



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 19TH MARCH 2015

AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

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

AGENDA

1. To receive apologies for absence and notification of substitutes
2. 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.
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 11th December 2014 (Pages 1 - 8)
4. Grant Thornton Certification Work Report 2013/2014 (Pages 9 - 14)
5. Grant Thornton - Informing the Audit Risk Assessment 2014/2015 (Pages 15 - 40)
6. Grant Thornton Audit Plan 2014/2015 (Pages 41 - 62)
7. Grant Thornton Progress Update Report - March 2015 (Pages 63 - 78)
8. Presentation from the Investigation Officer
9. Benefits Fraud - Quarter 3 Update (Pages 79 - 90)

10. Implementation of a New Financial Management System - Update Report (Pages 91 - 92)
11. Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017 (Pages 93 - 114)
12. Quarter 3 - Financial Monitoring Report (April - December 2014) (Pages 115 - 118)
13. Risk Management Monitoring Group - verbal update
14. Internal Audit Monitoring Report (Pages 119 - 146)
15. Internal Audit Plan 2015/2016 (Pages 147 - 156)
16. Audit Board - End of Year Report 2014/2015 (for Member Discussion)
17. Audit Board Work Programme (Pages 157 - 158)
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 March 2015



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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 11TH DECEMBER 2014 AT 6.00 P.M.

PRESENT: Councillors M. T. Buxton (Vice-Chairman, in the Chair), S. J. Baxter, B. T. Cooper, S. J. Dudley (during Minute No's part of 33/14 to 39/14), P. A. Harrison and P. M. McDonald

Invitees: Mr. P. Jones and Ms. Z. Thomas, Grant Thornton

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

29/14 **APOLOGIES**

An apology for absence was received from Councillor H. J. Jones.

30/14 **DECLARATIONS OF INTEREST**

Councillor S. J. Baxter declared an other disclosable interest in respect of agenda item number 4, Grant Thornton Progress Update, as a Member of The National Association of Local Councils.

31/14 **MINUTES**

The minutes of the meetings of the Audit Board held on 19th June 2014 and 18th September 2014 were submitted.

RESOLVED that the minutes of the meetings of the Audit Board held on 19th June 2014 and 18th September 2014, be approved as a correct record.

32/14 **GRANT THORNTON PROGRESS UPDATE (TO NOVEMBER 2014)**

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

The Board was asked to note the Grant Thornton Progress Report Update to November 2014.

Mr. P. Jones introduced the report and in doing so informed Members that the report provided the Audit Board with details of the progress made in delivering their responsibilities as the Council's external auditors. The report provided a summary of emerging national issues and a number of challenge questions in respect of those emerging issues for the Board to consider. These included:-

- Chartered Institute of Public Finance and Accountancy (CIPFA), Local Authority Accounting Panel (LAAP) updates.
- Managing Council property assets.
- Grant Thornton Vision for 2020.
- Anti-fraud and corruption - the National Fraud Initiative.
- Auditing of Parish Councils – the complexity of the governments new arrangements for parish council audits.

The Executive Director, Finance and Resources informed the Board that with regard to the Auditing of Parish Councils, officers had raised this at the recent Worcestershire County Association of Local Councils (CALC) meeting held on 10th December 2014 to ensure that parishes were made aware of the government's new arrangements for parish council audits with effect from 2017.

Councillor S. J. Baxter expressed her concern in respect of the impact on smaller parish councils. They would not be required to carry out an audit, but if challenged an audit would need to be undertaken, hence her concern.

Mr. P. Jones drew Members' attention to page 23 of the report. Grant Thornton's national report "2020 Vision". The report provided a thorough analysis of the current political and economic context and explored a range of potential policies and outcomes. The report had been solely commissioned by Grant Thornton.

The Executive Director, Finance and Resources informed the Board that with regard to the National Fraud Initiative and the "Challenge Question", as posed on page 28 of the report. Officers had undertaken a considerable amount of work with the data matching team and a robust mechanism was in place for the National Fraud Initiative data matching exercise.

RESOLVED that the Grant Thornton Progress Update report to November 2014, be noted.

33/14

GRANT THORNTON ANNUAL AUDIT LETTER

The Board was asked to consider and note the Grant Thornton Annual Audit Letter 2013/2014.

Mr. P. Jones introduced the report and in doing so informed Members that the Annual Audit Letter 2013/2014 summarised the key findings arising from the work they had carried out at the Council for the year ended 31st March 2014.

An unqualified opinion on the accounts had been issued and an unqualified Value for Money (VFM) conclusion given. Appendix A to the report summarised the significant recommendations identified during the 2013/2014 audit.

The Executive Director Finance and Resources responded to Councillor S. J. Baxter with regard to the slowness of financial reporting to Council. Members were informed that a new accounting system would be installed and in use by

January / February 2015. The new accounting system would allow managers on line access to their budgets and therefore enable the accounting team to close the accounts earlier than in previous years. Forth tier managers would receive a presentation to help them develop more robust forecasting and monitoring of budgets.

Mr. P. Jones responded to Councillor P. M. McDonald in respect of the £900 audit fee, as detailed on page 38 in the report. Mr. P. Jones informed the Board that, as detailed in their report, the Audit Commission set the scale fee on which the Council's audit fee was based; Grant Thornton did not determine the scale fee.

The Executive Director Finance and Resources responded to Councillor P. M. McDonald in respect of the recommendation as detailed on page 39 of the report:-

"The revisions to the 2014/2015 budget and 2015/2016 budget setting should include a review of vacancies and whether these should be included in the budgets going forward".

In response, the Executive Director Finance and Resources informed the Board that there would always be a period during a financial year when vacancies occurred. She was responsible for the finances but had to rely on Heads of Service, as it was their responsibility to ensure that the finance team was made aware of all vacancies within their departments. Going forward the budget programme for 2014/2015 would not include any key post vacancies.

Councillor P. M. McDonald raised questions in respect of the recommendation, as detailed on page 41 of the report:-

"We noted that there wasn't a clear approval of the Council House / Parkside project supported by a business case prior to a commitment being made".

In response, the Executive Director Finance and Resources assured Members that approval had been sought, there was an initial clear statement on the first proposal presented to Council in February 2012, which detailed the associated costs of £3.5 million from the 2012/2013 capital project bid, to jointly redevelop the former Parkside Middle School with Worcestershire County Council. A further report which detailed the financial arrangements for the joint facility with Worcestershire County Council was presented to the Cabinet on 6th February 2013. The Executive Director Finance and Resources agreed that Members would not have received a business case when initial approval was sought in February 2012.

RESOLVED that the Board note the Grant Thornton Annual Audit Letter year ended 31st March 2014.

34/14 **BENEFIT FRAUD - QUARTER 2**

The Board considered a report on performance information in respect of the Benefits Fraud Investigation Service for the period 1st July 2014 to 30th September 2014, Quarter 2.

The Head of Customer Access and Financial Support introduced the report and in doing informed Members that during the three month period, total overpayments of £180,000 in Housing Benefit had been identified; and that overpayments on investigations closed during the same period totalled £51,000 in Housing Benefit, £8,500 in Council Tax Benefit and £1,400 in Council Tax Support.

A shared dedicated counter fraud team was in place and their purpose was to prevent and deter fraud in addition to investigating any suspicions of fraudulent activity against the Authority. The team have completed the nationally recognised best practice qualifications in Professionalism in Security (PinS) appropriate to their role.

During quarter 2, 28 fraud referrals were received and considered for investigation by the team. 22 referrals were received from members of the public. More than half of these were allegations of fraud that were often difficult to identify through data-matching and not easily identified by staff, most related to:-

- occupancy of properties.
- undeclared partners or non-dependants.
- allegations that the customer was not residing at the address.

Publicity in the local press which followed successful prosecutions continued to encourage members of the public to report their suspicions of benefit fraud and reminded customers to report changes in their circumstances as they take place in order to avoid overpayments and prevent investigations into their claims.

The Head of Customer Access and Financial Support responded to Members' questions in respect of customers being prosecuted, accepting a caution or an administrative penalty. The Head of Customer Access and Financial Support reiterated that there had to be sufficient evidence to prosecute for any sanction to be considered. The Head of Customer Access and Financial Support suggested that the Benefits Fraud Manager would be able to provide the Board with more detailed information in order for Members to understand the processes behind prosecution, cautions and administrative penalties and the parameters applied in relation to the timescales allocated to repay overpayments.

Following on from further discussions it was agreed that the Head of Customer Access and Financial Support be tasked to include the following information in future reports to the Board:-

- Council Tax Support overpayments information.
- "Real Time Information" received from HM Revenues and Customs.

RESOLVED:

- (a) that the information as detailed in the preamble above be provided to the next meeting of the Board;
- (b) that the Benefits Fraud Services Manager be invited to attend the next meeting of the Board to provide information on the caution/prosecution/administrative penalty process; and
- (c) that the Benefits Services Fraud Investigations update for the period 1st July 2014 to 30th September 2014, quarter 2 be noted.

35/14

2014/2015 APR - SEPT FINANCIAL SAVINGS MONITORING

The Board were asked to note a report which detailed the monitoring of projected savings for 2014 / 2015. The report included the delivery of savings and additional income for the period April 2014 to September 2014.

The Executive Director Finance and Resources introduced the report and informed the Board that as recommended by the Council's External Auditors, Grant Thornton, the delivery of the savings were being monitored more closely to ensure the Council was meeting savings in the way that was expected when the budget had been set.

Appendix 1 to the report detailed the savings generated from the service review and efficiencies within Worcestershire Regulatory Services. The transformation slight shortfall would be achieved. The estimated six month saving with regard to the Director of Planning had been met in full. The post had not been recruited to and savings were expected to continue to accrue. The review of accountancy, payroll and payments had been completed and was expected to deliver the total saving by the end of the financial year. In response to the questions raised by Councillor P. M. McDonald, the Executive Director Finance and Resources agreed to provide information on the additional market income and any potential loss of income now that the Farmers Market was being held at Webbs Garden Centre.

RESOLVED:

- (a) that the Executive Director Finance and Resources to provide Audit Board Members with the information, as detailed in the preamble above, in respect of the market income; and
- (b) that the current financial position for projected savings as presented in the Finance Monitoring Report for April to September 2014/2015, be noted.

36/14

RISK MANAGEMENT MONITORING GROUP - VERBAL UPDATE

The Executive Director Finance and Resources provided the Board with a brief verbal update with regards to the Risk Management Monitoring Group. Internal Audit had included Risk Management within their 'other key audit work'. Their recommendations would be included at the next Risk Management Monitoring Group meeting in January 2015. The Audit Board Chairman and the Portfolio Holder for Finance were invited to attend the Risk Management Monitoring Group meetings.

37/14 **INTERNAL AUDIT MONITORING REPORT**

The Board considered the monitoring report of internal audit work and performance for 2014 / 2015.

Mr. A. Bromage, Service Manager, Worcestershire Internal Audit Shared Service introduced the report which provided commentary on Internal Audit's performance for the period 1st April 2014 to 31st October 2014 against the performance indicators agreed for the service.

The report detailed audit reports issued / completed since the last internal audit report. There had been five delivered audits all moderate and above so no high priorities. The two outstanding audits from 2013 / 2014, as detailed on page 62 of the report; Transformation – Corporate Anti-Fraud and Section 106 Agreements would be included in the next internal audit monitoring report. With regard to Asset Management the Terms of Reference for Asset Management would be presented to the next meeting of the Board.

RESOLVED that the report be noted.

38/14 **2015/2016 PROVISIONAL INTERNAL AUDIT PLAN**

The Board considered a report which detailed the Council's Internal Audit Operational Provisional Plan and the key performance indicators for the Worcestershire Internal Audit Shared Service for 2015/2016.

Mr. A. Bromage, Service Manager, Worcestershire Internal Audit Shared Service introduced the report and in doing so informed Members that the Internal Audit Plan for 2015/2016, as detailed at Appendix 1 to the report, was a risk based plan which took into account the adequacy of the Council's risk management, performance management and other assurance processes. The plan was based upon the service risk priorities and on-going dialogue and agreement with the Section 151 officer. Dialogue with the Heads of Service would commence in 2015 to agree a more detailed plan delivery, with the outcome reported back to the Board in March 2015.

Due to the changing internal environment, on-going transformation and more linked up and shared service working between Bromsgrove District Council and Redditch Borough Council, the plan had been organised in a smarter way in order to exploit the efficiencies that this type of work provided. Heads of Service would have an allocation of audit days with suggested audit areas of coverage linked to them, with an option that all or part of the budgeted days could be used on a flexible basis dependent on their service risk exposure. The end result would deliver flexible audit coverage based on the highest risk assessed areas within their service.

In response to Members' questions, the Service Manager reiterated that operational progress against the Internal Audit Plan for 2015/2016 would be closely monitored and reported back the Audit Board on a quarterly basis. Payroll had been transferred to Redditch Borough Council, but any outcomes from the annual audit of payroll would be reported back the Board.

RESOLVED:

- (a) that the Internal Audit Operational Provisional Plan for 2015/2016 be noted; and
- (b) that the key performance indicators for the Worcestershire Internal Audit Shared Service for 2015/2016 be noted.

39/14

AUDIT BOARD WORK PROGRAMME 2014/2015

Members considered the Board's Work Programme for the remainder of 2014/2015 municipal year.

As previously noted in the minutes of the meeting held on 18th September 2014, there were a number of reports due to be considered at the 19th March 2015 meeting. In consultation with the Chairman it was agreed that an additional meeting in March 2015 was no longer required.

RESOLVED that the Work Programme for 2014/15 be noted.

The meeting closed at 7.15 p.m.

