



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

THURSDAY 8TH DECEMBER 2016 AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

MEMBERS: Councillors B. T. Cooper (Chairman), S. R. Colella (Vice-Chairman), R. L. Dent, J. M. L. A. Griffiths, P. M. McDonald, S. R. Peters, C. J. Spencer, P.L. Thomas and M. Thompson

Parish Councillors: Councillor C. Scurrall

AGENDA

1. Apologies for Absence and Named Substitutes
2. Declarations of interest and Whipping Arrangements
3. To confirm the accuracy of the minutes of the Audit, Standards and Governance Committee meeting held on 15th September 2016 (Pages 1 - 10)
4. Standards Regime - Monitoring Officers' Report (Pages 11 - 14)
5. Pensions - Presentation
6. Grant Thornton Annual Audit Letter (Pages 15 - 36)
7. Grant Thornton - Progress Report (Pages 37 - 50)
8. Internal Audit Monitoring Report (Pages 51 - 82)
9. Quarter 2 (June to September 2016) Financial Savings Update Report (Pages 83 - 86)
10. Appointment of External Auditors for financial year 2018 onwards (Pages 87 - 98)
11. Risk Management Group Monitoring Verbal Update

12. Risk Champion - Verbal Update Report (Councillor Phil Thomas)
13. Audit, Standards and Governance Committee Work Programme (Pages 99 - 100)

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA

30th November 2016

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

15TH SEPTEMBER 2016 AT 6.00 P.M.

PRESENT: Councillors B. T. Cooper (Chairman), S. R. Colella (Vice-Chairman) (from Minute Item No. 17/16 to part way through Minute Item No. 22/16), R. L. Dent, J. M. L. A. Griffiths (from Minute Item No. 17/16 to part way through Minute Item No. 23/16), C.A. Hotham (Substitute), P. M. McDonald (from Minute Item No. 18/16), C. J. Spencer, P.L. Thomas (from Minute Item No. 18/16 to part way through Minute Item No. 23/16) and M. Thompson

Observers: Councillor G. Denaro

Invitees: Ms S. Joberns and Mr R. D. Percival (Grant Thornton)

Officers: Ms. J. Pickering, Mrs. C. Felton, Mr. A. Bromage, Ms. S. Morgan and Ms. J. Bayley

17/16 ELECTION OF CHAIRMAN

Councillor S. R. Colella opened the meeting in his capacity as Vice Chairman of the Committee and invited Members to put forward nominations for the position of Chairman.

A nomination for the position of Chairman was received in respect of Councillor B. T. Cooper.

RESOLVED that Councillor B. T. Cooper be elected as Chairman of the Committee for the ensuing municipal year.

(Following the appointment of the Chairman the Committee agreed to hold a brief 10 minute adjournment, from 6.02 – 6.12 pm, to provide the Chairman with an opportunity to attend a briefing on the content of the agenda).

18/16 APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES

Apologies for absence were received from Councillor S. R. Peters and Parish Councillor C. Scurrall. It was confirmed that Councillor C. Hotham was attending as a substitute for Councillor Peters.

The Committee also noted that Councillors S. R. Colella, J. M. L. A. Griffiths and P. L. Thomas would need to leave the meeting early.

19/16

DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS

There were no declarations of interest nor of any whipping arrangements.

20/16

TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 16TH JUNE 2016

The minutes of the meeting of the Audit, Standards and Governance Committee held on 16th June 2016 were submitted.

During consideration of the minutes reference was made to previous discussions about the Parish Council representatives on the Committee and it was noted that many Parish Councillors were co-opted rather than elected onto their Parish Council. Members' preference for elected Parish Councillors to serve on the Committee had been reported to Bromsgrove's Area Committee of the Worcestershire County Association of Local Councils (CALC). However, it was acknowledged that the appointment would ultimately be determined by CALC.

RESOLVED that the minutes of the meeting of the Audit, Standards and Governance Committee held on 16th June 2016 be approved as a correct record.

21/16

STANDARDS REGIME - MONITORING OFFICERS' REPORT

The Head of Legal, Equalities and Democratic Services presented the Monitoring Officer's report. Members were advised that since the previous meeting of the Committee a single Member to Member complaint had been received and this was in the early stages of investigation.

Various Member training sessions had also been delivered during the period and further training was scheduled to take place later in the calendar year. Specific reference was made to the training delivered on the subject of child sexual exploitation and safeguarding. Members noted that this was an important area of responsibility and should be taken seriously.

The Committee also briefly discussed the county-wide Governance training event that was due to be delivered by the external auditors, Grant Thornton, in Redditch on 11th October. Members questioned whether it might be more appropriate for this training to be delivered by an independent body with no links to the Council. The Member Development Steering Group was therefore asked to investigate governance training arrangements at other local authorities and with the Local Government Association. The Committee was advised that this could be raised at the next scheduled meeting of the group on 19th September 2016.

RESOLVED that

- (1) The Member Development Steering Group be asked to investigate arrangements in place at other local authorities to deliver Governance training; and
- (2) The report be noted.

22/16

GRANT THORNTON - AUDIT FINDINGS REPORT 2015/16 (APPENDIX TO FOLLOW)

Representatives from Grant Thornton presented the Audit Findings Report in relation to the final accounts 2015/16. For this item the draft letter of representation, detailing the Financial Statement for the year ended 31st March 2016, was tabled for Members' consideration (attached at Appendix 1 to these minutes). During the presentation of this report the following matters were highlighted:

- Grant Thornton had made no adjustments to the accounts, though had identified one area in respect of assets that could impact on the accounts if an adjustment was made.
- The external auditors were anticipating that they would be issuing an unqualified opinion on the accounts.
- The process followed by the Council to issue the accounts had improved significantly when compared to the previous year, in line with the Section 11 recommendations.
- Further improvements could be made to the process to ensure that in future the Council could submit the accounts in line with new earlier deadlines from 2018.
- Grant Thornton had identified weaknesses in the Council's arrangements, particularly in respect of financial reporting, and were issuing a qualified 'except for' value for money conclusion.
- For the risk in terms of management over-ride of controls the testing of journals work undertaken by the auditors had required significant time due to the complexity of the Council's ledger and cost coding arrangements.
- The risk in terms of the valuation of Parkside had identified no issues for the Council, which shared this asset with Worcestershire County Council.
- Since the publication of the report more information had been received regarding the valuation of the former Council House site and the external auditors were satisfied with this detail.
- Grant Thornton had reviewed the assumptions, qualifications and controls used by the actuaries for staff pensions.
- When considering operating expenses no problems had been identified for 2015/16 but an issue had been identified for the previous year in relation to an invoice for £4,000. Following further investigation Grant Thornton had discovered no further mistakes and this was not considered to be a systemic problem. However, this investigation had highlighted challenges in respect of invoices being recharged and included on the general ledger.

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- External auditors had noted that the volume of invoices to Redditch Borough Council for shared services was such that improvements could be made to streamline the process.
- Three assets had been identified for which the Council received charges though the ownership status was unclear.
- These three assets comprised low cost housing that had been transferred to BDHT in the early 2000s.
- Legal Services had undertaken some initial investigations and determined that additional time was required to provide further clarification regarding legal ownership arrangements.
- These were separate to five other assets detailed in the statement of accounts which had been reclassified by the Council as operational assets, having previously been listed as investment assets, following consultation with Grant Thornton.
- The external auditor's approach to undertaking the Value for Money (vfm) assessment had changed in 2016/17 in line with national requirements.
- For the Financial Outturn and Medium Term Financial Strategy the external auditors had discovered that the Council had good arrangements at the officer level for managing budgets.
- However, improvements could be made to the ways in which Members were engaged in the budget setting process and supported to make informed decisions about the budget.
- Consideration had been given to the progress made by the Council in respect of Section 11 recommendations and a decision had been taken not to issue further recommendations at this time.
- The final auditing fees charged by Grant Thornton to the Council were £57,830.

Additional points were also raised for the Committee's consideration about the report by the Executive Director of Finance and Corporate Resources:

- Officers were working to improve the financial monitoring reports presented for the consideration of Members.
- Work was also being undertaken to provide further clarity in respect of the Council's chart of accounts.
- An Efficiency Statement had been produced for the Council which provided a strategic overview of the local authority's financial position.
- Officers were aiming to present a balanced and robust four year programme for the authority.
- Budget reports would be presented for the consideration of the Finance and Budget Working Group, Overview and Scrutiny Board, Cabinet and Council as part of an enhanced approach to involving Members in the budget setting process.

