 2013:-

Audit Board Update

Members received a report on the progress in delivering their responsibilities as the Council's External Auditors. The report included a summary of emerging national issues and developments that could be relevant as a District Council. The report also highlighted that the Council needed to be vigilant in their processes against fraud.

Auditing Findings 2012/2013

This report highlighted the key matters arising from their audit of the Council's financial statements for the year ended 31st March 2013. The accounts were well prepared with adequate supporting papers and officers were responsive to any questions raised. There was one significant change to the accounts that impacted on several notes. This related to the accounting for a notional capital receipt for the Council's share of receipts from the sale of former council houses. It was agreed with officers that it would be proper to reverse these entries and refer to the transaction in a separate note to the accounts. In addition to the work on the accounts preparation they assess their opinion on value for money. Their conclusion was that they were satisfied that the Council had put in place proper arrangements to secure economy, efficiency and effectiveness during 2012/2013.

Reports received in March 2014:-

Certification Letter 2012/2013 and the Certification Work Plan 2013/2014

The Certification work for the year ended 31st March 2013 detailed the two certified claims for 2012/2013 which related to £45.8 million of expenditure for Housing and Council Tax Benefit Scheme and National Non Domestic Rates. There were no significant issues arising from their certification work which the external auditors highlighted to the Board.

They were satisfied that the Council had appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification and were satisfied that any recommendations raised in previous years had been addressed.

There were a number of errors identified in the housing benefits testing, it was important that officers reviewed the errors to determine whether there were lessons to be learned that should be reflected in training and procedures operated in the department. Members were informed that training plans and checks had been put in place with Benefits Team Leaders.

The key messages from the Audits were:

- Claims were all submitted and certified on time
- Overall the Council is performing well and there are no significant matters arising
- Supporting working papers were generally good
- The use of an agency member of staff results in the analysis work being undertaken on time
- The value of the number of errors was under £20k which is small in relation to the value of the claim – less than 1%.

Review of Financial Resilience

The work undertaken by Grant Thornton in their Value for Money (VfM) conclusion included a review to determine if the Council had proper arrangements in place for securing financial resilience. The review considered the following aspects of financial resilience with a judgement made in relation to each element:

Area	Judgement
Key indicators of financial performance	Arrangements meet or exceed adequate standards
Approach to strategic financial planning	Arrangements meet or exceed adequate standards
Approach to financial governance	Potential risks and/or weaknesses.
Approach to financial control.	Arrangements meet or exceed adequate standards

It was considered that the majority of the financial framework that the Council had in place was robust. The approach to financial governance had been reviewed and there were a number of improvements that have been identified. The report highlighted some areas where arrangements could be improved as detailed below and were being addressed by the Management Team:

Area	Action
Key indicators of financial performance	None Specified
Approach to strategic financial planning	<p>Ensure that the plans for the 14/15 budget make explicit links between the new strategic purposes and decisions over budget allocation and savings. This has been undertaken in 2014/15.</p> <p>Clearer forward plans should be in place around assets and workforce to underpin the MTFP – review as to the best way of providing this during 2014/15.</p>
Approach to financial governance	Improve managers' budget management skills to enable more effective forecasting of the projected financial position – training plans currently being developed.

However the External Auditors overall opinion was that the Council had made considerable changes in recent years, with the aim to focus on delivering Council priorities whilst seeking to minimise underlying costs. In addition it was considered that the Council currently had a relatively good level of general fund balances which had increased year on year, providing a buffer which was important with reducing central government grants.

There were two main concerns within the report that related to the following:-

- Significant variation to budget in the last quarter of the year
- Lack of monitoring of savings identified

The finance team was working with officers and budget holders with the aim to improve financial forecasting to ensure that a more accurate financial position was estimated for 2013/14. In addition the financial monitoring reports were more detailed than in previous years.

STATEMENT OF ACCOUNTING POLICIES

The Cabinet considered the Annual Governance Statement for inclusion in the Statement of Accounts 2012/2013 on 4th September 2013. Members were asked to note the Internal Audit Opinion for inclusion in the Annual Governance Statement, which would be included as part of the Annual Governance Statement and included in the Statement of Accounts for 2012/2013.

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CONFIDENTIAL REPORTS

Wherever possible the Audit Board have sought for information to be brought into open session in accordance with the principals of best practice in local government and in accordance with the Local Government Act. As previously agreed in 2012/2013 the Board had considered whether Internal Audit Monitoring Reports should be heard in their entirety within closed session as had been the past practice. In 2013/2014 the Board followed the same principal that only specific exempt information should be considered in closed session.