Chairman

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AUDIT BOARD

19th MARCH 2015

GRANT THORNTON – CERTIFICATION WORK REPORT 2013/14

Relevant Portfolio Holder	Councillor Mike Webb
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 present Members with the Grant Certification Letter for 2013/14 the Councils External Auditors Grant Thornton.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note the letter 2013/14.**

3. KEY ISSUES

Financial Implications

- 3.1 Grant Thornton have raised the issue of the fee with the Audit Commission as it is not reflective of the work undertaken or of the previous and future years fee levels that have been set. The budget is £11k and therefore is set at a level as initially anticipated by the Council and Grant Thornton.

Legal Implications

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

Service / Operational Implications

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. This includes certification of grant claims.
- 3.4 The auditors have certified the Housing Benefit Claim for 2013/14 relating to over £16m of expenditure. Their results on their certification work is detailed in Appendix 1.

AUDIT BOARD

19th MARCH 2015

- 3.5 The key messages from the Audits are;
- There is an acceptance that the benefit subsidy preparation is a complex area
 - A number of errors were identified and training plans have been put in place
 - Supporting working papers require further improvement
 - The claim was amended by £9,580 and therefore qualified (there is no tolerance limit on qualification)
- 3.6 As part of the restructure of the benefits team a skilled benefit subsidy / quality officer has been appointed. This will ensure that staff are provided with more hands on training from an officer within the workplace. The auditors are supportive of the new appointment.
- 3.7 In addition current testing shows that the error cell is reporting a lower figure so far this year, and that the most common error from last year checks (Miscalculating extended payments by 1 day) has been resolved. This leads us to believe that it was a system fault and we are reviewing historic known faults within Academy to confirm this.
- 3.8 As well as conducting these checks, training for staff along with other high risk checks (Backdating, overpayment classification, students) are being provided.

Customer / Equalities and Diversity Implications

- 3.9 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 Certification Letter 2013/14

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

AUTHOR OF REPORT

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Bromsgrove District Council

Burcot Lane,

Bromsgrove,

Worcestershire

B60 1AA

29 January 2015

Dear Jayne

Certification work for Bromsgrove District Council for year ended 31 March 2014

We are required to certify certain claims and returns submitted by Bromsgrove District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

We have certified one claim, the Housing Benefits subsidy, for the financial year 2013/14 relating to expenditure of £16 million. Further details are set out in Appendix A.

The indicative fee for 2013/14 for the Council should be based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. The indicative scale fee set by the Audit Commission for the Council for 2013/14 is £3,872. We consider that there is an error in the indicative fee stated by the Audit Commission, because it is out of line with the fee it has set in both 2012/13 and 2014/15. We have highlighted this to the Audit Commission. This is set out in more detail below and in Appendix B.

Housing Benefits Subsidy

The claim was amended by £ 9,580 and was qualified. The qualification letter provides detail of the errors identified and the extrapolated impact.

We identified an unusually high number errors (17 cases) in cell 114 extended payments, where expenditure should have been reflected in a lower value subsidy cell. Officers understand the reason for the errors and we are told have measures in hand to address the

issue for the 2014/15 subsidy. It will be for the Department of Work and Pensions to determine whether claimed subsidy for 2013/14 will be adjusted for the extrapolation.

Benefit subsidy is a relatively complex area and the amount of testing that we are required to undertake is extensive. In addition to the matter reported above, there were a number of other issues encountered in conducting the audit and so the amount of time we spent was greater than expected. We have provided some detailed feedback to your team on areas of improvement and an action plan has been agreed. As a result of the additional work we are proposing a fee variation. This has been discussed and agreed with your officers as reasonable in view of the additional work required.

Yours sincerely

Zoe Thomas

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	16,016,285	Y	9,580	Y	<p>We identified an unusually large number of errors on Cell 114, where expenditure should have been included in another cell with a lower subsidy rate.</p> <p>Improvements to working papers to support the subsidy audit have been discussed with officers and we will provide further training in the Summer.</p>

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
eg. Housing benefits subsidy claim (BEN01)	11,430	3,872	not greater than 11,685	7,813	Inappropriate indicative fee set and additional work required.
National non-domestic rates return (NNDR3)	1,870	N/a	N/a		No requirement to certify this return in 2013/14
Total	13,300	3,872	not greater than 11,685	7,813	

AUDIT BOARD

19th MARCH 2015

GRANT THORNTON – INFORMING THE AUDIT RISK ASSESSMENT

Relevant Portfolio Holder	Councillor Mike Webb
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 present Members with the Auditing Risk Assessment report for 2014/15 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

AUDIT BOARD

19th MARCH 2015

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 Informing the risk assessment 2014/15

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

AUTHOR OF REPORT

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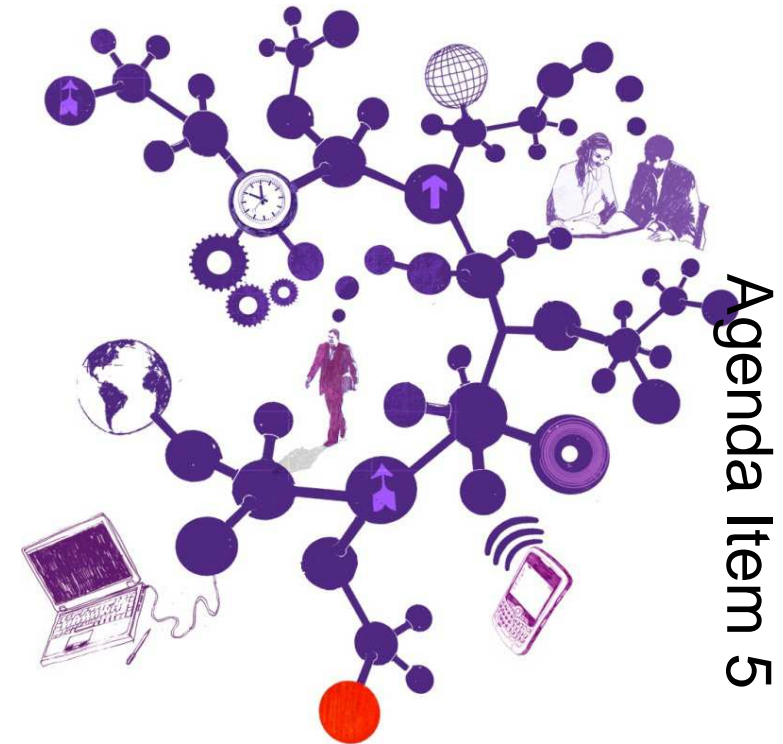
Informing the audit risk assessment for Bromsgrove District Council

Year ended 31 March 2015

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Agenda Item 5

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.
- Related Parties
- Accounting estimates

This report includes a series of questions on each of these areas and the responses 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	Management response
<p>1. What is the 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. The Risk Management group has a draft Strategy that will be presented to members later in the Spring.</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 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?</p> <p>Are there particular locations within the Council where the 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 Consultation.</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 and corruption strategy, details are available on the website.</p> <p>Management accepts that the fraud and corruption policies 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 no any significantly high-risk posts identified.</p>

Fraud risk assessment (continued)

Question	Management response
<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>13/14 financial statements disclosure of related party transactions does not identify possible 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 ad-hoc 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
<p>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.</p>	<p>The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.</p>
<p>2. How is the Audit Board provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to Cabinet.</p>
<p>3. Have there been any instances of noncompliance with law and regulation since 1 April 2013 with an on-going impact on the 2013/14 financial statements?</p>	<p>None</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>These are included in the financial outturn statements.</p>
<p>5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The officers within legal and financial services assess the impact of any claims.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance?</p>	<p>None</p>

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?	A report on the going concern will be prepared by management and considered as part of the accounts production process.
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 budget report links the spend and savings with the strategic purposes of the Council and is monitored on a regular basis by finance and budget holders.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and a report on going concern?	Any statutory or legislative changes are identified by the finance and legal team and any impact is included in the budget report
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).	None
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 adverse financial indicators identified

Going Concern Considerations (continued)

Question	Management response
<p>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?</p>	<p>The levels of staffing at the Council are appropriate for the delivery and management of the services.</p> <p>A training programme is also being prepared to ensure that all staff receive relevant and up to date training in all areas of service delivery</p>
<p>7. Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>The regular budget monitoring reports and 3 year financial plans support a robust framework for assessing the Council's ability to continue as a going concern</p>
<p>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?</p>	<p>None</p>
<p>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?</p>	<p>The financial budget is reported to Full Council and the savings monitoring is reported to the Audit Board.</p>

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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 Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- 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 Council.

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's 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 (Continued)

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 style="text-align: center;">Page 32</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 a 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 or amounts paid to/from assisted or voluntary organisations. • 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 need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A 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.

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment? (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 in line 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

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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 accordingly to the agreed 'Allocation Summary' spread sheet	No	Apportionment bases are reviewed each year to ensure they are equitable.	No
Provision for liabilities	Provisions are made where an event has taken place that give 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 that 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 reimbursements 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
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?
PFI schemes and similar schemes	N/A				
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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GRANT THORNTON AUDIT PLAN 2014/15

Relevant Portfolio Holder	Cllr Michael Webb
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Grant Thornton Audit Plan 2014/15. A copy of this document is attached to this report as Appendix A..

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and agree the 2014/15 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 £75k. This includes £11k in relation to the audit of the Housing Benefit Grant Claim as reported to this meeting.

Legal Implications

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

Service / Operational Implications

- 3.3 Attached at Appendix A is the 2014/15 Audit Plan . The Plan sets out work that the Grant Thornton propose to undertake in relation to the Audit of the financial accounts for 2014/15 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

AUDIT BOARD

19th MARCH 2015

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

- 3.5 The work by the Grant Thornton will enable a robust opinion to be made across all the internal control and accounting arrangements that the Council has in place.
- 3.6 There are a number of specific areas that will be analysed in greater detail when the accounts are being audited these include:
- Valuation of the Council House
 - Payroll procedures during the period of the post being vacant (the new postholder will start in early April)
 - Valuation of the Councils share in the ownership of Parkside
 - Implementation of the new general ledger
- 3.7 The Auditors will also make an assessment of the Councils arrangements to secure value for money to include systems and processes to manage financial risks and improving efficiency.
- 3.8 A number of recommendations have been proposed by Grant Thornton and these, together with the management responses will be presented to the next meeting of this Board.

Customer / Equalities and Diversity Implications

- 3.9 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 2014/15

AUTHOR OF REPORT

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The Audit Plan for Bromsgrove District Council

Year ended 31 March 2015

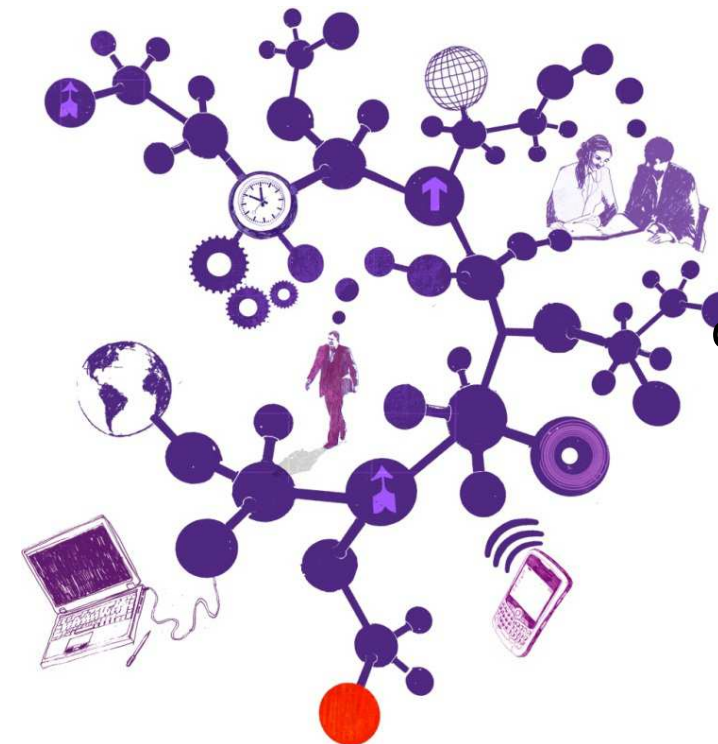
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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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. Alternative Delivery Models

- Consideration of alternative ways of providing services including reviewing existing and considering new partnership arrangements.

2. Procurement and Commissioning

- Delivering efficiency savings through service reviews and improved procurement.

3. LG Reorganisation

- Regional devolution plans
- Combined authorities
- Confederations

4. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16. For Bromsgrove, the settlement has resulted in a reduction in spending power of 1.3%, and a reduction over all grants of £500k.
- .

Our response

- We will discuss with you developments as the Council reviews its services. We will provide a view on any proposals as requested.

- We will review the progress you have made in delivering your efficiency savings as part of our work on your arrangements for financial resilience.

- We will discuss with you how these regional developments are likely to impact on Bromsgrove Council in the future and the impact on your medium term plans.

- As reported in our Annual Audit Letter, the Council has good levels of balances to provide some resilience over the coming financial years. However the Council recognises that changes to how the Council operates and savings must be made to have a sustainable financial and operational plan for the future.
- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

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

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

4. Other requirements

- 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. Only the Housing Subsidy return now requires certification by your auditors.

5. Capital programme

- The Council will be moving into Parkside during 2015/16. The Council will no longer need the existing Council house there are a number of other capital schemes that are under development.

Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

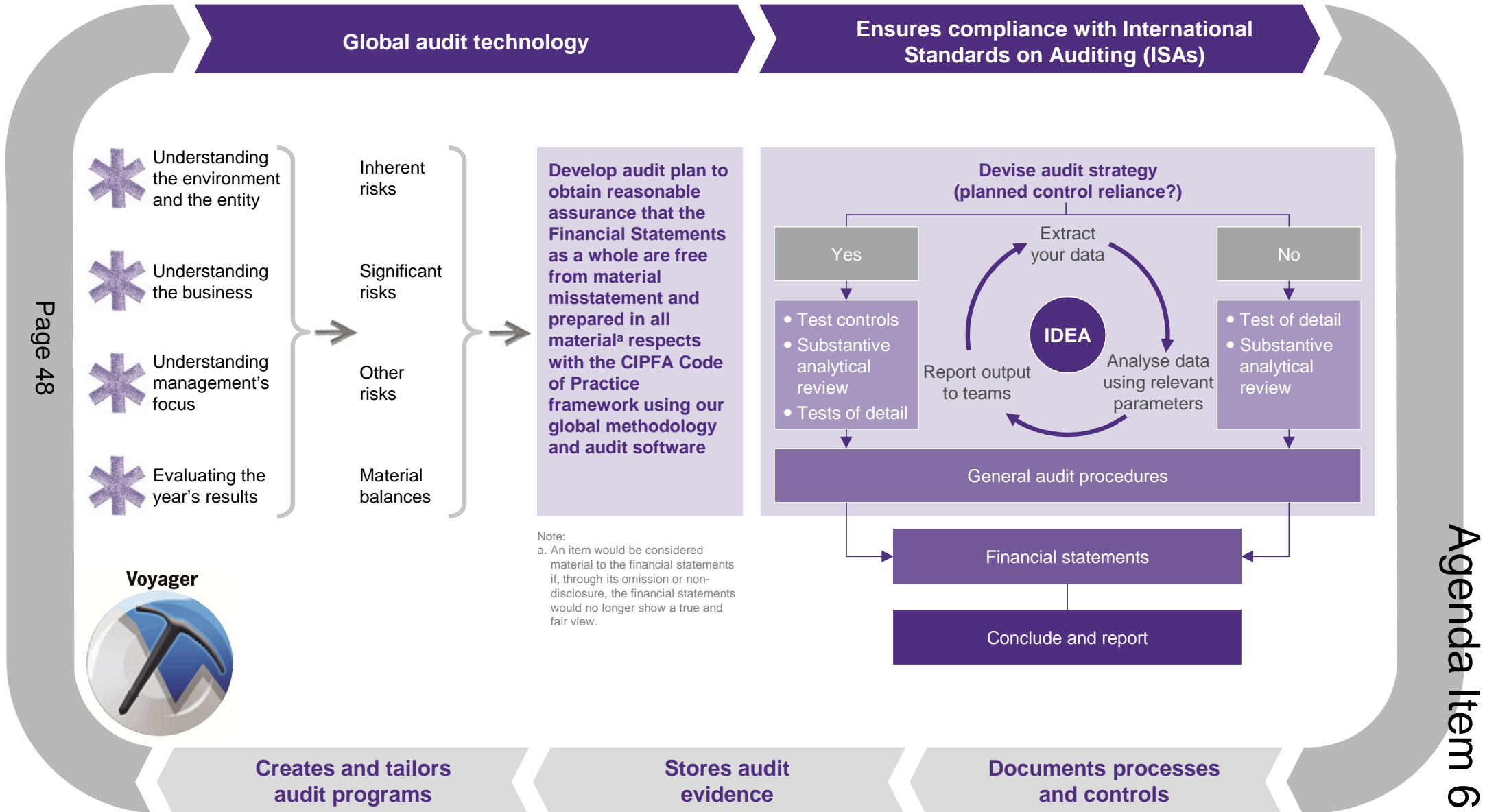
- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

- These schemes present several challenges to the Council including achieving best price for disposal and development of capital assets that can support the delivery of council priorities in a financially sustainable way. We will consider how the council is developing these plans as part of our VfM work.
- There are some accounting matters associated with the valuation of these assets which should be reflected in the accounts. We will follow this up with officers in the course of the audit.

Our audit approach



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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Bromsgrove District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks identified

We have identified a number of risks that are relevant to this financial year and have planned substantive procedures , as this is judged the most effective way to address the risks.

Other risks	Description	Substantive audit procedures
<p><i>Valuation of Bromsgrove Council House</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 50</p>	<p>It is expected that in June 2015 the Council House will cease to be operational as the remaining staff transfer to the Parkside development. Whilst this is after the year end we consider that this may have implications for the 2014/15 accounts due to the significant value of the asset. As a minimum a disclosure to the accounts will be required.</p> <p>The Council house will cease to be classified as an operational asset and as such it will need to be revalued. This valuation could be significantly different to its current carrying value in the accounts of the authority.</p> <p>The asset life of the asset used as a basis of depreciation and the need for a significant impairment will be other considerations.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> Review of valuations, which will include a review of impairments, and the basis of those valuations from the professional valuer Review of the Terms of engagement regarding the professional valuer
<p><i>Payroll Manager</i></p>	<p>A payroll manager is not currently in post. In our assessment of the payroll system, this is highlighted as a 'new risk' to us in terms of the operation system. Payroll costs are a significant item of expenditure in the accounts and therefore, in our judgement, it is necessary to undertake additional procedures to have comfort on the operation of the payroll system for the full financial year.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> Review of payroll reconciliation for the period where the Payroll Manager is not in post Review of exception reporting and the follow up of any exceptions identified Trend analysis of payroll costs and the investigation of any unexpected variances

Other risks identified

We have identified a number of risks that are specific to this financial year and have planned substantive procedures, as this is judged the most effective way to address the risks.

Other risk	Description	Substantive audit procedures
<p><i>Parkside Development</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p>In the 13/14 financial statements there was a nominal amount in the books reflecting the ownership of the current building. Parkside will be almost complete at the year end and the Council will pay for 50% of the building costs which are currently being managed by the County Council. This raises a number of accounting issues:</p> <ol style="list-style-type: none"> 1) The valuation to be reflected in the 14/15 financial statements. The accounting treatment should be consistent with that of the County Council 2) If there is a significant difference between the cost and valuation when the offices are occupied then this could be an 'Event After the Balance Sheet Date' 	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review of valuations and the basis of those valuations from the professional valuer • Review of the Terms of engagement regarding the professional valuer • Consistency check with County Council auditors
<p><i>Implementation of new ledger</i></p>	<p>The authority is introducing a new general ledger system. The go live date is 17th February. This is a substantial project for the finance team. As this is occurring part way through the year, all of the transactions from the old system will need to be accurately transferred to the new system to ensure that the information on which the accounts are based is complete and reflects the entire financial year. Clear audit trails will still need to be available to allow us to test complete populations.</p> <p>We had recommended that internal audit should be involved in testing the adequacy of the data transfer and to provide the Council with assurance that the project was on track and that the new system is implemented and operating as intended. This recommendation has not been acted upon.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> • Agreement that balances have transferred accurately and completely from the 'old' ledger to new by review of the opening and closing trial balance • IT tests of data transfer.

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 risks	Description	Audit Approach
Operating expenses Page 52	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed: <ul style="list-style-type: none"> • Documentation of our understanding of the accruals process Further work planned: <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. • Testing for unrecorded liabilities
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Further work planned: <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 and May to ensure payroll expenditure is recorded in the correct year • Carry out a monthly trend analysis of payments made through the payroll system. • Agree a sample of payroll costs to contracts of employment/manager confirmation and ensure the employer costs have been accurately calculated
Welfare Expenditure	Welfare benefit expenditure improperly computed	Further work planned: <ul style="list-style-type: none"> • Agree benefit expenditure for each type of benefit to the benefits system • Reconcile benefit expenditure to the final subsidy claim • We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Bromsgrove Arts Development Trust (Artrix)	Yes	Targeted	Valuation of Artrix Building	Reliance on an expert in relation to the Artrix valuation. Confirmation from Bromsgrove Arts Development Trustees in relation to income and expenditure transactions.

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Targeted – the group audit team identified one or more potential risks of material misstatement and has determined that audit procedures at the component level are needed to respond to the risk(s). The group audit team selects this approach whenever sufficient appropriate audit evidence for the audit of the group can be obtained by performing audit procedures that respond to the identified risk(s). Audit procedures being targeted by auditing either an account balance, class of transactions or disclosures

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 an initial assessment to identify areas of risk to our VfM conclusion. These will be considered further as part of our detailed risk assessment (and our findings reported in our Audit Findings Report in September). The assessment builds on our findings from the 2013/14 VfM conclusion supplemented by key document reviews. As part of this assessment we have reviewed the corporate risk register, medium term financial plan and in year performance monitoring. This work has identified the following VfM risks that we will be investigated further through further review of the MTFP, discussion with officers and review of relevant documentation:

- Financial and corporate planning processes should be integrated and link to risk management arrangements. Risk management should be embedded as a management tool.
- Robust information should be available on the costs incurred in delivering services and activities, including back-office functions, and the drivers that influence or change these costs should be clear.
- Budget monitoring and reporting arrangements should be fit-for-purpose and enable management and members to understand in a timely manner the risks to financial delivery and how these are being managed.
- Cost reduction plans should be supported by cost-benefit analysis, options appraisal or cost information.
- Savings plans should be clear and achievement properly disclosed as part of out-turn reports. It should be clear what savings are managed and those that are fortuitous.
- Whilst reserves are adequate for the current medium term financial plan, reliance on reserves to support general fund expenditure is not sustainable in the longer term.
- Capital schemes such as Parkside and the leisure centre have revenue implications that should be reflected in the medium term financial plan.

Value for money

We will undertake work in the following areas to address the risks identified:

- consider the planning assumptions in the budget for 14/15 and 15/16 and progress towards developing a medium term financial plan.
- Review the outturn for the 2014/15 financial year including the delivery of planned savings
- consider the links between the Councils financial planning and the strategic planning of the Council
- Consider how the Council is managing its financial risks
- Consider the progress the Council is making on its significant capital projects and how these are reflected in the MTFP.

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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.

Results of our first interim audit/second interim plans

We started our interim work in January 2015. We plan to complete that interim visit in April 2015. This is partly to bring forward some of our substantive testing from the summer peak, but also to undertake additional procedures in relation to the implementation of a the new ledger. The findings of our first interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below. We also summarise the work we will be undertaking at our second interim in later sections of this report.

	Work performed and findings	Conclusion
Internal audit	<p>We have undertaken a high level review of internal audit's overall arrangements. 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. Their work programme was not complete at the time of our review and so we will complete this work at our second interim visit.</p>	<p>Overall, we have concluded that the internal audit service is adequate</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach. We will conclude more fully at the completion of our second interim.</p>
Walkthrough testing	<p>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. These are Operating Expenditure, Employee Remuneration and Welfare Benefits</p> <p>Our work has not identified any issues which we wish to bring to your attention in relation to the Operating Expenditure and Welfare Benefit walkthroughs</p> <p>There is currently no Payroll Manager in post. This poses additional risk regarding the payroll function.</p>	<p>Additional audit procedures will be required for Payroll to ensure adequate reconciliation and review controls are in place. This has been detailed earlier in the report and procedures will be undertaken at our second interim and final accounts visit.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>However, our work has highlighted that many of the Council's policies and procedures are out of date. This includes financial regulations and fraud policies. It may well be that significant changes are not required, however it is proper practice that such significant polices should be subject to a planned and regular review. This matter was raised last year.</p> <p>Similarly, last year we raised that the corporate risk register was not being used effectively. The most up to date risk register provided at our interim visit this year was dated March 2014, suggesting that it is still not being used as a relevant management tool. Completion of departmental risk registers is variable.</p>

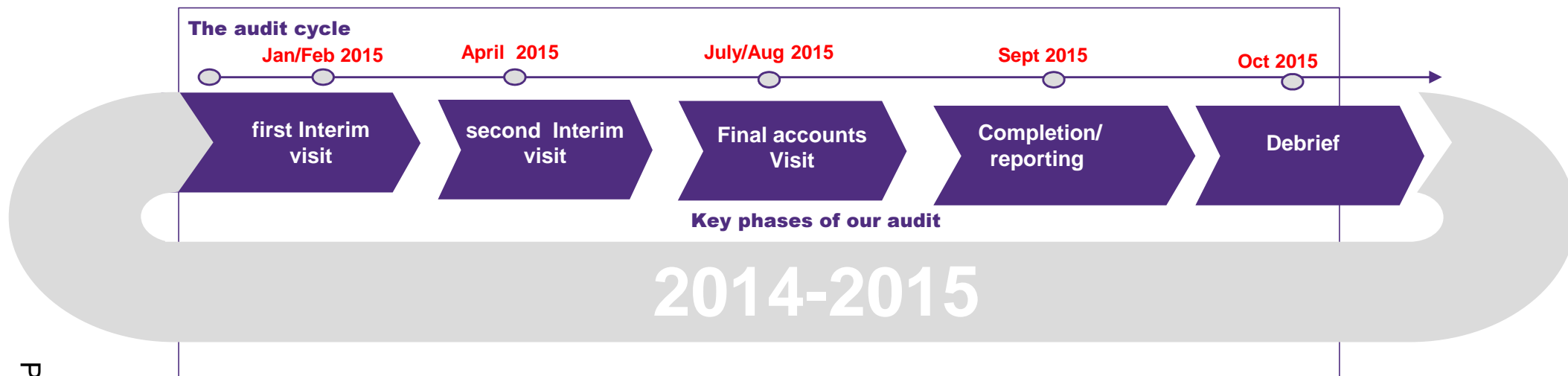
Results of our first interim audit /second interim plans (continued)

	Work performed	Conclusion
<p>Review of information technology controls</p>	<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. Some recommendations have been made which are currently with your management for response.</p> <p>Our IT systems specialist was unable to provide assurance that the ledger transfer project would be completed by the go-live date scheduled for 17 and 18 February. We are since aware that this transfer has taken place and a risk relating to this has already been raised as additional audit procedures will be required</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>However we have identified a risk in relation to the implementation of the new ledger system. This has already been detailed within the 'other risks'</p>
<p>Journal entry controls</p>	<p>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.</p>	<p>At our second interim and final accounts visits we will complete our testing of journals, including specific review of whether senior officers have input journals.</p>

Results of our first interim audit /second interim plans (continued)

	Work performed	Conclusion
<p>Early substantive testing</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 58</p>	<p>Agreement of opening balances as at 1st April 2014 to prior year closing balances.</p>	<p>We have confirmed opening balances have been correctly rolled forward into the current financial year.</p> <p>As part of our second interim visit in April 2015 we plan to complete the following testing:</p> <ul style="list-style-type: none"> • Payroll deductions testing and trend analysis • Operating expenditure testing • Grant income testing • Other operating income testing • Assessment of journal control environment and testing • Testing to confirm balances have been transferred to the new ledger system appropriately • Property, plant and equipment opening balance testing
<p>Value for money</p>	<p>We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. The assessment builds on our findings from the 2013/14 VFM conclusion supplemented by key document reviews. This includes:</p> <ul style="list-style-type: none"> ▪ Review of cabinet/council minutes ▪ Review of technical guidance ▪ Review of the Medium Term Financial Plan ▪ Review of corporate risk register ▪ Review of in year financial monitoring arrangements ▪ Review of internal audit reports 	<p>Additional detailed review will be completed as part of our financial statements audit.</p>

Key dates



Date	Activity
December 2014	Planning
January/February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
April 2015	Second interim visit – review of ledger implementation and early substantive work.
July/August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Resources
September 2015	Report audit findings to those charged with governance (Audit Board)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	64,906
Grant certification	10,060
Total fees (excluding VAT)	74,966

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

As highlighted above, the fee assumption is that there have been no significant changes. The Council is implementing a new ledger in year. We regard this as a significant change and additional audit procedures are planned to be undertaken. Additional work will be discussed with your officers in advance. It is likely that a fee variation will be requested as a result of any additional work undertaken. This will be assessed on completion of the audit.