Following presentation of the report the following points were considered by Members in detail:

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- The potential for the external auditor's final auditing fee for the Council to be recorded on the front page of the report.
- The length of delays in terms of the Council paying external organisations when invoiced.
- The arrangements in place to advertise the statement of accounts the previous year, the extent to which this complied with statutory requirements and the information provided about this in the report. An apology was provided for the lack of a reference to this in the report and it was agreed that Officers should discuss this further with the external auditors and report back at a later date.
- The improvements that could be made to the ways in which budgetary monitoring information was reported for Members' consideration.
- The need for action to be taken and difficult decisions to be made to balance the Council's budget in future years.
- The extent to which funding had been transferred from reserves to balance the budget in recent years.
- The use of virement and the number of cases in which this had occurred at a level close to that requiring approval from full Council. Officers agreed to obtain further information on this subject for Members' consideration.
- The impact of achieving budget savings on the services received by the Council's customers.
- The legislation requiring advertising of the accounts, the Audit Commission Act 1998, and the extent to which this should be updated to reflect the growth in the internet and electronic forms of communication.
- The promotion of the Council's work on the statement of accounts on the Council's website.
- The impact of using page numbering for the report alongside page numbering for the agenda pack on the clarity of proceedings. Members were advised that the focus should always be on referring to the page numbers in the agenda pack.
- The potential for many of the points considered during Members' discussions to be raised at future meetings of the Overview and Scrutiny Board.

At the end of these discussions Members briefly considered the potential content of the Council's Medium Term Financial Plan. In challenging economic circumstances for local authorities Members suggested that the deficit position for the Council across the full 4 year period that would be covered by the plan should be reflected in that report. The Committee accepted that if this was to occur the first year of the period would still need to achieve a balanced budget. However, Members commented that this would provide further clarity about the financial position of the Council and would help when making decisions about the budget.

The Committee also discussed in some detail the level of funding allocated by the Council each year to address the pension fund liability

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and the extent to which this had been set at an appropriate level to meet actuarial funding requirements. Members were advised that the external auditors checked whether the estimate was a fair reflection of the Council's liability as had been set by Mercers, the Worcestershire Actuary. However, the external auditors were not required to assess the proportion of staff who were due to receive particular pension settlements. Given the complexity of these arrangements and the significant level of the pension fund liability Members agreed that it would be useful to receive a presentation on the subject of the Council's pension arrangements at a future meeting.

Following these discussions the Committee

RECOMMENDED to Council

- (1) The approval of the draft letter of representation as included in the attached appendix; and
- (2) That the Council's Medium Term Financial Plan should always be produced displaying the total deficit for the authority.

RESOLVED that the Audit Findings Report 2015/16 be noted.

23/16

STATEMENT OF ACCOUNTS 2015/16 (POST AUDIT) (APPENDIX TO FOLLOW)

The Executive Director of Finance and Corporate Resources and the Financial Services Manager presented the Statement of Accounts 2015/16 and in so doing raised a number of points for the Committee's consideration.

- A set of accounts had been circulated for the consideration of all Members in July 2016.
- The documentation provided in the Committee's agenda pack contained the post audit set of accounts.
- The external auditors had issued an unqualified judgement on the accuracy of the accounts. Grant Thornton were satisfied that, on the basis of materiality, the Council's accounts were accurate.
- The general fund balance as at 31st March 2015 was £4.274 million. This had fallen to £4.159 million as of 31st March 2016 due to use of funding from balances.
- The Council had £7.417 in usable reserves.
- Information had been provided in respect of the Artrix; the Council was obliged to supply this information because it had voting rights at the venue.
- Provisions had been made for potential appeals against business rate settlements as this could have a potentially significant impact on the Council going forward.
- A typographical error had been identified in the covering report to the accounts; the Committee was being asked to recommend the accounts for the approval of Council, not the Cabinet.

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Members subsequently discussed a number of points in detail:

- The differences in accounting practices for local authorities compared to businesses and the need for the Council to follow CIPFA guidance.
- The net worth of the Council and the extent to which this compared with other local authorities.
- The trend for fluctuations in pension fund liabilities over time in response to changing circumstances, such as assumptions around changes to interest rates.
- The impact of the Council's budgetary position on borrowing costs.
- The option for the Council to borrow from the Public Works Loan Board.
- The pension fund liabilities and arrangements in place to address these. Officers advised that the Council had an agreement in place to pay off the liabilities over a period of 21 years, though the timeframes could be negotiated if considered appropriate.
- The potential for a local authority not to contribute to paying off pension liabilities in any given year. Members were informed that this would not be considered advisable.
- The inclusion of the value of Parkside on the balance sheet and the provision of this valuation by qualified professionals.
- The need to complete the process for shared ownership of Parkside with Worcestershire County Council. Members were advised that this was close to completion and that it was considered accurate to list the building as a Council asset.
- The impact of the delay in purchasing new vehicles following the decrease in the value of the pound in recent months. Officers agreed to obtain further information on this subject following the meeting.
- The potential stamp duty requirements for Parkside and the extent to which this had been budgeted for in the Council's reserves. Officers confirmed that, whilst no figure had been included in the reserves for this, further information was awaited from the County Council and would be confirmed with Members once it became available.
- The level of staff redundancies recorded in the accounts and whether information had been reported to the Worcestershire Regulatory Services (WRS) Board about redundancies in that team. Officers agreed to obtain further clarification on this subject for Members' consideration.
- The reasons for staff redundancies in the WRS team. Officers explained that this had occurred due to a restructure following the return of Trading Standards to Worcestershire County Council.
- The level of funding available to the Council from Section 106 agreements and the extent to which the authority remained on track to spend this funding. Members agreed that further information on this subject should be reported for the Committee's consideration at a future meeting.

At the end of these discussions the Audit, Standards and Governance Committee

RECOMMENDED that the Statement of Accounts 2015/16 be approved by Council.

24/16

QUARTER 1 (APRIL TO JUNE 2016) FINANCIAL SAVINGS UPDATE

The Executive Director of Finance and Corporate Resources presented the Financial Savings Update for the period 1st April to 30th June 2016. During consideration of this item she highlighted the following matters:

- This was a new report concerning financial savings which had been introduced in response to the Section 11 recommendations.
- Full year savings identified by the Heads of Service had been included in the report.
- No concerns had been identified to date with regard to the potential for the Council to achieve proposed savings during the year.
- Officers would welcome any suggestions from Members about the content and presentation of the report.

Members proceeded to discuss the content of the report raising a number of issues in so doing:

- The inclusion of the reduction in Members' Allowances in the list of savings detailed in the report. Members suggested that as this reduction in Councillor numbers had been known for a couple of years this should have been budgeted for and should not appear in the figures.
- Potential alternative uses of the £44,000 listed as savings from the reduction in elected Members on the Council.
- The preference of the Finance and Budget Working Group for savings to be listed in the figures once.

Following consideration of the item the Committee

RESOLVED that the report be noted.

25/16

SECTION 11 PROGRESS UPDATE REPORT

The Financial Services Manager provided an update on the progress that had been achieved with implementing the Section 11 recommendations. Many of the recommendations relating to the final accounts had been implemented and the Council had adopted a more robust approach to submitting the statement of accounts compared to the previous year. In addition a new financial planning module was due to be introduced shortly which would provide fourth tier managers with more control and flexibility in the use of their budgets.

RESOLVED that the report be noted.

26/16

INTERNAL AUDIT MONITORING REPORT

The Services Manager for Worcestershire Internal Audit Shared Service presented the Internal Audit Monitoring Report. The report outlined residual summary reviews for 2015/16 and provided an update on the internal audit work and performance in the period 1st April to 31st July 2016.

Significant progress had been achieved to date in respect of the internal audits scheduled for 2016/17. Any of these internal audits which resulted in medium or high priority recommendations would be reported to the Committee during the course of the year. In the majority of cases the assurance level identified through the internal audit process had been significant. Unfortunately in the case of consultancy and agency assurance had been assessed to be limited, though Internal Audit had been assured that action was being taken by Officers to address this.

In respect of the Key Performance Indicators (KPIs) for the Internal Audit Service there had been significant improvements in performance in relation to KPI 4 since the report was published. Members were advised that the Internal Audit team remained on track to deliver planned audits in 2016/17 as detailed in the Internal Audit Plan for the year. A number of reports were in draft form or in the process of being finalised and would be reported for Members' consideration at the following meeting.

At the end of this item Members requested further clarification on the level of assurance for the full system audit of debtors, as this had been recorded as both moderate and significant in the report. Officers agreed to provide this information for circulation electronically outside the meeting.

RESOLVED that the report be noted.

27/16

RISK CHAMPION - VERBAL UPDATE REPORT (COUNCILLOR PHIL THOMAS)

A written statement was read out to the Committee on behalf of the Council's Risk Champion, Councillor P. L. Thomas. In this statement Members were advised that Councillor Thomas had been arranging meetings with Heads of Service to discuss departmental risk registers. This followed consideration of the Council's Corporate Risk Register, which had enabled Councillor Thomas to understand the corporate risks faced by the Council and would help to clarify the links back to the departmental level.

Councillor Thomas had also met with the Executive Director for Finance and Corporate Resources to discuss corporate risks. During this meeting actions undertaken by managers to address these risks had been considered. It would be possible to update Members in more detail about this at the following meeting when it was suggested that the

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Committee should receive a report about action in respect of the Corporate Risk Register over the preceding 6 month period.