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FUTURE WORK OF THE BOARD - to monitor

- Efficiencies and savings identified through shared services delivery
- Transformation
- Delivery of the Internal Audit Plan 2014 / 2015
- Corporate Risk Register
- Fraud
- Benefits Investigations

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TERMS OF REFERENCE

APPENDIX 1

- a. The Audit Board is charged with monitoring the good stewardship of the Authority's resources through the work of the Internal Audit function.
- b. The Audit Board will support the profile, status and authority of the Internal Audit function and will demonstrate its independence.
- c. The Audit Board will contribute towards making the Authority, its committees and departments more responsive to the Internal Audit function.
- d. The Audit Board is charged with the responsibility for promoting internal control by the systematic appraisal of the Authority's internal control mechanisms, by the development of an anti-fraud culture and by the review of financial procedures.
- e. The Audit Board is charged with the responsibility for focusing audit resources, by agreeing the audit plans and monitoring delivery of the Internal Audit function.
- f. The Audit Board will monitor both internal and external audit performance by ensuring auditor/officer collaboration within the agreed timescales, by securing the timely preparation and response to audit reports, by ensuring the implementation of audit recommendations and by monitoring the finalisation of the annual accounts.
- g. The Audit Board will receive and consider a summary of internal audit work undertaken since the last meeting, plus the current status of this work.
- h. The Audit Board will monitor compliance with the Authority's standards, codes of practice and policies through the work of the Internal Audit function.
- i. The Audit Board will monitor compliance with relevant legislative requirements through the work of the Internal Audit function.
- j. The Audit Board will ensure that it acts within the policies and strategies of the Authority.

June 2012

AUDIT BOARD WORK PROGRAMME 2013/14

APPENDIX 2

19th September 2013

- Audit Commission Annual Governance Report 2011/2012 – quarterly written report in respect of progress made on the actions.
- Grant Thornton Audit Update – responses to the Challenge questions, as detailed in their report and presented to the Audit Board on 14th March 2013.
- Further Information on – Closed Landfill Sites
Reserves
- Internal Audit Monitoring Report
- Internal Audit Annual Report & DRAFT Audit Opinion 2012/2013
- Departmental Risk Registers – Customer Services Presentation
- Risk Management Monitoring Group – Bi-monthly meetings. Nominated Audit Member to attend bi-monthly meetings in Bromsgrove.
- Audit Board Draft End of Year Report 2012/2013
- Benefits Investigations

12th December 2013

- Statement of Accounts 2012/2013
- Financial Reporting – revised quarterly monitoring report, detailing savings.
- Internal Audit Monitoring Report
- Draft Internal Audit Plan 2014/2015
 - Internal Audit 3 year plan 2012/2013 – 2014/2015 (to be included as an appendix to the Draft Internal Audit Plan)
- Benefits Investigations
- Grant Thornton Audit Opinion Recommendations

20th March 2014

- Grant Thornton Certification Report 2012/2013
- Grant Thornton Auditing Standards
- Grant Thornton Audit Plan March 2014
- Grant Thornton Progress Report
- Statement of Accounting Policies
- Internal Audit Monitoring Report
- Internal Audit Plan 2014/2015
- Audit Board End of Year Report 2013/2014 (for discussion)

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 sees all contracts entered into.
- Corporate Fraud – staff survey results with regard to the questions asked on the Council’s whistleblowing procedure.
- Best practice – speaker from another authority on operation of their member Audit review and monitoring arrangements.

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AUDIT BOARD19th June 2014**WORK PROGRAMME 2014/15****19th June 2014**

- Grant Thornton Auditing Standards
- Grant Thornton Audit Plan
- Grant Thornton Progress Report 2013/2014
- Annual Governance Statement 2013/2014
- Departmental Risk Register Presentation - Environmental Services
- Corporate Risk Register
- ICT Resilience – verbal update
- Internal Audit Monitoring Report
- Internal Audit Annual Report and DRAFT Audit Opinion 2013/2014
- Benefits Investigations
- Audit Board Draft End of Year Report 2013/2014
- Audit Board Work Programme 2014/2015

18th September 2014

- Statement of Accounting Policies
- Statement of Accounts 2013/2014 (pre-audit)
- Quarter 4 – Finance Monitoring Report
- Quarter 1 – Finance Monitoring Report
- Departmental Risk Register Presentation – Business Transformation
- Internal Audit Monitoring Report
- Benefits Investigations
- Audit Board Work Programme 2014/2015

11th December 2014

- Grant Thornton Audit Opinion Recommendations
- Statement of Accounts 2013/2014
- Quarter 2 – Finance Monitoring Report
- Departmental Risk Register Presentation
- Internal Audit Monitoring Report
- Draft Internal Audit Plan 2015/2016 – (to include Internal Audit 3 year plan)
- Benefits Investigations
- Audit Board Work Programme 2014/2015

AUDIT BOARD19th June 2014**19th March 2015**

- Grant Thornton Certification Work Report 2013/2014
- Grant Thornton Review of Financial Resilience
- Grant Thornton Auditing Standards
- Grant Thornton Audit Plan March 2015
- Grant Thornton Progress Report
- Statement of Accounting Policies
- Quarter 3 – Finance Monitoring Report
- Departmental Risk Register Presentation
- Internal Audit Monitoring Report
- Internal Audit Plan 2015/2016
- Benefits Investigations
- End of Year Report 2014/2015 (For Member discussion)
- Audit Board Work Programme 2014/2015

To Be Allocated To Suitable Dates

- Risk Management Monitoring Group – update
- 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