Fees for other services

Service	Fees £
None	Nil

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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 MARCH 2015

GRANT THORNTON PROGRESS UPDATE - MARCH 2015

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

1. SUMMARY OF PROPOSALS

- 1.1 To update members on the progress of External Audit for the plan to March 2015.

2. RECOMMENDATIONS

- 2.1 **The Board 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 The report from Grant Thornton details their progress in delivering their responsibilities as external auditors. The report outlines that as at March 2015 the 2014/2015 Accounts Audit Plan would be completed in line with the agreed timetable. With regards to the interim accounts audit, a number of visits have already been undertaken to review work progressing. The initial risk assessment has been completed by Grant Thornton with a further review completed after year end.
- 3.4 In addition to the update on the account progress for the Council the report includes a summary of emerging national issues and developments that may be relevant and a number of challenge questions in respect of these emerging issues which Members may wish to consider. These include:

- Independent Commission into Local Government Finance

AUDIT BOARD

19th MARCH 2015

- Inspection into the Governance of Rotherham Council DCLG Build to rent scheme
- Local Government Governance Review
- Stronger futures : development of the LGPS
- Accounting changes re Business Rate Appeals and Calculation of Holiday Pay

With reference to the emerging issues, officers will be raising the issues at the next Parish Council meeting on 10th December to ensure parishes are aware of the new arrangements which are to be in place from 2017.

Customer / Equalities and Diversity Implications

3.5 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

AUTHOR OF REPORT

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Bromsgrove District Council Audit Board Update

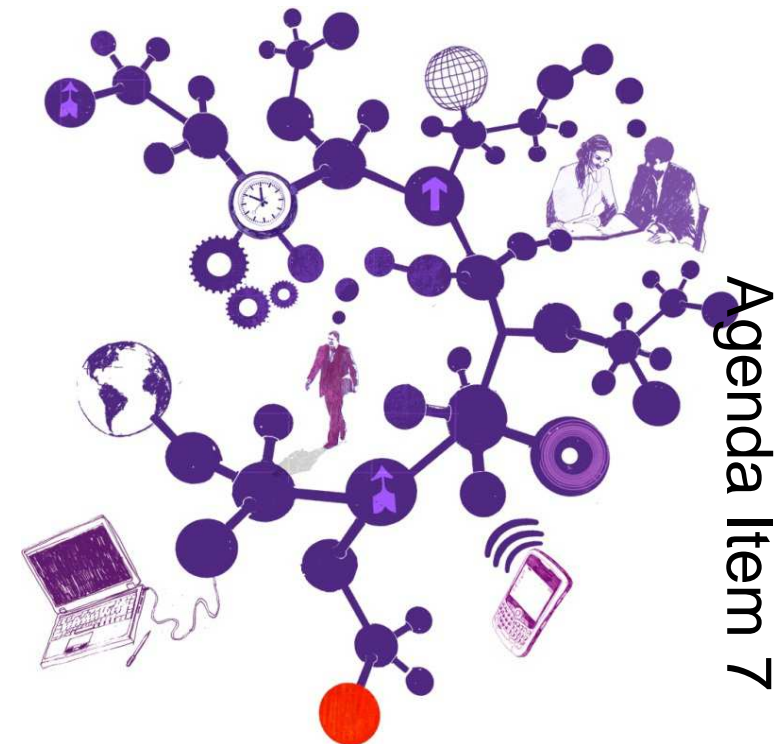
Year ended 31 March 2015

March 2015

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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

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:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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 E Zoe.thomas@uk.gt.com

Progress at 5 March 2015

Work	Planned date	Complete?	Comments
<p>2014-15 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 2014-15 financial statements.</p>	March Audit Board	Y	Audit Plan is on the March Audit Board Agenda
<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 	January, February and March	N	The Council is implementing a new financial ledger in February. We have therefore planned to undertake two interim visits, one in January and the second following implementation of the ledger, in March.
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July, August and September	N	<p>The dates for our final accounts visit have been agreed and is at the end of July and beginning of August.</p> <p>Closure meetings and presentation to the Cabinet will be undertaken in September.</p>

Progress at 5 March

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion is outlined in the audit plan and will involve following up the matters raised in the previous year review including;</p> <ul style="list-style-type: none"> • Review of the medium term financial plan, the assumptions therein and the plans to deliver savings. • Review of the links between the MTFP and the Council strategic plans • Review of adequacy of financial reporting • Review of capital schemes and programme 	April- September 2015	N	The initial risk assessment is complete. The detailed review will be completed after the year end when we know the financial out-turn.
<p>Housing Benefits Grant Claim</p>	By 30 November 2015	N	The work will be completed in accordance with a timetable to be agreed with your officers.
<p>Other activity undertaken</p> <p>Since the last Audit Board update we have:</p> <ul style="list-style-type: none"> • Met with your Director of Finance and Chief Executive to discuss current issues. • Provided your officers with technical training in conjunction with CIPFA FAN at our offices in Birmingham. • Provided adhoc technical support to your finance team 			

Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#) . Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Members should consider whether there are any lessons to be learned that are relevant for Bromsgrove Council.

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Members should consider what the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market are for the authority's housing strategy?

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey
Is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

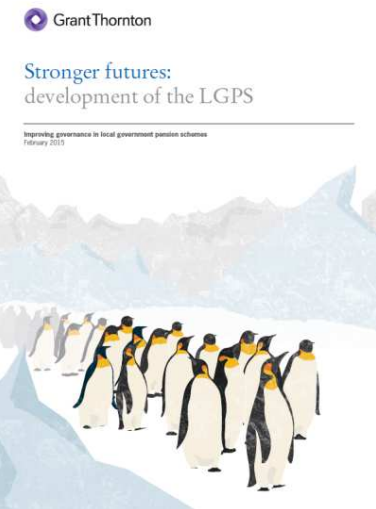
there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

This change has

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has your authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?



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BENEFITS FRAUD – QUARTER 3 UPDATE

Relevant Portfolio Holder	Cllr Mike Webb
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 1 October 2014 to 31 December 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 £15.9m in Housing Benefit and £4.6m in Council Tax Support.

3.2 During this quarter total overpayments of £162,315 in Housing Benefit were identified. These were made up as follows:

Customer error/fraud	£148,085
Local Authority error	£7,122
Overpayments caused by administration delay	£7,107

3.3 The following table sets out the total overpayments recovered during this quarter.

Payments received	£113,639
Overpayments written off	£12,841

3.4 In addition overpayments on fraud investigations closed during the period of this report totalled £58,250 in Housing Benefit, £7,870 in Council Tax Benefit and £2,531 in Council Tax Support. Some of these overpayments may be included in the totals identified as shown in 3.2

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but because investigations can sometimes continue for a considerable time after the overpayment is calculated, particularly in prosecutions, many of these will have been calculated in prior to 1 October 2014.

Legal Implications

- 3.5 There are no specific legal implications.

Service/Operational Implications

- 3.6 The Benefits Service decides entitlement to Housing Benefit and Council Tax Support in the local area. A shared dedicated counter fraud team is in place and their purpose is to prevent and deter fraud in addition to investigating any suspicions of fraudulent activity against the Authority. All members of the team have completed the nationally recognised best practice qualifications in Professionalism in Security (PinS) appropriate to their role.
- 3.7 As at 31 December 2014 there were 5,245 live Housing Benefit claims and 5,013 Council Tax Reduction claims in payment. Just under half of the caseload is made up of customers of working age which results in a large number of changes on claims where people are moving into or out of work and also claiming other out of work benefits.
- 3.8 Although measures have been in place for some time to make this transition easier for customers, it remains an area of risk of fraud and error entering the system. As both Housing Benefit and Council Tax Reduction 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 60 fraud referrals were received and considered for investigation by the team. This is more than double the number received last quarter, and due largely to a new process that is in place for data matching with HMRC records.
- 3.10 13 referrals were received from members of the public, demonstrating the value of maintaining a high level of fraud awareness within the local community. All of the referrals received from the public during this period related to either alleged undeclared partners or non-dependants or to residency issues. These types of fraud are difficult to detect through data-matching and often for staff to identify so it is pleasing that the public are reporting their suspicions in this area. Publicity in the local press following successful prosecutions continues to encourage members of the public to report their suspicions of benefit fraud and to remind customers to report changes in their circumstances as they take place in order to avoid overpayments and prevent investigations into their claims.

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- 3.11 2 of these were received from the Department for Work and Pensions (DWP) as joint working invitations or for consideration of investigation into Housing Benefit/Council Tax Support along with their benefits. The offence in one of these cases was undeclared work and the other an undeclared partner.
- 3.12 10 referrals came from employees within Bromsgrove District Council (BDC). 9 of these came from the Benefit Team and the other from the Revenues Team. The alleged offences in 6 of these cases related to undeclared work, 2 related to residency issues and the other to undeclared non-dependants.
- 3.13 The DWP began matching Housing Benefit data against the real time information that employers and pension providers are now required to submit to HM Revenue and Customs (HMRC) and notifying the Authority of cases where the claims could be in payment incorrectly during this period. This resulted in 25 fraud referrals being received from this source. 20 of these related to incorrect earnings, 4 to incorrect private pensions and the other to both earnings and pension.
- 3.14 1 investigation into possible undeclared non-dependants was started as a result of a data-match through the National Fraud Initiative.
- 3.15 9 referrals were received through the Housing Benefit Matching Service (HBMS), a scheme run nationally for Local Authorities by the 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 and HMRC records to identify undeclared work or savings. The match in 7 of these cases concerned undeclared work, 1 related to undeclared capital and the other to a residency issue.
- 3.16 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.
- 3.17 10 investigations were closed during the period with fraud or error established.
- 3.18 4 customers were prosecuted. The offences related to undeclared work in 2 of these cases, an undeclared private pension in 1 case and both work and undeclared private pension in the other.
- 3.19 No cautions or administrative penalties were offered during the period of this report.

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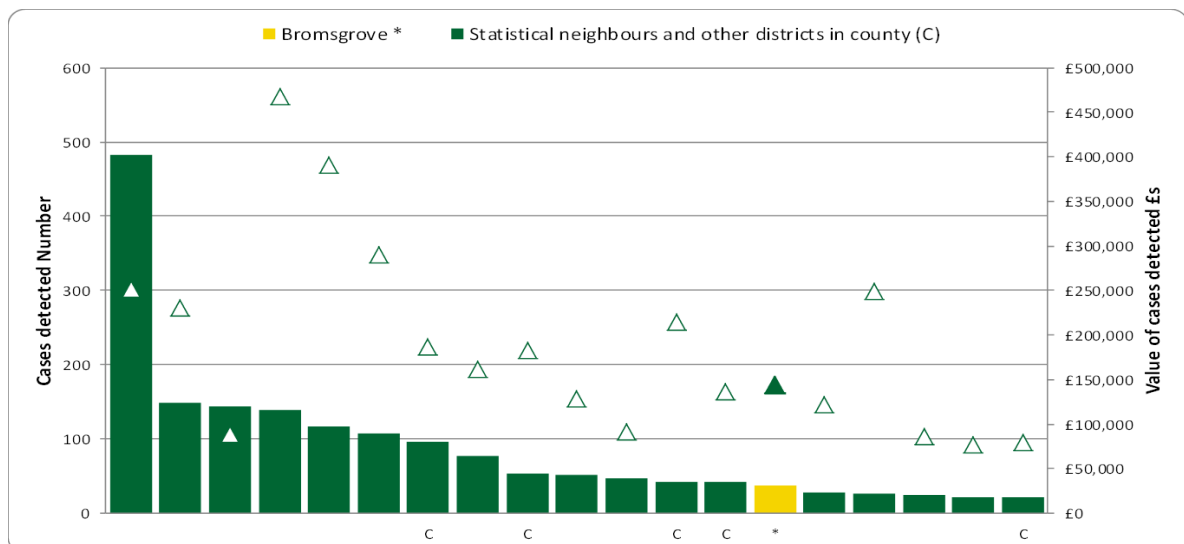
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- 3.20 All aspects of a case are taken into consideration at each stage of an investigation from the referral stage through to the decision on whether prosecution or an alternative sanction is appropriate.
- 3.21 When deciding whether investigation is appropriate initially, the potential loss to public funds is the primary consideration which is balanced against resources available to investigate. This ensures that the cases most likely to result in a large overpayment and therefore most appropriate for prosecution are prioritised. If however it is decided that full investigation is not possible but there is still a risk that benefit is incorrectly in payment, the case will be referred back to the Benefit Team for the matter to be addressed and the claim corrected.
- 3.22 The case is again reviewed completely when deciding whether prosecution or an alternative sanction is appropriate following investigation. In doing this the offence that has been committed will be looked at alongside the amount of benefit obtained. Any mitigation that the customer has given during interview will be taken into consideration along with their co-operation with the investigation and any previous investigations into their claim. The cases most likely to be recommended for prosecution are those with the longest period of offending. Any opportunities for the customer to have reported the true facts themselves or the Authorities ability to have possibly identified the offences sooner are also considered.
- 3.23 It is appropriate to consider alternative sanctions where the offences do not warrant the costs and consequences involved in prosecution as a first option. In doing this the customer's full circumstances will be considered including their financial situation. The main purpose of a caution or administrative penalty is to ensure that the customer understands the seriousness of their offending and to prevent any further fraud being committed.
- 3.24 The minimum administrative penalty payable is £350 and this is usually only considered when there is a realistic chance of recovering this amount within a reasonable period of time in addition to recovering the overpayment. This practice has been in place for some time and cautions are usually offered when an administrative penalty is not considered appropriate.
- 3.25 Very few repeat investigations are carried out on customers who have accepted either a caution or administrative penalty which demonstrates the value of each as an alternative sanction.
- 3.26 Fraud investigations often identify large overpayments which can distort the apparent recovery rate of overpayments. For example, the Housing Benefit overpayments on 4 of the cases closed during this period were each over £10,000 and totalled just under £45k so are likely to take a considerable time to recover.