RESOLVED that a monitoring update regarding the Corporate Risk Register be added to the Committee's Work Programme for consideration in December 2016.

28/16

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

Members considered the content of the Audit, Standards and Governance Committee's Work Programme.

Officers confirmed that all of the additional items that had been proposed for the consideration of the Committee at a later date would be added to the Committee's Work Programme.

The meeting closed at 8.05 p.m.

Chairman

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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MONITORING OFFICER'S REPORT

Relevant Portfolio Holder	Councillor Geoff Denaro
Portfolio Holder consulted	Yes
Relevant Head of Service	Claire Felton, Head of Legal, Equalities and Democratic Services and Monitoring Officer
Wards affected	All Wards
Ward Councillor consulted	N/A

1. SUMMARY OF PROPOSALS

- 1.1 This report sets out the position in relation to key standards regime matters which are of relevance to the Audit, Standards and Governance Committee since the last meeting of the Committee on 15th September 2016.
- 1.2 It is proposed that a report of this nature be presented to each meeting of the Committee to ensure that Members are kept updated with any relevant standards matters.
- 1.3 Any further updates arising after publication of this report, including any relevant standards issues raised by the Parish Councils' Representative(s), will be reported on orally by Officers/the Parish Representative(s) at the meeting.

2. RECOMMENDATION

That, subject to Members' comments, the report be noted.

3. KEY ISSUES

Financial Implications

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

Legal Implications

- 3.2 The Localism Act became law on 15th November 2011. Chapter 7 of Part 1 of the Localism Act 2011 ('the Act') introduced a new standards regime effective from 1st July 2012. The Act places a requirement on authorities to promote and maintain high standards of conduct by Members and co-opted (with voting rights) Members of an authority. The Act also requires the authority to have in place arrangements under which allegations that either a district or parish councillor has breached his or her Code of Conduct can be investigated, together with arrangements under which decisions on such

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allegations can be made. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 were laid before Parliament on 8th June 2012 and also came into force on 1st July 2012.

Service / Operational Implications

Member Complaints

- 3.3 At the last meeting the Monitoring Officer reported on a Member to Member (both district councillors) complaint that had been received and which was in its early stages. At the time of drafting this report the complaint was still with Group Leaders for resolution.
- 3.4 Since the September meeting one complaint regarding a Member's involvement in a planning decision has been received. The complaint, which was made by a member of the public, was managed locally. It was found that the applicant was not happy with the Planning Committee's decision and that the Member's involvement was appropriate and that they had operated entirely within the rules.
- 3.5 A general standards issue (non-complaint related) has also arisen since the last meeting as a result of an interest that was not correctly disclosed. The Monitoring Officer spoke to the Member concerned and the relevant Group Leader. The Member was entirely co-operative and the matter was resolved locally. The Independent Person for Standards was advised and confirmed that he was in agreement with the resolution proposed in the circumstances.

Member training

- 3.6 Training has been held on data protection as part of repeat opportunities for Members to understand the legal background and their role in this.
- 3.7 The Grant Thornton Governance training session detailed in the last Monitoring Officer's report also took place at Redditch Borough Council in October and was attended by delegates from a number of neighbouring authorities, including Worcester City Council, Wychavon District Council and Worcestershire County Council.
- 3.8 At the last meeting Members discussed the Grant Thornton training event and questioned whether it might be more appropriate for this training to be delivered by an independent body with no links to the Council. The Member Development Steering Group was therefore asked to investigate governance training arrangements at other local authorities and with the Local Government Association. The Monitoring Officer raised this issue at

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the last meeting of the Member Development Steering Group and it was agreed to look to source a different provider the next time any such training was due to be delivered.

3.9 The Member Development Steering Group has also agreed that future training opportunities include:

- personal health and safety for Councillors;
- snapshot interactive briefing sessions about housing; and
- finance training.

Customer / Equalities and Diversity Implications

3.10 There are no direct implications arising out of this report. Details of the Council's arrangements for managing standards complaints under the Localism Act 2011 are available on the Council's website and from the Monitoring Officer on request.

4. RISK MANAGEMENT

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

- Risk of challenge to Council decisions; and
- Risk of complaints about elected Members.

5. APPENDICES

None.

6. BACKGROUND PAPERS

Chapter 7 of the Localism Act 2011.

AUTHOR OF REPORT

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AUDIT STANDARDS & GOVERNANCE COMMITTEE

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GRANT THORNTON ANNUAL AUDIT LETTER 2015/16

Relevant Portfolio Holder	Cllr. Geoff Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Wards Affected	All Wards
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To present to Members the Grant Thornton Annual Audit Letter which summarises the key findings arising from the work carried out at the Council for the year ended 31 March 2016.

2. RECOMMENDATIONS

- 2.1 **The Board is asked to note the Audit Letter as included on Appendix 1.**

3. KEY ISSUES

Financial Implications

- 3.1 The Grant Thornton fee for the 2015/16 audit fee is £49k.

Legal Implications

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

Service/Operational Implications

- 3.3 The Annual Audit Letter 2015/16 from Grant Thornton details their findings and recommendations as a result of the work undertaken as part of the final accounts for 2015/16. This includes; Financial Statements, Value for Money Judgement and Grant Claims.
- 3.4 Unqualified opinions were given for the accounts and a qualified opinion on the Value for Money Judgement.
- 3.5 Whilst improvements were made in the preparation and production of the accounts the Auditors made 3 recommendations to be implemented during 2016/17- 2017/18 these are:

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- Continue to improve the Statement of Accounts production to ensure we meet the new deadline for 2018
 - Improve budget reporting in particular the impact of decisions on reserves and balances
 - Improve in year budget monitoring when reporting to members
- 3.7 Officers have put in place arrangements to address the above recommendations.

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

- 4.1 As part of all audit work, 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 - Annual Audit Letter from Grant Thornton 2015/16

AUTHOR OF REPORT

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The Annual Audit Letter for Bromsgrove District Council

Year ended 31 March 2016

October 2016

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Agenda Item 6

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bromsgrove District Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit, Standards and Governance Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We issued an unqualified opinion on the Council's financial statements on 27 September 2016.

Other Statutory Powers

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16. We have however considered the Council's response to the statutory recommendations we issued in 2014/15.

At the end of our 2014/15 audit we issued statutory recommendations requiring the Council to improve its:

- arrangements for the production of its financial statements;
- arrangements for the preparation of its budget; and
- its budget monitoring processes.

Although we have not issued statutory recommendations this year, we have qualified our value for money conclusion on matters relating to progress in implementing these recommendations.

The key actions we expect the Council to take to fully address our statutory recommendations are:

- further improve the quality and timeliness of financial statements production to achieve the earlier closedown and audit timetables in 2018
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically making clear the impact of proposals on the level of reserves and balances
- improve the clarity and consistency of in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and being taken to address budget variances are reported are clearly quantified.

Value for Money

We issued a qualified 'except for' value for money conclusion on 27 September 2016.

We concluded that there are weaknesses in the Council's arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions

We also concluded that there is a failure in governance arrangements as these issues are due our 2014/15 statutory recommendations not being fully implemented.

Certificate

We certified that we had completed the audit of the accounts of Bromsgrove District Council in accordance with the requirements of the Code on 27 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit, Standards and Governance Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff, in particular the Director of Finance and Resources and her team.

Grant Thornton UK LLP

October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £629,000 which is 1.5 per cent of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how the Council has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration, auditors remuneration and related parties. We did not set a separate materiality threshold, but undertook more extensive testing on these areas.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We carry out our audit in line with ISAs and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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; and • the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable. <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our work included</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. <p>Our audit work did not identify any issues in respect of journals.</p> <p>The Council struggled to produce reports with the required information, delaying the completion of our audit work. This is in part due to the overly complex ledger structure.</p>
<p>Production of the 2015/16 financial statements</p> <p>Due to the issues identified in the audit of the 2014/15 financial statements we issued statutory recommendations to strengthen the production process for 2015/16.</p>	<p>We have</p> <ul style="list-style-type: none"> • examined the accounts closedown process and the controls in place to ensure materially accurate accounts are produced • had regular and early discussions with the finance team on the key accounting issues such as the valuation of Parkside and classification of investment properties <p>We found that</p> <ul style="list-style-type: none"> • the draft accounts were submitted by the 30th June 2016 deadline. • the quality and timeliness of the working papers supporting the accounts was better than the previous year and the resolution of queries was more efficient. There are, however, some areas that continue to be problematic. • the Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of Parkside During 2015/16 the Council moved into the refurbished Parkside building. The Council paid half of the refurbishment costs which was managed by the County Council. For 2015/16 the financial statements should reflect this as an operational asset and be valued accordingly. The accounting treatment should be consistent with that of the County Council.</p>	<p>We have</p> <ul style="list-style-type: none"> examined the controls in place to ensure a materially accurate valuation is produced examined title deeds and other legal documentation reviewed the Council's instructions to the valuer agreed the value included in the financial statements to the valuer's report <p>Our audit work has not identified any issues in respect of the valuation of Parkside within the financial statements.</p>
<p>Valuation of Bromsgrove Council Offices As at the year end the Council's old offices will be classified as a surplus asset. The new accounting standard IFRS 13 will apply and the land and buildings will need to be revalued. This valuation could be significantly different to its current carrying value.</p>	<p>We have</p> <ul style="list-style-type: none"> examined the controls in place to ensure materially accurate valuation is produced reviewed the instructions to the valuer agreed the value included in the financial statements to the valuer's report <p>Our audit work has not identified any issues in respect of the valuation of the Council's old offices within the financial statements.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> documented the key controls put in place by management to ensure that the pension fund liability was not materially misstated completed walkthrough tests of key controls to they were as expected and mitigate the risk of material misstatement in the financial statements reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work did not identify any issues in respect of the valuation and disclosure of the pension fund net liability.</p>

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Agenda Item 6

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

In previous years we have commented on the qualitative aspects of the Council's financial statement production, in particular the number of errors in the draft statements, delays in responding to audit issues and the quality of working papers. We issued statutory recommendations at the conclusion of our 2014/15 audit which included improving the arrangements for the production of the financial statements.