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- 3.27 The overpayments identified on Council Tax Support are continuing to increase, as the scheme is now at the end of its second year of operation. The total in 3.3 is almost 50% higher than the total covered in the previous report. The numbers and amounts involved will continue to be monitored closely in the coming months in order for consideration to be given to ways in which resources for this function and any further fraud investigation within the Authority may continue when Housing Benefit investigation transfers to the Single Investigation Service in February 2016.
- 3.28 During the period of this report the Audit Commission released a document entitled 'Protecting the public purse 2014' to every local authority. The purpose of this document is to inform councillors of the performance of their own council and how this compares to others in the County or considered similar make up to their own.
- 3.29 A total of 38 cases with a value of £142,959 are recorded for BDC for the year and the average for statistical neighbours and county for benefit fraud recorded as 64 cases with a value of £179,665. These figures give an average overpayment of £3,762 for each investigation completed by Bromsgrove and £2,052 for the statistical comparators. This suggests that the investigations completed in Bromsgrove are likely to have been of a more complex nature, meaning that fewer were completed.
- 3.30 As you can see from this chart the figures are also skewed somewhat by the fact that one authority had a very high comparative indicator, which may have been as a result of a special initiative.



- 3.31 The Benefit Investigation Team has been restructured since the period of this document and indications are that the number of investigations completed is on the increase.

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Customer / Equalities and Diversity Implications

- 3.32 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 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 - Demographic information
Appendix 3 - Trends data

6. BACKGROUND PAPERS

None

7. KEY

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APPENDIX 1

Example cases

Case 1

A 59 year old woman was prosecuted for failing to declare an initial lump sum and then regular payments from a pension provider.

This investigation began as a result of the National Fraud Initiative and the DWP were invited to work jointly in order to ensure that the full extent of offending was identified.

Overpayments of £11,497.83 Housing Benefit, £1,819.78 Council Tax Benefit, £337.09 Council Tax Support and £1,548.73 Employment and Support Allowance were calculated for the period from October 2010 until September 2013.

The customer gave no reason for not reporting the lump sum and pension when she was interviewed under caution and prosecution was authorised after taking the full facts into consideration.

After pleading guilty to the offences the customer was fined £300, ordered to pay £145 towards the prosecution costs and pay a victim surcharge of £30. The overpayment is being repaid in monthly instalments.

Case 2

The investigation into the claim of a 38 year old man which started as a result of a HBMS referral was without consideration of a sanction.

The HBMS referral identified that the Jobseeker's Allowance that the Housing Benefit and Council Tax Support claim was based on had ended and investigations established that the customer had started work as a self-employed fence erector.

Overpayments of £478.38 Housing Benefit and £270.12 Council Tax Support were identified for the period June to September 2014. Action is on-going to recover both debts.

As the customer is self-employed it is not possible to obtain sufficient evidence regarding income to secure a prosecution and therefore the case was closed without sanction.

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APPENDIX 2

Demographic information

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	0	Housing Association	Alvechurch	Work	Prosecution
Female	Partnered	3	Housing Association	Stoke Works	Work	Prosecution
Female	Partnered	0	Housing Association	Wythall	Work/Private pension	Prosecution
Female	Single	0	Housing Association	Rubery	Private pension	Prosecution

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APPENDIX 3

Fraud Trends 2011 to 31 December 2014

Referrals

Fraud type	2011/12	2012/13	2013/14	2014/15
Undeclared income	37	67	46	8
Working and drawing	19	10	18	48
Contrived tenancy	2			
Employer fraud		1		
HBMS Data Match	88	12	2	
Landlord fraud	1	1		
Living together	34	36	54	24
Non-commercial tenancy	1			1
Non-dependants	20	13	10	9
Non-residency	4	8	18	12
Other	10	9	8	3
Property owner			1	
Student award				
Undeclared capital	11	6	8	2
Total referrals	227	163	165	107

Referral source	2011/12	2012/13	2013/14	2014/15
Members of public	54	32	65	44
Data matching	114	66	52	36
Official source	59	65	48	27
Total referrals	227	163	165	107

HBMS data matches are still correctly included in the Data matching referral source. A significant reduction in the number of matches resulting in a fraud referral 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.

Closures

Closures by fraud type	2014/15			
Undeclared income	7			
Working and drawing	15			
Contrived tenancy				
Employer fraud				
HBMS Data Match				
Landlord fraud				
Living together	5			
Non-commercial tenancy				
Non-dependants	1			
Non-residency				
Other				
Property owner				
Student award	2			
Undeclared capital				
Total closures	30			
Closures by referral source 2014/15				
Members of public	2			
Data matching	15			
Official source	13			
Total closures	30			
Outcomes	2011/12	2012/13	2013/14	2014/15
Administrative				
Penalty	7	6	1	1
Caution	45	32	21	4
Prosecution	3	9	10	10
No sanction		26	17	15

AUDIT BOARD

19th March 2015

Implementation of a New Financial Management System

Relevant Portfolio Holder	Cllr Mike Webb
Portfolio Holder Consulted	
Relevant Head of Service	Jayne Pickering
Wards Affected	All
Ward Councillor Consulted	None specific
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To update Members on the current position regarding the implementation of a New Financial Management System for Bromsgrove District Council.

2. RECOMMENDATIONS

- 2.1 Members are asked to note the current position

3. KEY ISSUES

- 3.1 During August 2014 Bromsgrove District Council agreed to change its current supplier for a Financial Management System and upgrade to a version of software called Efinancials supplied by Advanced Computer Software.
- 3.2 The project is a joint one with Redditch Borough Council; this has allowed savings to be made for both authorities in software costs and staff requirements.
- 3.3 The Project has been split into several sections with the main ledger, Accounts Payable and Debtors Ledger all now live, these have all be successfully migrated to the new software and balanced back to the Agresso system.
- 3.4 We have successfully made our first payment to our suppliers and issued invoices to our creditors.
- 3.5 The next phase of the project has already commenced and involves a stakeholder group of managers designing a budget monitoring system to assist with the financial planning of the authority. This will allow them to manage their budget in real time and is due to go live at the end of April 2015.

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Financial Implications

3.6 None other than included above

Legal Implications

3.7 None as a direct result of this report.

Service/Operational Issues

3.8 None as a direct result of this report.

Customer/ Equalities and Diversity

3.9 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 There is a potential risk with a large project of both technical and resource issues. A full project plan has been created to manage any potential issues. These will be escalated via the Project Board

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AUDIT BOARD

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TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014-15 TO 2016-17

Relevant Portfolio Holder	Cllr Mike Webb
Portfolio Holder Consulted	
Relevant Head of Service	Jayne Pickering
Wards Affected	All
Ward Councillor Consulted	None specific
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 Members are asked to approve the strategy statement for treasury management and investments in order to comply with the Local Government Act 2003.

2. RECOMMENDATIONS

- 2.1 Audit Board to approve:
- 2.1.1 the Strategy and Prudential Indicators shown at Appendix 1.
 - 2.1.2 the Authorised Limit for borrowing at £12 million if required.
 - 2.1.3 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.
 - 2.1.4 an unlimited level for investment in Debt Management Account Deposit Facility (DMADF).
 - 2.1.5 the updated Treasury Management Policy shown at Appendix 2, and

3. KEY ISSUES

Financial Implications

- 3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury

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Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

3.2 CIPFA has defined Treasury Management as:

“the management of the organisation’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

3.4 In addition the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.

3.5 The revised CLG guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.7 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

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Legal Implications

3.8 This is a statutory report under the Local Government Act 2003.

Service/Operational Issues

3.9 None as a direct result of this report.

Customer/ Equalities and Diversity

3.10 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. These controls in place to mitigate these risks are as follows:

- Quarterly reporting to Overview and Scrutiny Committee and Audit Board of financial position on investments
- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

5. APPENDICES

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2015/16

Appendix 2 – Treasury Management Policy Statement

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Appendix 1

**Treasury Management Strategy Statement
And
Investment Strategy
2015/16****1. Introduction**

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.
- 1.2 The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2015/16
 - Annual Investment Strategy for 2015/16
 - Prudential Indicators for 2015/16, 2016/17 and 2017/18
 - MRP Statement.
- 1.3 Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4 In accordance with the requirements of the Prudential Code, the Authority has adopted the CIPFA Treasury Management Code at a meeting of the Council on 17th March 2010.
- 1.5 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Background

- 2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

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- 2.2 The Authority's currently has no external debt and £9.9 million in short term investments.
- 2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.
- 2.4 The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
CFR	2,404	8,042	4,137	(929)
Balances & Reserves	5,424	1,229	102	(3,422)
Cumulative Net Borrowing Requirement/(Investments)	(3,020)	6,813	4,035	(2,493)

- 2.5 Table 1 shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

3. Interest Rate Forecast

- 3.1 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

4. Borrowing Strategy

- 4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates

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a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority’s wider financial position.

4.2 The Authority has a gross and net borrowing requirement 2015/16 onwards as indicated in Table 1. The Authority will adopt a flexible approach to this borrowing. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

5. Sources of Borrowing and Portfolio implications

5.1 The Authority will keep under review the following borrowing sources:

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

6. Annual Investment Strategy

6.1 In accordance with Investment Guidance issued by the CLG and best practice, this Authority’s primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yields earned on investments is important but are secondary considerations.

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- 6.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have lead to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Authority’s investment strategy is framed.
- 6.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.
- 6.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

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- 6.5 A number of changes were implemented to the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. These resulted in the inclusion of corporate bonds which the CLG indicated would become an eligible non-capital investment from 1st April 2012. A number of amendments were also made in relation to the individual institutions with which the Authority is prepared to lend its funds.
- 6.6 The Authority will select countries and financial institutions after analysis and ongoing monitoring of:
- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
 - Credit Default Swaps (where quoted)
 - Economic fundamentals (for example Net Debt as a percentage of GDP)
 - Sovereign support mechanisms
 - Share Prices
 - Corporate developments, news, articles, markets sentiment and momentum
 - Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

It remains the Authority's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

- 6.7 **Authority's Banker** – The Authority banks with HSBC. At the current time, it *does* meet the minimum credit criteria of A- (or equivalent) long term. *Even if the credit rating falls* below the Authority's minimum criteria HSBC will continue to be used for short term liquidity requirements

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(overnight and weekend investments) and business continuity arrangements.

6.8. Promoting Economic Development

Loans for Small and Medium Enterprises (SMEs) – Subject to Audit Board approval, under this scheme the Council may loan up to £1million through a Bromsgrove Business Loans Fund administered by Finance Birmingham to SMEs which have been refused funding from banks. This is classified as being a service investment, rather than treasury management investment, and is therefore outside of the Specified/Non specified categories.

7. Investment Strategy

7.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

7.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. The maximum investment level with each counterparty will be set to ensure prudent diversification is achieved.

7.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

8. The Use of Financial Instruments for the Management of Risks

8.1 Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

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- 8.2 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

9 Balanced Budget Requirement

- 9.1 The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

10. 2015/16 MRP Statement

- 10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.
- 10.2 The broad aim of “prudent provision” is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant. This Authority does not have any borrowing supported by Revenue Support Grant.
- 10.3. MRP is calculated in the financial year after the capital expenditure has been incurred and so the capital spend in 2014/15 informs the MRP set aside in the revenue account for 2015/16. The new regulations have added an exception to this in that if expenditure has been incurred on an asset which has not become operational then MRP does not need to be set aside until the financial year after the asset becomes operational. In effect authorities are entitled to a “MRP holiday” until the new asset becomes operational.
- 10.4 MRP in respect of leases that have been brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

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11. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

11.1 The Executive Director of Finance and Corporate Resources will report to Audit Board on treasury management activity / performance and Performance Indicators as follows:

- Quarterly against the Strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- The Audit Board will be responsible for the scrutiny of treasury management activity and practices.