Revised financial statement production arrangements were put in place by the Executive Director of Finance and Resources for 2015/16. These arrangements

- ensured the accounts were submitted by the 30 June 2016 deadline
- improved the quality of the accounts presented for audit and the timeliness of and quality of many of the working papers
- ensured audit queries were resolved promptly.

Although overall financial statement production arrangements have improved, further improvements are needed to meet the revised statutory deadline in 2018

Issues arising from the audit of the accounts

We reported the key issues from our accounts audit in our Audit Findings report and presented this to the Council's Audit, Standards and Governance Committee on 16 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report, which were published on the website with the draft accounts in line with the national deadlines.

Significant governance issues were not adequately explained in the draft version of the Council's Annual Governance Statement. We agreed with the Executive Director of Finance and Resources that amendments would be made to give more information regarding the responses to our statutory recommendations.

Other statutory powers and duties

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not identified any issues that have required us to apply our statutory powers and duties under the Act in 2015/16. We have however considered the Council's response to the statutory recommendations we issued in 2014/15.

At the end of the 2014/15 audit we issued four statutory recommendations. These were:

- The Council should put in place robust arrangements for: the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards.
- The Council should develop a comprehensive project plan for the preparation of the accounts
- The Council should put in place robust arrangements for the preparation of its budget
- The Council should ensure that budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances

We have issued a qualified value for money conclusion on matters relating to progress on implementing two of these recommendations.

The key actions we expect the Council to take to fully address our statutory recommendations are:

- further improve the quality and timeliness of financial statements production to achieve the earlier closedown and audit timetables in 2018
- improve the reporting of the annual budget and Medium Term Financial Strategy to Members, specifically making clear the impact of recommendations on the level of reserves and balances
- improve the clarity and consistency of in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and actions taken or being taken to address budget variances are reported are clearly quantified.

Further details are set out on pages 10 and 11.

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance. In 2014/15 we issued 4 recommendations under section 11 (3) of the Audit Commission Act 1998 to which we required a formal response. Those responses and our assessment are below

	Recommendation	Follow up
Page 26	<p>1</p> <p>The Council should put in place robust arrangements for the production of the 2015/16 financial statements, which meet statutory requirements and international financial reporting standards.</p> <p>In order to achieve this the Council should:</p> <ul style="list-style-type: none"> - ensure sufficient resources and specialist skills are available to support the accounts production - introduce appropriate project management skills to the production of the financial Statements. 	<p>We found that the Council had put in place improved arrangements for the production of its financial statements which met the statutory deadlines and international financial reporting standards. The arrangements in place included</p> <ul style="list-style-type: none"> • A detailed project plan subject to review by the Executive Director of Finance and Resources • Specific in house training from CIPFA and attendance at a number of external events • Additional experienced external assistance to support the finance team. <p>Whilst this is a significant achievement given the issue identified in the prior year the Council needs to continue with this progress to ensure it can meet the earlier closedown and audit timetables in 2018.</p>
	<p>2</p> <p>The Council should develop a comprehensive project plan for the preparation of the accounts which ensures that:</p> <ul style="list-style-type: none"> • the financial statements are compiled directly from the ledger • the entries in the accounts are supported by good quality working papers which are available at the start of the audit • the financial statements and working papers have been subject to robust quality assurance prior to approval by the Executive Director of Finance and Resources • provides additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information; • the production of the financial statements is monitored through regular reporting to Directors and the Audit, Standards and Governance Committee. 	<p>We found that the Council had developed a detailed project plan that ensured that</p> <ul style="list-style-type: none"> • the financial statements were compiled directly from the ledger • entries in the financial statements were supported by working papers which we were available at the start of the audit. • queries were dealt with promptly to support the delivery of the audit. <p>The Council needs to ensure that new plans are developed to meet the new deadlines in place from 2018 and that the level of external support required is reduced.</p>

Other statutory powers and duties

	Recommendation	Follow up
Page 27	<p>3</p> <p>The Council should put in place robust arrangements to ensure that the budget preparation processes are based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates</p>	<p>The Council has put in place improved arrangements for setting its annual budget. These include</p> <ul style="list-style-type: none"> • detailed 'bid' forms for every capital and revenue pressure, linked to the strategic purposes • template forms for savings/additional income to identify where growth could be made • use of planning information in relation to new homes bonus and council tax • a review of fees and charges. <p>There are also changes in progress for 2017/18 budget setting.</p> <p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decision making key decision. The impact of the Medium Term Financial Strategy on the Council's overall financial standing is unclear and difficult to interpret. It does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions.</p>
	<p>4</p> <p>The Council should ensure that budget monitoring processes are timely to enable an accurate forecast to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances.</p>	<p>We found that Council has good arrangements at an officer level to manage detailed budgets. However, the in year reporting to Members is inconsistent and difficult to follow. We have concluded that there are continuing weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p>

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and our findings and conclusions are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed recommendations to address our findings. These are contained in appendix B.

Overall VfM conclusion

We have concluded that there are weaknesses in the Councils arrangements for:

- reliable and timely financial reporting that supports the delivery of strategic purposes; and
- planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions
- governance arrangements due to insufficient progress in fully implementing our financial reporting statutory recommendations.

We are satisfied that, in all significant respects, except for the matter we identified above, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusions
<p>Financial Outturn We identified during 2014/15 that the outturn position resulted in a large increase in the General fund balances which was not planned when the budget was set. It is not clear from the Council's management processes how this had been achieved.</p> <p>NAO Criteria: Reliable and timely financial reporting that supports the delivery of strategic purposes</p>	<p>We found that Council has good arrangements at an officer level to manage the budgets but the in year reporting to Members is inconsistent and difficult to follow. We therefore concluded that there are weaknesses in the Councils arrangements to demonstrate it can produce reliable and timely financial reporting that supports the delivery of strategic purposes.</p> <p>The 2015/16 outturn position presented to Cabinet in July 2016 shows an underspend of £331,000 against a revised budget of £13.3 million. However, the approved budget was £11.3 million and significant movements in the budget during the year we not explained in Cabinet reports. The reports did not make unclear how outturn performance has been achieved.</p>
<p>MTFS and budget setting We identified during the 2014/15 audit that the budget preparation processes could be strengthened and should be based on sound assumptions which enable an accurate forecast to be made of budget out-turn, including realistic assessments of demand factors, service and demographic changes as well as sound assumptions around turnover and vacancy rates</p> <p>NAO Criteria: Planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions</p>	<p>As in previous years our key concern is around the sufficiency of information reported to Members to support them in making key decisions. The impact of the MTFS on reserves and balances is unclear and difficult to interpret and we have concluded that it does not enable Members to make decision to support the sustainable delivery of the Councils strategic purposes and maintain statutory functions.</p> <p>The 2016/17 budget presented to Cabinet on 24 February 2016 showed a breakeven position which includes the utilisation £553,000 of reserves no longer required and further release of reserves of £296,000. No further details of the use of reserves and balances are provided. The budget also assumes savings of £401,000 will be delivered. The 2017/18 and 2018/19 budgets show further identified savings and include utilisation of reserves and balances. It is not made clear what impact these plans will have on the Council's overall financial standing.</p> <p>The Council has a number of options available and is considering further savings plans as part of the production of its Efficiency Plan in October 2016. Given the scale of the challenge the Council faces in 2017/18 and 2018/19 it will need to review the range and nature of non essential services and the level of balances it holds to ensure it can continue to deliver strategic purposes and maintain statutory functions.</p>

Key findings

Significant risk	Findings and conclusions
<p>Corporate plan and monitoring of service performance The corporate plan was last updated in July 2013 and therefore may not address the current strategic purposes of the Council. There is also currently no performance management information routinely reported (other than around customer services which is reported to audit committee). It is not possible to assess the impact of service changes or savings on service quality or priorities as there is no reporting.</p> <p>NAO criteria: Understanding and using appropriate cost and performance information to support informed decision making and performance management</p>	<p>We concluded that the arrangements in place are sufficient to demonstrate that the Council understands and is using performance information to support informed decision making and performance management.</p> <p>The Corporate Plan was plan last updated in 2013. The six strategic purposes in this document are clearly still in use by the Council. The Corporate Plan has been refreshed and presented to Cabinet on 7 September 2016 but the strategic purposes remain the same.</p> <p>Since January 2016 officers within the Council have utilised a corporate dashboard to monitor performance management information. The dashboard contains a range of performance indicators that have been developed by departments to support delivery of strategic purposes. The indicators are a combination of service performance and statutory targets and each indicator has a target owner responsible for providing commentary on performance. Six Members are currently trialling access to the dashboard with the intention of rolling out access to all Members. The Overview and Scrutiny Committees will then be able to hold senior officers to account for service performance.</p> <p>There are currently no plans to produce a summary document for consideration by Cabinet or full Council. Whilst internally (officers and members) will have access to the performance information thought should be given to how to explain service performance to the wider public and stakeholders.</p>

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Working with the Council

Our work with you in 2015/16

We have worked with you over the past year and maintained a positive and constructive relationship. We have helped you deliver some improved outcomes.

An efficient audit – we delivered the accounts audit 3 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment. We made comments to improve the internal controls around shared services invoice, ledger structure and receipt of invoices.

Understanding your operational health – through the value for money conclusion we highlighted the need for

- continued progress on the financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.
- improvements to the reporting of the annual budget and MTFs to Members, specifically to include the impact on reserves and balances
- improvements to the clarity and consistency of the in year reporting of the budget to enable accurate forecasts to be made in-year of the likely year-end outturn and action to be taken, where necessary, to address budget variances

Sharing our insight – we provided regular Audit, Standards and Governance committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work and Reforging local government

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we provided your teams with training on financial accounts and annual reporting and housing benefits. The courses were attended by member of the finance and benefits teams.

Working with you in 2016/17

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

We will continue to work with the finance team to improve the efficiency of the year end audit and also share our insights on advanced closure of local authority accounts, through our publication "Transforming the financial reporting of local authority accounts".

We will continue to share our insights into best practice and provide training and support.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	48,680	48,680	57,830
Housing Benefit Grant Certification	8,760	TBC*	10,060
Total fees (excluding VAT)	57,440	TBC	67,890

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	0

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

*Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The deadline for completion of this work is the end of November 2016

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Appendix B: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 Page 33	The Council should continue with the progress it has made in the financial statements production to ensure it can meet the earlier closedown and audit timetables in 2018.	High	Officers are currently preparing the closedown timetable for 2016/17 closure of accounts with the aim to finalise the accounts earlier in 2017 in readiness for the 2018 new deadline. This will be shared with the Audit team as soon as possible.	Z Martin December 2016
			A regular monthly meeting with all the finance staff is held to discuss issues from 2015/16 that can be improved for 2017/18.	Z Martin October 2016
			Finance representatives will be arranging involvement at departmental management team meetings to ensure that all officers are aware of responsibilities in providing accurate and timely information to the finance team.	S Morgan December 2016
			A presentation will be made to the 4th tier manager forum in relation to the early closedown and how this will impact on information required.	S Morgan December 2016

Appendix B: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
2	The Council should ensure the reporting of the annual budget and MTFs to Members is improved, specifically making clear the impact of proposals on reserves and balances	High	Officers are currently working on the Medium Term Financial Plan for 2017/18-2020/21 and this will include improvements to the reporting to members to improve clarity.	J Pickering February 2017
			Officers will discuss format with External Audit to ensure it is appropriate.	J Pickering January 2017
			The cross party member budget scrutiny group will be presented with the revised format to ensure this meets with member expectations	J Pickering October 2016
3	The Council should improve the clarity and consistency of the in year budget reporting, ensuring that both the actual and forecast variances from the approved budget and actions being taken to address budget variances are reported clearly and quantified.	High	Officers have revised the in year budget monitoring for members to ensure the report is clearly linked back to the original budget. Heads of Service are requested to include clear explanations of budget variances within the report	K Godley September 2016 K Godley September 2016



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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 8th December 2016

GRANT THORNTON UPDATE – NOVEMBER 2016

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

1. SUMMARY OF PROPOSALS

- 1.1 To update members on Grant Thornton progress on the Audit and on general issues and developments that may impact on the Council in the future.

2. RECOMMENDATIONS

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

3. KEY ISSUES

Financial Implications

- 3.1 There are no financial implications

Legal Implications

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

Service / Operational Implications

- 3.3 The report attached at Appendix 1 updates Members on the progress on work undertaken by Grant Thornton since the last Committee meeting. There are no concerns raised by the auditors in their initial work. In addition the appendix includes updates on Grant Thornton Publications in relation to issues that are relevant to Local Government at the current time.

- 3.4 Officers are continuing to work with the auditors to ensure the Council meets its statutory financial obligations.

Customer / Equalities and Diversity Implications

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 8th December 2016

3.7 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Progress report Grant Thornton Report

6. KEY

N/a

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Audit, Standards & Governance Committee Bromsgrove District Council

Progress Report and Update Year ended 31 March 2016

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Introduction

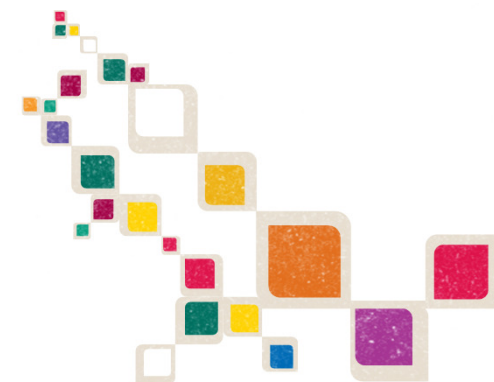
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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. Here you can download copies of our publications:

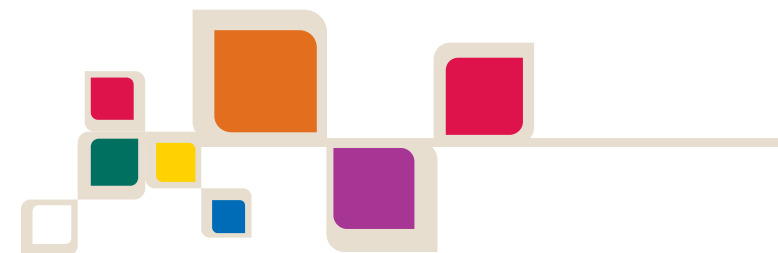
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/
- Reforging local government: Summary findings of financial health checks and governance reviews (December 2015) <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>,

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 Engagement Manager.

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.



Progress at November 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Financial Statements</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	September	Yes	Following the audit, standards and governance committee on the 15 th September and the approval by full council on 21 st September we issued our opinion on the financial statements and VFM conclusion on 27 th September 2016.
<p>Housing Benefits Certification</p> <p>Certification of the housing benefit grant claim for 2015/16.</p>	November	Yes	The Housing benefit grant claim was certified on 28 th November 2016.

Grant Thornton Technical update

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Agenda Item 7

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

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We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

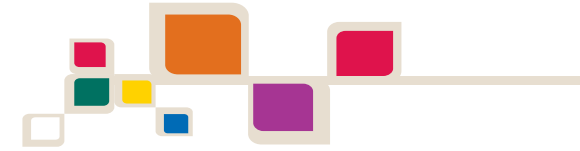
By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

<Integrated Reporting>

Further information is available on the IIRC's website



Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Publications and events

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Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>

Public sector
Innovation in public financial management
> Read more

Local government
Local government webinar - Building a successful local auth
> Read more

Local government
Reforging local government
> Read more

Local government
How Shropshire Council delivers services using an LATC
> Read more

Vibrant places
Growing healthy communities: Health and Wellbeing Index
> Read more

Local government
Understanding the tax implications of creating an LATC
> Read more

Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
- Efficient and effective systems and processes are essential
- Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



Advancing closure
Transforming the financial reporting of
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>



NAO Reports

NAO Publications – Local government overview and Department of Communities and Local Government overview: The NAO has recently published two overviews drawing on recent work in the local government sector.

Overview: Local government <https://www.nao.org.uk/report/overview-local-government/>

This Overview looks at the local government landscape during the last financial year and summarises matters of likely interest to Parliament as well as their work with local authorities. It covers:

- how local government is constituted and funded;
- together with its spending;
- findings from our work on local government; and
- a look ahead to the coming year for local government.

Departmental Overview 2015-16: Department for Communities and Local Government

<https://www.nao.org.uk/report/departmental-overview-2015-16-department-for-communities-and-local-government/>

This Departmental Overview looks at DCLG and summarises its performance during the year ended March 2016, together with recent NAO reports on it. It covers:

- the department's responsibilities and how it spends its money;
- financial management;
- reported performance; and
- issues identified in NAO reports.