12. Other Items

12.1 Training

CIPFA's Code of Practice requires the Executive Director of Finance and Corporate Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Responsibility for scrutiny of the Treasury Management function will rest with the Audit Board. The Executive Director of Finance and Corporate Resources will ensure that adequate training is provided for all relevant Members during the Financial Year.

12.2 Investment Consultants/Treasury Advisors

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council currently uses external consultants, Arlingclose for information and advice relating to investments. Updated information is received and monitoring undertaken by regular meetings and reports between the Executive Director of Finance and Resources and representatives from Arlingclose.

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Prudential Indicators 2015/16 – 2017/18

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the “CIPFA Prudential Code”) when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Executive Director of Finance and Corporate Resources reports that the authority had no difficulty meeting this requirement in 2014/15, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
General	5,516	11,380	5,798	1,592
Total	5,516	11,380	5,798	1,592

3.2 Capital expenditure will be financed or funded as follows:

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Capital Financing	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital receipts	1,746	2,900	1,015	1,700
Government Grants	363	315	315	315
Section 106	908	0	0	0
Other contributions	95	123	331	506
Total Financing	3,112	3,338	1,661	2,521
Unsupported borrowing	2,404	8,042	4,137	-929
Total Funding	2,404	8,042	4,137	-929
Total Financing and Funding	5,516	11,380	5,798	1,592

4. Capital Financing Requirement:

4.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
General Fund	2,404	8,042	4,137	-929
Total CFR	2,404	8,042	4,137	-929

5. Actual External Debt:

5.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£'000
Borrowing	80
Other Long-term Liabilities	0
Total	80

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6. Authorised Limit and Operational Boundary for External Debt

6.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

6.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

6.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

6.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	3,500	12,000	15,000	15,000
Other Long-term Liabilities	0.0	0.0	0.0	0.0
Total	3,500	12,000	15,000	15,000

6.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

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6.6 The Executive Director of Finance and Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Audit Board.

Operational Boundary for External Debt	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Borrowing	2,500	11,000	14,000	14,000
Other Long-term Liabilities	0	0	0	0
Total	2,500	11,000	14,000	14,000

7. Adoption of the CIPFA Treasury Management Code

7.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 th May 2005.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

8. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

8.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on (*select as appropriate*) net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments))

8.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

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	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	100	100	100	100

8.3 As the Council does not have long-term debt, the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

9. Maturity Structure of Fixed Rate borrowing:

9.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

9.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit for 2015/16 %	Upper Limit for 2015/16 %
under 12 months	0.00	100.00
12 months and within 24 months	0.00	100.00
24 months and within 5 years	0.00	100.00
5 years above	0.00	100.00

As the Council does not have long-term debt, the limits above provide the necessary flexibility within which decisions will be made for drawing down new loans, should it be necessary, in the appropriate maturity band.

10. Credit Risk:

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- 10.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.
- 10.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.
- 10.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
 - Sovereign support mechanisms;
 - Credit default swaps (where quoted);
 - Share prices (where available);
 - Economic fundamentals, such as a country’s net debt as a percentage of its GDP);
 - Corporate developments, news, articles, markets sentiment and momentum;
 - Subjective overlay.
- 10.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

11. Upper Limit for total principal sums invested over 364 days:

- 11.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	2.0	2.0	2.0	2.0

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Arlingclose Economic & Interest Rate Forecast (January 2015)

Underlying assumptions:

- The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.
- Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

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- We continue to forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields has flattened due to the sharp decline in inflation expectations. We project gilt yields on an upward path in the medium term.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

BROMSGROVE DISTRICT COUNCIL

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	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90

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Appendix 2

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Board and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates Audit Board to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

- 2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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- 2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”
- 2.4 The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk.
- 2.5 The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

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APRIL - DECEMBER (QUARTER 3) FINANCE MONITORING REPORT 2013 /14

Relevant Portfolio Holder	Councillor Mike Webb
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

To report to the Board the monitoring of the projected savings for 2014/15. This report includes the delivery of savings and additional income for the period April 2014 – December 2014..

2. RECOMMENDATIONS

- 2.1 That the Board note the current financial position for projected savings as presented in the report.

3. KEY ISSUES

- 3.1 This report provides a statement to show the projected saving for 2014/15 for each strategic purpose and the delivery of the saving for the period April – December 2014. This report is separate to the main financial monitoring report that is presented to Cabinet as it focuses on the delivery of savings rather than the overall financial position of the Council.
- 3.2 The External Auditors, Grant Thornton, have recommended that the delivery of savings be monitored more closely to ensure that the Council is meeting savings in the way that was expected when the budget was set. This monitoring is recommended to be undertaken by the Audit Board and the statement attached at Appendix 1 was agreed at the meeting in March 2014 to be used for monitoring purposes.

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3.3 As members may be aware during the budget process, heads of service propose savings that are to be delivered during future financial years. The budget allocation is then reduced to reflect the proposed saving and officers meet on a monthly basis to ensure that all estimated reductions to budget are being delivered.

3.4 Appendix 1 shows that for the period April – December there are no concerns in the delivery of the savings to budget. A number of the projections were based on reductions in cost following service reviews and due to the timing of the restructures a number of savings have been realised from vacant posts and other service savings to ensure the level of cost reduction is still achieved.

3.5 **Legal Implications**

None as a direct result of this report.

3.6 **Service/Operational Implications**

Timely and accurate financial monitoring ensures that services can be delivered as agreed within the financial budgets of the Council

3.7 **Customer / Equalities and Diversity Implications**

None, as a direct result of this report.

5. **RISK MANAGEMENT**

Effective financial management is included in the Corporate Risk Register.

6. **APPENDICES**

Appendix 1 – Saving monitoring April – December 2014

7. **BACKGROUND PAPERS**

Available from Financial Services

AUTHOR OF REPORT

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**REVENUE SAVINGS 2014/15 - APRIL -
DECEMBER**

APPENDIX 1

Strategic Purpose	2014-15 £'000	Quarter Position 2014/15 £'000	Variance Quarter Position 2014/15 £'000	Comments General / Service Redesign / Additional Income
Enabling				
Worcestershire Regulatory Services	-50	-38	0	Savings generated from the service review and efficiencies within WRS
Customer Services	-59	-44	0	Service review following redesign of the service to mitigate impact of WCC cuts to funding
Audit Fees	-15	-11	0	Contract reduction in Audit Fees
Director of Planning	-29	-44	-15	It was estimated that 6 month saving would be realised prior to the post being recruited to - this has been met in full. As the post will not be recruited to the savings are continuing to accrue for 2014/15 and the post has been deleted for 2015/16
Head of Service Restructure (Finance and Resources)	-42	-32	0	Savings from the redesign of the management team within Financial Resources
Valuation Services (Property)	-37	-28	0	Renegotiation of Contract for Services
Replacement Financial System	-20	-15	0	Review of costs associated with new financial system
Financial Services ; Accountancy / Payments / Payroll	-35	-26	0	The review of accountancy , payroll and payments has now completed. Despite the later than expected implementation of the structure one of the senior posts remains vacant and therefore the full year savings will be achieved.
Legal & Democratic Services redesign	-22	-17	0	Review of vacant posts and redesign of the service provided
Legal Services	-8	-6	0	General Reductions on budgets following review
Transformation	-62	-47	0	Due to contract negotiation and a full review of requirements there is a significant saving within the IT and transformation service.
Keep my Place, Safe and Looking Good				
CCTV Contract	-32	-24	0	There is currently excess income being delivered from the out of hours contract for CCTV and Lifeline
Career break for 3 months	-4	-3	0	General savings from reduction in costs
Environmental Services - Redesign of service delivery	-108	-81	0	As members are aware the restructure of support and other services within Environment Services including; bereavement, waste collection has commenced the full year impact will not be achieved until 2015/16. However this is offset in 2014/15 due to savings on general supplies and services and vacant posts which were being held pending the service restructure

**REVENUE SAVINGS 2014/15 - APRIL -
DECEMBER**

APPENDIX 1

Strategic Purpose	2014-15 £'000	Quarter Position 2014/15 £'000	Variance Quarter Position 2014/15 £'000	Comments General / Service Redesign / Additional Income
Planning Services (Building Control)	-14	-11	0	Reduction in hours in some of the vacant posts has delivered an underspend to the budget
Provide Good Things for me to See, Do and Visit				
Leisure Services redesign of provision and structure to deliver service	-151	-113	0	The savings are all anticipated to be delivered by the end of the financial year due to further efficiencies within the services delivered.
Additional Market Income	-25	-8	17	Since moving back to the High Street there has been additional interest in the market stalls but it is not anticipated that all additional income will be realised. The savings are offset by further efficiencies in the Planning and Regeneration Department
Help me Run a Successful Business				
Town Centre Manager	-30	-23	0	Income is being recharged to other Councils as a result of the Town Centre Manager work

TOTAL -743

AUDIT BOARD

Date: 19th March 2015

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 2014/15

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.

AUDIT BOARD

Date: 19th March 2015

This section of the report provides commentary on Internal Audit's performance for the period 01st April 2014 to 28th February 2014 against the performance indicators agreed for the service.

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST REPORT (11th DECEMBER 2014):

2014/15 AUDITS COMPLETED

Treasury Management

The review was a full system audit of Treasury Management. The audit found there was generally a sound system of internal control in place with the cash flow spreadsheet providing an accurate record of money allocation. There was also a full audit trail of all transactions both for borrowings and investments but reconciliations needed to be regularly completed.

Current position: Final Report issued 28th November 2014
Assurance: Significant

Debtors

The review was a full systems audit of the Debtors system. The audit found there was generally a sound system of internal control in place over the management of debtors, including debtors income and actions taken to monitor and recover monies in a manner which meets the locality service objectives. However isolated weaknesses were identified, including outstanding amounts that have not, after an appropriate time, been written off. There were no 'high' or 'medium' priority recommendations.

Current position: Final Report issued 29th January 2015
Assurance: Significant

Housing and Council Tax Benefits

The review was a full systems audit of the Housing and Council Tax Benefits. The audit found there was generally a sound system of control in place. The processing of new claims and changes in circumstances was found to be accurate, and satisfactory recovery action was being undertaken on the areas selected for testing. Some issues were found with the reconciliation of system feeder transactions between the Benefits and Council Tax modules on the Academy system, whereby small discrepancies are not being resolved on an on-

AUDIT BOARD

Date: 19th March 2015

going basis. During the 2014/15 financial period there was a processing backlog of new Benefit claims resulting in delayed processing. However at the time of completing the audit work this backlog had been resolved and claims were being processed within normal timeframes.

Current position: Final Report issued 11th February 2015
Assurance: Significant

Domestic Refuse and Garden Waste Collection 2014/15

The review was a full system audit concentrating on the domestic refuse collection including garden waste collection. The audit found that there was an on going effective process in place for planning and optimising waste collection routes and accurate and reliable data was produced and used by waste management in order to monitor and improve where necessary service delivery and performance. However, audit testing identified there was little or no stock control/stock reconciliation of all waste bins and weaknesses around the recovery process for non payment of garden waste.

Current position: Final Report issued 9th January 2015
Assurance: Moderate

Cash Receipting

The review was a full systems audit of the cash receipting system. The audit found there was a sound system of internal control in place over the management of cash receipting, including effective receipting and recording of cash and cheques received in a manner which meets the locality service objectives. However one expected control was not in place in respect of ensuring that the authority meets the needs of the Payment Card Industry Security Standards.

Current position: Final Report issued: 29th January 2015
Assurance: Moderate

Council Tax

The review was a full systems audit of the council tax system. The audit found there was a sound system of control in place and audit testing confirmed sound processes in place for the reconciliation of the opening debit and for the processing of write offs. However testing of discounts, relief and exemptions did identify a need for a programmed review to identify changes in circumstances and minimise incorrect awards. Work is required to address the large number of

AUDIT BOARD

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un-banded properties, the majority of which are incorrectly shown and make effective monitoring extremely difficult.

Current position: Final Report issued: 6th February 2015
Assurance: Moderate

Non Domestic Rates

The review was a full systems audit of the NNDR system. The audit found both the write off process and the amendment of property rateable values was well controlled. However, the annual debit raising process could be improved if variances arising are investigated at the time and details recorded as to why any variances occurred.

Current position: Final Report issued: 6th February 2015
Assurance: Moderate

Summary of Assurance Levels:

<u>Audit</u>	<u>Assurance Level</u>
2014/2015	
Treasury Management	Significant
Debtors	Significant
Housing and Council Tax Benefits	Significant
Domestic Refuse and Garden Waste	Moderate
Cash Receipting	Moderate
Council Tax	Moderate
Non Domestic Rates	Moderate

2013/14 Audits requiring management sign off and nearing finalisation.

Transformation ~ Corporate Anti Fraud 2013/14

The review was a full system audit concentrating on areas for Corporate Anti 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. With additional work in this area in regard to the initial audit the review, found a more corporately coordinated approach is necessary but there are direct and compensating controls which complement each other and when taken together provide a comprehensive

AUDIT BOARD

Date: 19th March 2015

corporate coverage to reduce the risk exposure overall. It must be remembered that no amount of controls will eliminate the potential risk of fraudulent activity taking place but a comprehensive and wide ranging control environment significantly reduces the risk exposure.

Current Position: Draft Report Issued 13th November 2014
Assurance: To be confirmed when finalised

S106's 2013/14

The review was 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 did not cover the reasoning behind or procedures undertaken to obtain agreement to a S106 Agreements.

Draft Report Issued: 23rd December 2014
Assurance: To be confirmed when finalised

2014/15 AUDITS ONGOING AS AT 28th FEBRUARY 2014.

Risk Management ~ Draft report stage
Budget setting ~ Draft report stage
Creditors~ Draft report stage
Main Ledger
ICT
Corporate Governance ~ Member Representation on Other Bodies
Regulatory Services

The outcome of the above audits will be reported to the Board in due course when the audits have been completed and management have confirmed an action plan.