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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 8th DECEMBER 2016

THE INTERNAL AUDIT MONITORING REPORT OF THE HEAD OF THE INTERNAL AUDIT SHARED SERVICE ~ WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor Geoff Denaro
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 2016/17

2. RECOMMENDATIONS

2.1 **The Committee 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 5 of the Accounts and Audit Regulations 2015 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.

3.4 This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2016 to 31st October 2016 against the performance indicators agreed for the service.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 8th DECEMBER 2016

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (15th September 2016):

3.5 2016/17 AUDIT SUMMARY UPDATES AS AT 31st OCTOBER 2016:

Housing Statutory Duties 2016-17

The review found the following areas of the system were working well:

- The Council has undertaken a review of the housing needs in its area in line with the requirements of the Housing Act 1985 section 8;
- The Council has documented its Housing Strategy as part of the latest Worcestershire Housing Strategy which covers the period 2011-16;
- The Council has a documented Homelessness Strategy as required by the Homelessness Act 2002. The Strategy was produced jointly on a countywide basis and covers the period 2012-17;
- There is a documented Housing Services Agreement in place with Bromsgrove District Housing Trust which includes adequate reference to the undertaking of Statutory Housing duties by the Trust on behalf of the Council;
- The Council has formally documented its policy and procedure in relation to the licensing of houses in multiple occupations and maintains records of the licensed and non licensed houses in multiple occupations within the district; and,
- The Council complies with the requirements of the Housing Act 2004 Part 2 in relation to the licensing of licenced Houses in Multiple Occupations that are of three or more storeys, housing five or more persons in two or more households.

The review found the following areas of the system where controls could be strengthened:

- The contractual arrangements with Bromsgrove District Housing Trust;
- The performance measurements reported and monitored under the Agreement with the Bromsgrove District Housing Trust;
- Recording of the 'fit and proper' self-assessment of license holders and designated managers of licensed houses in multiple occupations;
- Frequency and regularity of Inspection visits to licenced and non licensed houses in multiple occupations; and,
- Record keeping relating to licensed houses in multiple occupations.

The opinion also took into account the fact that the current contracting arrangements with Bromsgrove District Housing Trust and the associated contract monitoring arrangements are in need of review and updating to ensure that they are 'fit for purpose' going forward.

Type of audit: Full System

Assurance: Moderate

Report issued: 9th November 2016

Customer Services 2016-17

The review found the following areas of the system were working well:

- Locality, contact details and opening hours were published in different formats and accessibility methods;
- Ensuring adequate resources were available to deal with the types and volumes of customer enquiries;

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 8th DECEMBER 2016

- Customer transactions were handled professionally, efficiently and as promptly as possible;
- Staff knowledge and access to information to aid with the customers was consistent and effective;
- Services were working well with the team and required information was being passed between the services;
- There was a strong awareness of Data Protection and only taking information where required;
- Safety systems and procedures were all in place and updated annually, a monthly check was also carried out;
- Management team were analysing information gained and acting where they could to make improvements for the service;
- Customer complaints were being acted upon and lessons learnt where appropriate; and,
- Feedback was being gained where required and consideration of more customer response was being looked at for the future.

The review found the following areas of the system where controls could be strengthened:

- Recording and maintenance of records of training;
- Staff awareness to facilities such as language line and the use of hearing loops.
- Formalising meetings between services;
- An update of email process with customers and a data cleanse of what is currently being stored; and,
- More prominent area for the meet and greet.

Type of audit: Full

Assurance: Significant

Report issued: 28th September 2016

Freedom of Information Requests 2016-17

The review found the following areas of the system were working well:

- The file management structure to store all requests and correspondence;
- Where information was available or the customer needed signposting to another authority the request was dealt with quickly;
- The templates used for the customer responses were very clear and explained well for the customer to understand where their request is at;
- The training given to the employees is strong and gives clear guidance what to do with both data protection and freedom of information;
- The information on the website informs customers of what to do and access to the publication scheme;
- Information Management team are very knowledgeable with regards to the legislation surrounding Freedom of Information;
- There is use of a purposeful spreadsheet to help monitor the requests;
- Procedure of complaints is clearly outlined to the customer and process is working well within the team; and,
- The reporting is kept up to date on the dashboard.

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The review found the following areas of the system where controls could be strengthened:

- Staff attending initial and refresher training; and,
- Inconsistent approach to chasing information from the departments.

Type of audit: Full System Audit
 Assurance: Significant
 Report issued: 24th October 2016

Summary of Assurance Levels:

<u>Audit</u>	<u>Assurance Level</u>
Housing Statutory Duties 2016-17	Moderate
Customer Services 2016-17	Significant
Freedom of Information 2016-17	Significant

3.6 2016/17 AUDITS ONGOING AS AT 31st OCTOBER 2016

Audits completed to draft report stage included:

- Human Resources Training & Development
- Bereavement Services

Audits continuing through fieldwork and clearance included:

- Procurement & Post Contract Appraisals
- Risk Management
- Debtors
- Treasury Management
- Insurance
- Benefits
- NDR
- Council Tax

The summary outcome of the above reviews will be reported to Committee in due course when they have been completed and management have confirmed an action plan.

Three audits from 2015/16 are progressing through the final management clearance stages include System Administration, Website Security and Payroll and will be reported in summary form when finalised.

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3.7 AUDIT DAYS

Appendix 1 shows that progress continues to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31st October 2016 a total of 126 days had been delivered against a target of 230 days for 2016/17.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Audit, Standards and Governance Committee on the 24th March 2016 for 2016/17.

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

3.8 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 over view.
- Investigations

There has been on going work undertaken in regard to the National Fraud Initiative. This year is the 2 yearly cycle of data extraction and uploading to enable matches to be reported. The initiative is overseen by the Cabinet Office. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Bromsgrove District Council.

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.

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

3.9 Monitoring

To ensure the delivery of the 2016/17 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. The Head of Internal Audit Shared Service 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.

3.10 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 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 2016/17
Appendix	2 ~ Key performance indicators 2016/17
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.

7. KEY

N/a

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 8th DECEMBER 2016

AUTHOR OF REPORT

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 8th DECEMBER 2016

APPENDIX 1

Delivery against Internal Audit Plan for 2016/17 1st April 2016 to 31st October 2016

Audit Area	2016/17 Total Planned Days	Forecasted days to the 30 th September 2016	Actual Days Used to the 31 st October 2016
Core Financial Systems (see note 1)	71	10	28
Corporate Audits	5	5	4
Other Systems Audits (see note 2)	118	82	76
TOTAL	194	97	108
Audit Management Meetings	15	8	10
Corporate Meetings / Reading	5	3	3
Annual Plans and Reports	8	4	3
Audit Committee support	8	4	2
Other chargeable (see note 3)	0	0	0
TOTAL	36	19	18
TOTAL	230	126	126

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, for example, significant disruption to the ICT provision resulting in lost productivity.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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APPENDIX 2

KEY PERFORMANCE INDICATORS 2016/17

Key Performance Indicators (KPIs) for 01st April 2016 to 31st October 2016.

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2016/17.

	PI	Trend requirement	2015/16 Year End position	2016/17 (to 31 st October 2016)	Frequency of Reporting
1	No. of customers who assess the service as 'excellent'	Upward	2 (2x 'good')	3 excellent (4 issued with 3 returned)	Quarterly
2	No. of audits achieved during the year	Per target	Target = 15 (minimum) Delivered = 21	Target = 14 (minimum) Reports Delivered = 3x Finals 2x Draft	Quarterly
3	Percentage of plan delivered	100% of the agreed annual plan	98%	55%	Quarterly
4	Service Productivity	Positive direction year on year (Annual target 74%)	81%	*55%	Quarterly

*Service productivity is down due to the arrival of three new auditors in the first quarter and a further auditor late in the 2nd quarter. WIASS aims to increase productivity as they settle in.