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 28th February 2015 a total of 258 days had been delivered against a target of 300 days for 2014/15.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Board on the 20th March 2014 for 2014/15.

AUDIT BOARD

Date: 19th March 2015

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:

- 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

Recently there has been a significant amount of work undertaken in regard to the National Fraud Initiative. This year is the 2 yearly cycle of data extract and uploading to the Audit Commission to enable matches to be reported. The data extract has been completed and uploaded the results of which have been received and are now being investigated. Worcestershire Internal Audit Shared Service (WIASS) have a coordinating role in regard to the investigative exercise.

WIASS is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards.

WIASS 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.

WIASS confirms it acts independently in its role and provision of internal audit.

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Recruitment

- 3.6 To ensure the delivery of the 2014/15 plan there is close and continual monitoring of the plan delivery, forecasted requirements of resource – v – actual delivery, and where necessary, additional resource will be secured to assist with the overall Service demands. During the first two quarters of the year the Service managed a vacant post, recruited an Auditor and a Quality Assurance Officer to replace a leaver and agency person. This impacted on productivity in the early part of year. Appropriate action has been undertaken to ensure the remaining resource is spread evenly between all our partners for effective audit plan delivery. The Service Manager remains confident his team will be able to provide the required coverage for the year over the authority's core financial systems, as well as over other systems which have been deemed to be 'high' and 'medium' risk.

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 for the financial year; and,
- the continuous provision of an internal audit service is not maintained.

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

5. APPENDICES

- Appendix 1 ~ Internal Audit Plan delivery 2014/15
Appendix 2 ~ Key performance indicators 2014/15
Appendix 3 ~ 'High' and 'Medium' priority recommendations summary for finalised reports
Appendix 4 ~ Follow up summary

6. BACKGROUND PAPERS

Individual internal audit reports held by Internal Audit.

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Date: 19th March 2015

7. **KEY**

N/a

AUTHOR OF REPORT

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Date: 19th March 2015

APPENDIX 1

Delivery against Internal Audit Plan for 2014/15

1st April 2014 to 28th February 2015

Audit Area	DAYS USED TO 28/02/15	FORECASTED DAYS TO END OF Q4 -31 st March 2015	2014/15 PLANNED DAYS
Core Financial Systems (see note 1)	83	87	87
Corporate Audits	33	58	58
Other Systems Audits(see note 2)	107	119	119
TOTAL	223	264	264
Audit Management Meetings	15	15	15
Corporate Meetings / Reading	5	5	5
Annual Plans and Reports	8	8	8
Audit Committee support	7	8	8
Other chargeable(see note 3)	0	0	0
TOTAL	35	36	36
TOTAL	258	300	300

Notes:

Note 1: Core Financial Systems are audited predominantly in quarter 3 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts.

Note 2: Full number of budgeted days may not be used due to small 'call off' budgets, e.g. consultancy, investigations, not being fully utilised due to fluctuation in demand.

Note 3: 'Other chargeable' days equate to times where there has been significant disruption to the ICT provision resulting in lost productivity.

AUDIT BOARD

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KEY PERFORMANCE INDICATORS 2014/15

APPENDIX 2

Key Performance Indicators (KPIs) for 01st April 2014 to 28th February 2015.

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2014/15 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 Year End Position	2014/15 Position as at 28 th February 2015	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	8	*12	3	Quarterly
2	No. of moderate or below assurances	Downward	3	8	6	Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	2	4 (5 issued: 4x Excellent & 1x Good)	4	Quarterly
4	No. of audits achieved during the year	Per target	Target = 21 Delivered = 21	Target = 15 (minimum) Delivered = 19 (with a further 2 in draft)	Target = 17 (minimum) Delivered = 13 (3x 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.

AUDIT BOARD

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
High	<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>
Medium	<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>
Low	<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>

AUDIT BOARD

APPENDIX 3

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

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Treasury Management					
Assurance: Significant					
1	Medium	<p>Reconciliations Since the previous finding which identified that there was no dating or initialling of reconciliations by the preparer or the independent officer who checks the reconciliation, it was found that reconciliations have not been consistently completed.</p>	<p>There is a reputational risk if the Council is called into question over investments or borrowings.</p>	<p>Reconciliations to be carried out at least quarterly and must be dated and initialled by the preparer and the independent reviewer.</p>	<p>Responsible Manager: Agreed. One 18 hour post still to be filled before the restructure is complete. Staff are being trained at the moment and it is envisioned that they will all be trained and up and running by the implementation date.</p> <p>Implementation date: 1st March 2015</p>
Audit: Domestic Refuse and Garden Waste					
Assurance: Moderate					
1	High	<p>Wheeled bins are not controlled via the stores system or any other process</p>	<p>Potential for theft and financial loss to the council / valuable items not effectively controlled.</p>	<p>Wheeled bins to be controlled via the stores system. Receipt, issue and returned/damaged bins should be recorded and accounted.</p> <p>A minimum of six monthly stock reconciliations to be undertaken.</p>	<p>Responsible Manager: An audit of bins used during 2014/15 will be carried out to identify the number of bins used for new developments/projects and bins used for replacement purposes. This will identify true capital and revenue spends.</p> <p>All new bins will be purchased and put on stock and issued via an order displaying capital or</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					revenue budget codes. From Jan 2015 returned used bins will be segregated within the existing stores compound Implementation date: December 2014
Audit: Cash Receipting					
Assurance: Moderate					
1	High	<u>Payment Card Industry (PCI) Certification</u> Whilst work has been completed towards the PCI certification the current certification has yet to be official awarded.	Non compliance with the PCI standards leaves the authority open to fines from Credit Card Companies.	The PCI Compliance certification must be completed as a matter of urgency.	Awaiting input from IT and Financial Services Manager to complete Responsible Manager: Financial Services Manager Implementation date: 1 st April 2015
Audit: Council Tax					
Assurance: Moderate					
1	Medium	<u>Valuation Officer referrals</u> Requests sent to the Valuation Office for property additions, deletions and amendments were not being monitored to ensure they were being actioned timely.	Potential for incorrect/untimely billing resulting in higher arrears/outstanding balances leading to overstated position and reputational damage.	A system of monitoring and referring cases reported to the Valuation Office needs to be introduced.	Management Response: Linked to existing issues with unbanded properties held on system since as per item 2 – database to be corrected April 2015; system of monitoring and review will be implemented on same timescale. Responsible Manager:

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					Revenue Services Manager Implementation date: May 2015
2	Medium	<u>Unbanded properties</u> There are currently 1540 unbanded properties listed of which there remains a number of properties that are no longer in the district following a boundary change review. In 2014/15 some work has been carried out in this area but there are still over 1400 properties recorded as unbanded	Potential for live properties to remain unbanded and not billed leading to loss of revenue to the Council.	The unbanded list should be reviewed to ensure that current properties are effectively managed and any revenue due collected without delay.	Management Response: Linked to item 1 – correction of database to be made by April 2015 and system for monitoring and review implemented Responsible Manager: Revenue Services Manager Implementation date: May 2015
3	Medium	<u>New properties</u> There is no formal proactive system in place to record and refer new properties to the Valuation Officer.	Properties remain unbanded and unbilled resulting in loss of revenue to the Council.	Formal procedure to be introduced.	Management Response: Linked to item 1 and 2 – correction of database to be made by April 2015 and system for monitoring and review implemented Responsible Manager: Revenue Services Manager Implementation date: May 2015
4	Medium	<u>Credit balances</u> Credit balances on accounts are not reviewed on a regular basis.	Potential for inappropriate recovery action to be taken leading to reputational	Review process needs to be established to review credit balances on an	Management Response: Process for review of credit

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		Credit balances were last reviewed in July 2013.	damage.	ongoingbasis.	balances agreed and action to be taken over 2015/16 to reduce levels Responsible Manager: Revenue Services Manager Implementation date: April 2015
5	Medium	Discounts & exemptions Audit testing carried out on a sample of 30 reliefs, discounts and exemptions identified 3cases where reviews had not taken place as frequently as expected and one case where the discount was correctly awarded but an incorrect code had been applied.	Changes in circumstances are not identified leading to the incorrect award of relief, discount or exemption leading to possible financial loss and incorrect management information.	A formal timetable to be introduced to provide assurance that frequent reviews take place. Also, to the correct discount code to be assigned.	Management Response: A full timetable for reviews of discounts and exemptions during 2015/16 will be agreed in January 2016. A formal Timetable to be agreed in 2015. To correct discount code. Responsible Manager: Revenue Services Manager Implementation date: February 2015
Audit: Non Domestic Rates					
Assurance: Moderate					
1	Medium	Property reconciliation Although system Rateable Value totals agree to Valuation Office reports, there has been a	Inconsistencies could lead to incorrect billing.	An explanation should be sought for the differences in the property totals in the VO reports and Academy	Management Response: Full List reconciliation being undertaken to identify

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>difference between property totals 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 and this still stands.</p>		system.	<p>discrepancies and correct. Initial reconciliation carried out September 2014 and further corrections to be made from 31st December list.</p> <p>Responsible Manager: Revenue Services Manager</p> <p>Implementation date: December 2014 to May 2015</p>
2	Medium	<p>Valuation Officer referrals 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>	Failure to timely pursue arrears leading to increase in arrears/ worsening collection rates.	System of monitoring/ re referring cases reported to the Valuation Office to be introduced.	<p>Management Response In future 'skeleton' properties will be created on the system once we are notified of commencement. 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>
3	Medium	<p>Empty property review Following the loss of the outside inspector, there are no reviews of empty properties.</p>	Potential for loss of revenue.	Consideration be given to introducing a desk based review of empty properties as carried out at Redditch Borough Council.	<p>Management Response: Limited risk on loss of income as empty property rates are charged at 100%.</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					<p>Process for review of empty properties agreed and to be implemented from March 2015</p> <p>Responsible Manager: Revenue Services Manager</p> <p>Implementation date: March 2015</p>
4	Medium	<p><u>New properties</u> There is no proactive approach to recording new properties and for referral to the Valuation Officer.</p>	Potential for loss of revenue.	Procedures to be introduced for referring new build promptly to the Valuation Officer.	<p>Management Response: System of review and monitoring to be implemented March 2014.</p> <p>Responsible Manager: Revenue Services Manager</p> <p>Implementation date: March 2015</p>
5	Medium	<p><u>Credit balances</u> Credit balances on accounts are not reviewed regularly. Credit balances were last reviewed in July 2013.</p>	Potential for inappropriate recovery action to be taken leading to reputational damage.	A review process needs to be established.	<p>Management Response: Process for review of credit balances agreed and action to be taken over 2015/16 to reduce levels</p> <p>Responsible Manager: Revenue Services Manager</p> <p>Implementation date: April 2015</p>
6	Medium	<p><u>Retail Relief</u> Retail Relief was auto applied to</p>	Awards incorrectly made /	Follow up action to	<p>Management Response:</p>

AUDIT BOARD

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>qualifying properties at the start of the year. The ratepayers were retrospectively sent application forms to complete and return during the year.</p> <p>No reviews have been carried out to confirm applications have been received and that circumstances have not changed.</p>	change of circumstances not reported leading to financial loss.	commence to identify outstanding completed applications.	<p>Central Government's intention was for relief to be awarded automatically.</p> <p>It was identified that some ratepayer's may not be entitled as the relief could be state aid. Review forms were issued to allow these rate payers to declare state aid and for relief to be removed.</p> <p>A review will be carried out</p> <p>Responsible Manager: Revenue Services Manager</p> <p>Implementation date: February 2015</p>
Audit: Council Tax and Housing Benefits					
Assurance: Significant					
1	Medium	<p><u>Reconciliations</u></p> <p>There are outstanding discrepancies with reconciliations on feeder transactions between the Benefits and Council Tax modules.</p>	Discrepancies are not being corrected in a timely manner, resulting in poor management information, and potential financial loss to the authority.	Timescales for investigating and resolving discrepancies to be formally defined and monitored, to ensure the integrity of financial information held on key systems.	<p>Responsible Manager: Revenues Services Manager</p> <p>Implementation date: April 2015</p> <p>Review of discrepancies and integrity issues to be completed during end of year processing. Software suppliers to complete system healthcheck and provide advice on how discrepancies</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
					can be managed post April 2015.
end					

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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 February 2015. 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.

Follow Up Assurance:

In summary:

- all the 2012/13 audit recommendations have now been implemented;
- the majority of 2013/14 audit recommendations have been implemented; monitoring of the outstanding ones is continuing;
- 2014/15 recommendations are being monitored and reported for information.

AUDIT BOARD

<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up or outcome</u>	<u>2nd</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
2012-13 Audits						
Markets Page 140	21st March 2013	Head of Planning Services	Limited	3 'high' and 3 'medium' priority recommendations in relation to Insurance documentation, cash collection, Market procedures & related paperwork, Management Information, Terms & Conditions and Reconciliations.	15/09/2014 - The 3 high priority recommendations relating to procedures and documentation have been addressed, and 2 of the medium priority recommendations relating to terms & conditions and reconciliations have also been addressed. The 1 medium priority recommendation relating to Management Information has not been satisfactorily addressed, and requires further follow-up.	Followed up December 2014 The medium priority recommendation relating to management information has now been completed. No further follow-ups are required as audit outcomes have been satisfied.

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Street Scene inc abandoned vehicles, fly tipping, etc.	7th January 2013	Head of Environmental Services	Significant	2 'medium' priority recommendations in relation to Data for Management Monitoring Information and utilisation of system.	The follow-up in April 2014 has been agreed. Out of the 2 'medium' priority recommendations 1 in relation to Data for Management Monitoring Information had been implemented and 1 in relation to utilisation of the system was in progress.	Followed up February 2015. All recommendations now been implemented. No further follow up required as audit has been satisfied.
Parks & Open Spaces (Sanders Park)	18th March 2013	Leisure Services Officer	Moderate	3 'medium' priority recommendations in relation to Internal Checks- banking, Incomplete Banking Records and contractors checks.	The follow-up in April 2014 has been agreed. Out of the 3 'medium' priority recommendations 2 in relation to Internal Checks - Bankings and Incomplete Banking records have been implemented and 1 in relation to Contractors checks is in progress.	Followed up November 2014 The medium priority recommendation relating to the Service Level Agreement has now been completed. No further follow-ups are required as audit has been satisfied.
Regulatory Service/Environmental Health	2nd August 2013	Head of Regulatory Services	Limited	3 'high' and 1 'medium' priority recommendations in relation to procedures for notification of debtors, reconciliations, license fee increase and performance monitoring reports.	Follow up for this audit has been included as part of the 2014/15 audit and progress will be reported accordingly.	
2013-14 Audits						
Building Control	29th October 2013	Head of Planning and Regeneration and Building Control Manager	Significant	1 'high' and 1 'medium' priority recommendations in relation to breaking even and receipting of receipts.	Follow up undertaken and recommendations now implemented. No further follow up required as audit satisfied.	

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Risk Management	30th April 2014	Executive Director (Finance and Resources)	Limited	6 'medium' priority recommendations in relation to Risk management strategy and training, risk register reviews and entries, Consistency of Risk Management approach and 4Risk systems administration.	Follow up undertaken and awaiting final sign off as at 24.2.15	
Shared Services - Regulatory	30th May 2014	Head of Regulatory Services and Executive Director Finance and Resources	Moderate	1 'high' and 2 'medium' priority recommendations in relation to Performance monitoring data, budget setting and information for fee setting.	Follow up for this audit has been included as part of the 2014/15 audit and progress will be reported accordingly.	
Asset Management	16th April 2014	Financial Services Manager	Significant	1 'medium' priority recommendation in relation to Vehicle insurance details.	Followed up as part of the 2014/15 Asset management audit and reported.	
Regulatory - Hackney Carriage and Private Hire Licensing	23rd June 2014	Head of Regulatory Services	Moderate	1 'high' and 1 'medium' priority recommendations made in relation to reconciliation of income and fee setting.	Follow up for this audit has been included as part of the 2014/15 audit and progress will be reported accordingly.	
Depots and Stores	8 th August 2014	Head of Environmental Services and Environmental Services Manager	Significant	1 'medium' priority recommendation in relation to inventory control.	Followed up February 2015, An interim measure has been implemented until business transformation is complete in June 2015 when the recommendation will be fully addressed as part of the transformation.	
ICT	2 nd September 2014	Head of Business Transformation and Organisational	Limited	1 'high' and 5 'medium' priority recommendations to follow-up in regard to starters, leavers and user accounts, procedures, inventory management,	As at 24.2.15 and at the time of the agenda the follow up was in progress.	

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Agenda Item 14

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		Development and ICT Transformation Manager		contracts and disposals.		
2014-15 Audits						
Equality and Diversity	28 th August 2014	Corporate Senior Management Team	Moderate	1 'high' and 2 'medium' priority recommendations made in relation to training, policy and terms of reference.	As at 24.2.15 and at the time of the agenda the follow up was in progress.	
Data, Security and Publication	9th September 2014	Head of Transformation and Organisation Development/ Executive Director (Finance and Resources)	Moderate	1 "medium" priority recommendation re local government transparency code	Mar-15	
Communications and Media	16th October 2014	Communications and Marketing Manager	Significant	No 'high' or medium' priority recommendations made.		
Elections	27th October 2014	Head of Legal, Democratic Services and Quality Services	Significant	No 'high' or medium' priority recommendations made.		
DFGs and HIAs	12th November 2014	Housing Strategy Manager	Significant	1 "medium" priority recommendations re the need to ensure documents are stored correctly	May-15	
Treasury Management	28th November 2014	Financial Services Manager	Significant	1 "medium" priority reconciliation to ensure reconciliations are undertaken at least quarterly.	To be undertaken as part of the 2015/16 audit	

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Asset Management	20th November 2014	Head of Customer Access and Financial support	Significant	1 "medium" priority re terms of reference for Joint Asset Management Group	May-15	
Waste Management	9th January 2015	Head of Environmental Services	Moderate	1 "high" priority recommendations to ensure effective stock control of wheelie bins.	Jul-15	
Debtors	29th January 2015	Head of Customer Access and Financial support	Significant	No 'high' or medium' priority recommendations made.		
Cash Receipting	29th January 2015	Head of Customer Access and Financial support	Moderate	1 "high" priority recommendation to ensure the council obtains a PCIDSS certificate.	Jul-15	
Council Tax	6th February 2015	Revenue Services Manager	Moderate	5 "medium" priority recommendations to ensure effective monitoring and review of new properties and discount exemptions, review of credit balances and unbanded properties.	To be undertaken as part of the 2015/16 audit	
NNDR	6th February 2015	Revenue Services Manager	Moderate	6 "medium" priority recommendations to ensure that effective monitoring and review of new and empty properties and discount exemptions, review and monitoring of unbanded properties and credit balances.	To be undertaken as part of the 2015/16 audit	

AUDIT BOARD

Benefits	11th February 2015	Revenue Services Manager	Significant	1 "medium" priority reconciliation to ensure where there are discrepancies in the benefit system and the main ledger reconciliation they are resolved in a timely manner.	To be undertaken as part of the 2015/16 audit	
end						

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date: 19th MARCH 2014

THE 2015/16 INTERNAL AUDIT PLAN REPORT OF THE SERVICE MANAGER OF THE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor Mike Webb
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 Bromsgrove District Council Internal Audit Operational Plan for 2015/16
- the key performance indicators for the Worcestershire Internal Audit Shared Service for 2015/16

2. RECOMMENDATIONS

- 2.1 **The Board is asked to consider the Audit Plan and subject to any comments / proposed changes the Plan be noted**
- 2.2 **The Board is asked to note the Key Performance.**

3. KEY ISSUES

Financial Implications

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

AUDIT BOARDDate: 19th MARCH 2014**Legal Implications**

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

To aid compliance with the regulation, the Institute of Internal Auditors Public Sector Internal Audit Standards 2013 details that “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

Service / Operational Implications**Internal Audit Aims and Objectives**

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

Formulation of Annual Plan

The Internal Audit Plan for 2015/16, which is included at Appendix 1, is a risk based plan which takes into account the adequacy of the council's risk management, performance management and other assurance processes. It has considered the corporate strategic purpose, risk priorities per discussions with

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the s151 Officer and the results of an independent risk assessment of the audit universe by Internal Audit.

By bringing a provisional plan of work before the Audit Board in December 2014 which had been formulated with the aim to ensure Bromsgrove District Council meets its strategic purposes it allowed Members to have a positive input into the audit work programme for 2015/16 and make suggestions as to where they feel audit resources may be required under direction of the s151 Officer. As with all plans it may be subject to review and update as the year progresses in consultation with the s151 Officer.

Resource Allocation

The Internal Audit Plan for 2015/16 has been based upon a resource allocation of 250 chargeable days, a resource allocation which has been agreed with the council's s151 officer. The Service Manager of the Worcestershire Internal Audit Shared Service is confident that, with this resource allocation, he can provide management, external audit and those charged with governance with the assurances and coverage that they require over the system of internal control, annual governance statement and statement of accounts. The 250 day allocation is based on transactional type system audits and has been reduced from the 300 days delivery during 2014/15; a saving of 50 days.

Due to the changing internal environment, ongoing transformation and more linked up and shared service working between Bromsgrove and Redditch the plan has been organised in a smarter way in order to exploit the efficiencies that this type of working provides. Heads of Service will have an allocation of audit days with suggested audit areas of coverage linked to them but with an option that all or part of the budgeted days can be used on a flexible basis depending on their service risk exposure. The end result will deliver flexible audit coverage based on the highest risk assessed areas in their services.

The provisional Internal Audit Plan for 2015/16 is set out at Appendix 1.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2015/16 will be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service and will be reported to the Shared Service's Client Officer Group (which comprises the s151 officers from partner organisations), and, to the Audit Board on a quarterly basis.

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

Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

4. RISK MANAGEMENT

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

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

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

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

5. APPENDICES

Appendix 1 ~ Outline Internal Audit Plan 2015/16
Appendix 2 ~ Key performance indicators 2015/16

6. BACKGROUND PAPERS

None

7. KEY

N/a

BROMSGROVE DISTRICT COUNCIL

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Date: 19th MARCH2014

AUTHOR OF REPORT

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BROMSGROVE DISTRICT COUNCIL

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APPENDIX 1

Detailed Provisional Programme of Work for 2015/16

Audit Area	Audit Risk Assessment Score (Max 45) *	Planned days 2014/15	Proposed days 2015/16	Difference = + or -
A – CHARGEABLE AND PRODUCTIVE				
Core Financial Systems				
Service Area: Finance				
Benefits	Risk assessment 36	15	15	0
NDR	Risk assessment 34	12	12	0
Council Tax	Risk assessment 33	12	12	0
Cash, General Ledger, Budget Control & Bank Reconciliations	Risk assessment 33	17	10	-7
Treasury Management	Risk assessment 28	7	7	0
Creditors	Risk assessment 28	10	8	-2
Debtors	Risk assessment 28	7	7	0
Asset Management	Risk assessment 24	7	0	-7
		87	71	-16
Corporate #				
Shared Service (Client) & Transformation Delivery		12	0	-12
ICT <i>(budget moved to Service area)</i>		14	0	-14
Corporate Governance (Health & Safety, Media & Comm's, Performance Indicators, data measures, transformation) <i>(budget moved to Service area)</i>		10	0	-10
Risk Management	Risk assessment 28	15	5	-10
s106s <i>(budget moved to Service area)</i>		0	0	0

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Transformation (Critical Review)		7	0	-7
		58	5	-53
Other Systems Audits (for information)				
2014/15 audits				
Waste Collection	Risk assessment 35	12	0	-12
Elections including finances	Risk assessment 30	8	0	-8
DFG's	Risk assessment 27	10	0	-10
Communications & Media	Risk assessment 27	8	0	-8
Regulatory Services	Risk assessment 27	15	0	-15
Equality & Diversity	Risk assessment 23	7	0	-7
Performance Indicators and Data Quality	Risk assessment 21	10	0	-10
		70		-70
Service Area: Regulatory Services	Risk assessment 27		14	14
Service Area: Planning and Regeneration	Risk assessment 29		10	10
Development & Building Control				
Land Charges				
Service Area: Housing	Risk Assessment 26		7	7
Repairs & maintenance				
Welfare Reform impact				
Service Area: Community Services	Risk Assessment 35		14	14
Safeguarding				
Service Area: Environmental	Risk Assessment 26		14	14

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Street Scene				
Service Area: Leisure and Culture	Risk Assessment 35		14	14
Events income				
Sanders Park & Open Spaces mngt				
Service Areas: (Corporate) Inc: Legal, Equalities and Democratic	Risk Assessment 30		12	12
Individual Electoral Registration				
Service Area: ICT	Risk assessment 35		10	10
Transformation assistance				
Service Areas Total			95	95
Completion of Prior Year's work	N/A	10	8	-2
Statement of Internal Control	N/A	3	3	0
Follow Up on recommendations	N/A	12	10	-2
Fraud and Special Investigations	N/A	12	11	-1
Advisory / Consultancy / Contingency	N/A	12	11	-1
		49	43	-6
TOTAL PRODUCTIVE (A ONLY)		264	214	-50
B – CHARGEABLE AND NON- PRODUCTIVE				
Audit Management Meetings	N/A	15	15	
Corporate Meetings / Reading	N/A	5	5	
Annual Plans and Reports	N/A	8	8	
Audit Board Support	N/A	8	8	
TOTAL CHARGEABLE AND NON-PRODUCTIVE (B)		36	36	0
TOTAL CHARGEABLE (A + B)		300	250	-50

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Explanatory Notes:

* Risk assessment scores are indicators derived from an internal audit assessment based on local knowledge and risk assessment using various factors including materiality, impact of failure, system risk, resource risk, fraud risk and external risk.

A number of corporate audit budgets have been reallocated to service areas so that the audit budgets can be used more flexibly and include elements including transformation, health and safety and shared service working.

Customer access and support will be considered overall as part of the service audits.

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KEY PERFORMANCE INDICATORS 2015/16

APPENDIX 2

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2015/16 i.e. KPI 3 and 4. Other key performance indicators link to overall governance requirements of Bromsgrove District Council.

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

	KPI	Trend requirement	2014/15 Year End Position	2015/16 Position (as at xxxxxxxx)	Frequency of Reporting
1	No. of 'high' priority recommendations	Downward	XX		Quarterly
2	No. of moderate or below assurances	Downward	XX		Quarterly
3	No. of customers who assess the service as 'excellent'	Upward	XX		Quarterly
4	No. of audits achieved during the year	Per target	Target = 17 (minimum) Delivered =	Target = 15 (minimum) Delivered =	Quarterly

AUDIT BOARD

19th March 2015

WORK PROGRAMME 2014/15

19th March 2015

- Grant Thornton Certification Work Report 2013/2014
- Grant Thornton Informing the Audit Risk Assessment
- Grant Thornton Audit Plan March 2015
- Grant Thornton Progress Report
- Quarter 3 - Financial Savings Monitoring
- Risk Management Monitoring Group – verbal update
- Quarter 3 - Benefits Fraud
- Investigations Officer presentation
- Internal Audit Monitoring Report
- Internal Audit Plan 2015/2016
- End of Year Report 2014/2015 (For Member discussion)
- Audit Board Work Programme 2014/2015

WORK PROGRAMME 2015/16

18th June 2015

- Corporate Risk Register
- Updated Fraud and Corruption Policies

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