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX 3

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

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Housing Statutory Duties 2016-17					
Assurance: Moderate					
1	Medium	<p><u>Current Contract</u></p> <p>The current contractual arrangements with Bromsgrove District Housing Trust are based on an original contract signed in 2004/06 and to run for eight years. Since the end of this eight year period the contract has been rolled over year to year as per the relevant contract terms with no procurement exercise undertake. However, it should be noted that the status of the contract has been reviewed on a regular basis since at least 2013-14 including detailed alternatives to the continuation of the contract along with an assessment of current contract performance.</p>	<p>Risk of non compliance with European procurement regulation leading to potential challenge, litigation and reputation damage, and, the potential of value for money not being achieved through current arrangements.</p>	<p>A review of Housing Service requirements and a competitive tendering exercise to be undertaken based upon a revised and updated tender specification.</p>	<p>Comments: some work has been undertaken on this area before - we will seek guidance from CMT on the most appropriate next steps to take in relation to the future of the contract. The issue will be considered at CMT on the 29th November.</p> <p>Responsible Manager: Strategic Housing Manager</p> <p>Implementation date: April 2017</p>
2	Medium	<p><u>License Conditions</u></p> <p>In one out of two of the sample of Houses in Multiple Occupations where conditions of licence had been applied there was no evidence of re inspection to ensure that the conditions had been subsequently met.</p> <p>Also for this sample the ‘fit and proper’ section of the application form had not been completed by the two nominated ‘managers.’</p>	<p>Licenses may be awarded to properties / applicants who do not meet the required regulatory standards leading to reputation damage and the potential of litigation against the Authority.</p>	<p>License applications to which conditions are applied require a re inspection of the property to verify that the conditions have been met within the timeframes stipulated.</p> <p>Evidence of all ‘fit and proper’ self assessments to be maintained on file.</p>	<p>Comments: We will re-inspect these and cross-reference this action with point 4 on file accessibility</p> <p>Responsible Manager: Private Sector Housing Team Leader (EHO)</p> <p>Implementation date: December 2016</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
3	Medium	<p><u>Inspection Visits</u></p> <p>There have been no inspection visits recorded on the relevant spreadsheets to licenced and non licensed houses in multiple occupations since 2012.</p> <p>The Private Sector Housing Team is reactive rather than pro active in terms of visiting properties. For non houses in multiple occupations therefore visits are mainly undertaken as a result of information received from the public.</p> <p>There is no legal requirement for houses in multiple occupations to be inspected on a regular basis, however, the Housing Team aims to inspect all known houses in multiple occupations on an annual basis but such inspections are not formally scheduled to achieve this.</p>	<p>There is an increased risk that non licensed houses in multiple occupations are not meeting required standards and thus could be endangering tenants which in turn could lead to reputation damage in regards to the Authority.</p>	<p>The Council to review its policy on the inspection of non licensed houses in multiple occupations to ensure that it remains in line with current practice.</p>	<p>Comments: We will review this policy to ensure it remains in line with current practice – also worth noting that further changes to this regime may be made by government in the near future.</p> <p>Responsible Manager: Private Sector Housing Team Leader (EHO)</p> <p>Implementation date: December 2016</p>
4	Medium	<p><u>File Accessibility & Record Keeping</u></p> <p>Private Sector Housing was unable to locate one of three files relating to licensed houses in multiple occupations within the Bromsgrove District Council area. It was therefore not possible to provide assurance over the issuing of a licence for this property.</p> <p>Internal Audit noted during testing that the certificate dates recorded on the list of licensed houses in multiple occupations for Her Majesty's Revenues and Customs did not match the file records in respect of one of the three licensed houses in multiple occupations on the list.</p>	<p>Without accurate and timely records relating to houses in multiple occupations there is an increased risk that any challenges to the licensing of such properties cannot be met leading to potential litigation and reputation damage.</p>	<p>Records relating to licensed and non licensed houses in multiple occupations are to be kept accurate, timely and accessible when required.</p>	<p>Comments: We will review existing arrangements for record keeping.</p> <p>Responsible Manager: Private Sector Housing Team Leader (EHO)</p> <p>Implementation date: December 2016</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Customer Services 2016-17					
Assurance: Significant					
1	Medium	<p><u>Training</u></p> <p>No training records have been kept within the service; However mandatory records are kept by Human Resources.</p> <p>There is no evidence to prove that the skills matrix is being used and that the Customer Support Officers have the skills outlined on the matrix.</p> <p>Testing identified that not all staff have attended the updated refresher for Health and Safety training. (Bromsgrove - 4 out of a sample of 10 had not attended the training).</p> <p>In addition there are no training records for staff at Bromsgrove for Payment Card Industry Data Security Standards.</p>	<p>Risk to reputation if dealt with by a Customer Service Officer who has not had appropriate training and the council receives complaints regarding the level of service received. It could also be a risk to safety and security if they have missed training relating to these areas resulting in possible financial claims.</p> <p>Potential risk in proving staff have received the correct training to be compliant with the Payment Card Industry Data Security Standards potentially leading to fines and reputation damage</p>	<p>A system of recording who has had training, signed by the employee, and when that training requires updating to be maintained. The skills matrix to become a fully integrated tool to assess future training requirements.</p> <p>Management to ensure that all staff have attended/been booked on to attend the update on Health and Safety training</p>	<p>Responsible Manager: Customer Service Manager</p> <p>Implementation date: 30th September 2016</p> <p>Team Leader to produce a training record and provide a process for updating completion of the record. Advise staff of the procedure and monitor record monthly.</p> <p>Work through the current Skills Matrix Training Plan and arrange sessions where appropriate for staff.</p> <p>Staff who have not attended Health & Safety training to attend courses as and when available</p> <p>Team Leader to complete PCI Security Standards with all Customer Service Staff and provide records that this has been undertaken.</p> <p>Corporately work underway to align all training records/training plans and Skills Matrix together.</p>
2	Medium	<p><u>Minutes of Meetings</u></p> <p>Meetings with the other services e.g. Benefits, are not being formally documented to act as an action log and reference point.</p>	<p>Potentially a reputational risk if information has been provided and not relayed. Potentially could cause miscommunication and a poor customer service experience leading to a</p>	<p>Meetings to be formally documented in an agreed format to capture the essential information/action points.</p>	<p>Responsible Manager: Customer Service Manager</p> <p>Implementation date: 31st October 2016</p> <p>Customer Services Manager to agree format with other service managers and commence</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
			damage of trust between departments and poor customer relationships.		formally documenting meetings.
Audit: Freedom of Information 2016-17					
Assurance: Significant					
1	Medium	<p>Training</p> <p>Training is a mandatory requirement for the organisation. A number of people have not received refresher training. As the training includes Data Protection updates staff may be in a compromised position if they manage their data incorrectly.</p>	<p>The potential of inconsistent approach by staff along with the provision of inappropriate information potentially leading to reputation damage, litigation and Information Commissioners Office investigation.</p>	<p>Ensure that the current training provision remains fit for purpose and closer monitoring of training delivery is undertaken to ensure all staff receive the appropriate training in a timely manner</p>	<p>Responsible Manager: ICT Operations Manager</p> <p>New starters training is up to date and scheduled as they commence with authority. Front line teams are now up to date and will be continued to be scheduled yearly. Refresher training backlog is on track to be completed by end of December 2016</p> <p>The policy and training application, Netconsent, will be re implemented by beginning of 2017. This will enable automated monitoring and reports to managers.</p>
end					

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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. Exceptions will be reported to the Committee where appropriate.

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 so to minimise resource impact on the service area.

Follow up in connection with the core financials is undertaken as part of the routine audits that are performed during quarters 3 and 4.

Follow Up Assurance:

In summary:

- 2013/14 audit recommendations have been implemented and satisfied;
- the majority 2014/15 recommendations have been implemented with those remaining monitored and current progress reported for information;
- some of the 2015/16 recommendations have been implemented with the others either in progress or awaiting follow up;
- the 2016/17 recommendations have scheduled follow up in 2017.

There are no exceptions to report.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

<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 Follow Up</u>	<u>3rd Follow Up</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	
2013-14 Audits							
ICT	2 nd September 2014	Head of Business Transformation and Organisational Development and ICT Transformation Manager	Limited	1 'high' and 5 'medium' priority recommendations to follow-up in regard to starters, leavers and user accounts, procedures, inventory management, contracts and disposals.	Followed up in March 2015. 3 recommendations have been implemented (authorisation of new users, clearing of inactive accounts, disposal of equipment), 1 recommendation has been superseded by changes to processes (disposal contracts). 2 medium recommendations are part implemented/ on-going (procedure documents, inventory reviews).	The follow up in October 2015 found that the 2 remaining 'medium' priority recommendations in relation to procedure documents and inventory reviews were in progress. The risk to the Council has been reduced and both recommendations should be implemented by January 2016 therefore a further follow up will take place in February 2016 as part of the 2015/16 review. Review remains on going.	Feb 2016 - Awaiting confirmation that D.P is happy with report (27/04/16 AR) The follow up in April 2016 found that out of the 2 recommendations; 1 relating to the written procedures of disposals of ICT equipment has been implemented. 1 relating to the implementing of the new asset management module is still in progress. 4th Follow Up A follow up was undertaken in October 2016, this found the one 1 medium priority recommendation has been implemented. This recommendation

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							related to implementing the Asset Management Module. No further follow ups required.
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.	Followed up March 15- Policy Manager have confirmed that all recommendations are currently outstanding and not fully implemented but are in progress. Given the impending completion date it would not be appropriate to follow the recommendations up until July 2015.	Follow up in November 2015 found that 1 'medium' priority recommendation in relation to policy has been implemented and the 1 'high' priority recommendation and the other 'medium' priority recommendation in relation to training and terms of reference are in progress. Workshops are to be introduced first half of 2016.	A follow up in September found there was one recommendation outstanding relating to the Equality and Diversity training. All the others have been satisfied. A further follow up will take place in 3 months time.
DFGs and HIAs	12th November 2014	Housing Strategy Manager	Significant	1 "medium" priority recommendations re the need to ensure documents are stored correctly	Followed up in September 2015. Implementation of the 1 medium recommendation is still in progress, whereby an electronic HIA filing system has been integrated, and paper files are being transferred to a single location for managing more effectively, completion expected end of October 2015 as part of the move to the new Parkside office.	Further follow up Feb 2017	
Budget Setting	30th June 2015	Executive Director (Finance and Resources)	Critical Review	Action Plans were agreed and a progress feedback will be sought in line with agreed implementation	Being picked up as part of the 2015/16 review currently taking place.	Follow up undertaken and is awaiting management response.	

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				dates.			
2015-16 Audits							
Members Allowances	2nd October 2015	Head of Legal Equalities and Democratic Services and Democratic Services Manager	Significant	2 'medium' priority recommendations were made in relation to Broadband/Data Allowances and Change control process for Members Data	A follow up was undertaken in June 2016 and found that one recommendation was implemented and one was outstanding relating to member allowances. This will be followed up in 6 months time.	Further follow up Dec 2016	
Safeguarding	4th February 2016	Human Resources Manager	Significant	3 'medium' priority recommendations; training course monitoring, staff vetting and case records.	Follow up took place in September and found both recommendations relating to DBS checks and training are implemented and no further follow up will take place.		
Corporate Governance - AGS	22th February 2016	Financial Services Manager	Moderate	1 'high' priority and 3 'medium' priority recommendations; No action plan, compilation of AGS, review of terminology and circulation of document	A follow up took in September 2016 and found 3 recommendations were in progress these related to the circulation of the AGS, action plan and the responsibility for compilation of the AGS. 1 recommendation was still to be actioned relating to a review of the AGS. A follow up will take place in four months time.	Further follow up Jan 2017	
S106s Planning obligations	08th February 2016	Head of Planning and Regeneration, Financial Services Manager, Principal Solicitor	Critical review	Challenge points and good practice in relation to Committee Reporting, Policies/Procedures, Waste Services Contributions, Project Contribution areas, Central Finance Spreadsheet, Withdrawn Planning Applications, Online Publication and Retention	The follow up in September 2016 found that the service is progressing with the challenges. The follow up confirmed out of the nine challenges made Management have actioned five of them and have/are giving due consideration to the remaining ones relating to the contributions formula being	Further follow up Jan 2017	

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				and Income Management	updated, process to monitor amount of developers per project and uploading of S106 agreements. Further follow up planned in 6 months time.		
CCTV	31th March 2016	Head of Community Services	Critical review	Challenge points and good practice in relation to Training and the CCTV system.	Follow up in September 2016 found two of the challenges have been actioned but there is more progress to be made relating to access rights to CCTV and a new anti-social behaviour policy. A further follow up will take place in April 2017	Further follow up Apr 2017	
Accounts Reconciliations	31th March 2016	Executive Director - Finance and Resources and Financial Services Manager	Critical Review	Challenge points and good practice in relation to Frequency and Training, Procedure Notes, Responsibilities and the Saffron System	A follow up undertaken in October 2016 found that the service have a clear direction of travel in relation to the challenges made however one challenge relating to reconciliation procedure notes still needs to be actioned therefore there will be a further follow up in 3 months time.	Further follow up Jan 2017	
Consultancy and Agency	13th June 2016	Corporate and Senior Management Team	Limited	2 'high' and 3 'medium' priority recommendations in relation to Matrix, Procurement procedures, Post transformation reviews, professional indemnity Insurance and accuracy of invoices received.	Dec-16		
Regulatory	08th June 2016	Head of Regulatory Services	Critical Review	Time recording challenges in relation to Systems Specification, Policies & Guidance, Coding Structure, Fee Earners,	Progress meeting planned for Dec16		

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				Performance Measurement and Database Accuracy.			
2016-17 Audits							
Housing - Statutory Duties	09/11/16	Community Services	Moderate	4 medium priority recommendations were made relating to contractual arrangements with the housing trust, license conditions, inspection visits and File accessibility.	May-17		
Customer Services	28th September 2016	Customer Services	Significant	2 medium priority recommendations were made in relation to training records and health and safety training and the formally documenting the minutes of meetings	Apr-17		
Freedom of Information	24th October 2016	Business Transformation	Significant	One medium and one low priority recommendation was made. The medium recommendation related to training on data protection. A follow up will take place in 6 months time.	Apr-17		
end							

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BROMSGROVE DISTRICT COUNCIL**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**Date: 8th DECEMBER 2016**THE 2017/18 PROVISIONAL INTERNAL AUDIT PLAN REPORT OF THE HEAD OF INTERNAL AUDIT SHARED SERVICE, WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.**

Relevant Portfolio Holder	Councillor Geoff Denaro
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 Provisional Operational Plan for 2017/18
- the key performance indicators for the Worcestershire Internal Audit Shared Service for 2017/18

2. RECOMMENDATIONS

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

3. KEY ISSUES**Financial Implications**

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

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Legal Implications

- 3.2 The Council is required under the Accounts and Audit Regulations 2015 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 2017/18, 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 and the results of an

BROMSGROVE DISTRICT COUNCIL**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE****Date: 8th DECEMBER 2016**

independent risk assessment by Internal Audit using an internal audit universe. Discussions with the s151 Officer and Corporate Management Team(CMT) will be taking place to further refine the plan prior to its approval in March 2017 to ensure the key risks are adequately covered.

By bringing a provisional plan of work before the Audit, Standards and Governance Committee in December 2016 which had been formulated with the aim to ensure Bromsgrove District Council meets its strategic purposes it allows Members to have a positive input into the audit work programme for 2017/18 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 prior to approval, and, as the year progresses in consultation with the s151 Officer. To give an indication as to when the audit work will take place the quarters have been identified, however, these may be subject to review and change as the year progresses.

Resource Allocation

The Internal Audit Plan for 2017/18 has been based upon a resource allocation of 230 chargeable days, a resource allocation which has been agreed with the council's s151 officer. The Head of 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 230 day allocation is based on transactional type system audits and remains the same number of days as being delivered during 2016/17.

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. Although the audit areas will have an allocation of audit days the reviews will continue to be more cross cutting than before and will encompass the different service perspectives that the Services need to deliver (e.g. Customer Services impacts on the majority of service areas so the audit will reflect this). All or part of the budgeted days will be used on a flexible basis depending on the risk exposure the end result being better corporate coverage and ownership of the audit outcomes.

The provisional Internal Audit Plan for 2017/18 is set out at Appendix 1.

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Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2017/18 will be closely monitored by the Head of 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, Standards and Governance Committee on a quarterly basis.

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

Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

4. RISK MANAGEMENT

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 ~ Provisional Internal Audit Plan 2017/18
Appendix 2 ~ Key performance indicators 2017/18

6. BACKGROUND PAPERS

None

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7. **KEY**

N/a

AUTHOR OF REPORT

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APPENDIX 1

PROVISIONAL INTERNAL AUDIT PLAN FOR BROMSGROVE DISTRICT COUNCIL 2017/18

Audit Area	Actual Days 2016/17	Planned Days 2017/18	Difference = + or -	Proposed 1/4 for delivery
Core Financial Systems				
Benefits	15	15	0	Q3
NDR	12	12	0	Q3
Council Tax	12	12	0	Q3
Cash, General Ledger, Budget Control & Bank Reconciliations	10	10	0	Q3
Treasury Management	7	7	0	Q3
Creditors	8	8	0	Q3
Debtors	7	7	0	Q3
Asset Management	0	0	0	
Sub Total	71	71	0	
			0	
Corporate			0	
Risk Management	5	5	0	Q4
Sub Total	5	5	0	
			0	
Other Systems Audits			0	
Human resources	10	0	-10	
Parkside	9	0	-9	
Customer Services	9	0	-9	
Bereavement Services	8	0	-8	
Insurance	5	0	-5	
			0	
Worcestershire Regulatory Services	14	14	0	Q4

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Audit Area	Actual Days 2016/17	Planned Days 2017/18	Difference = + or -	Proposed 1/4 for delivery
Planning & Regeneration		9	9	Q1
Housing	10	11	1	Q1
Community Services		9	9	Q2
Environmental		12	12	Q1
Leisure & Culture		0	0	
Legal Equalities and Democratic		9	9	Q2
ICT	8	8	0	Q4
<i>Examples of potential areas for inclusion:</i>				
<i>Land Charges</i>				
<i>Disabled Facility Grants (DFG's)</i>				
<i>Waste Management</i>				
<i>Elections</i>				
<i>Statutory Compliance (Hsg)</i>				
Sub Total	73	72	-1	
Completion of Prior Year's work	8	8	0	
Statement of Internal Control	3	3	0	
Follow Up on recommendations	10	10	0	
Fraud and Special Investigations	12	12	0	
Advisory / Consultancy / Contingency	12	13	1	
Sub Total	45	46	1	
	194	194	0	
Audit Management Meetings	15	15		
Corporate Meetings / Reading	5	5		
Annual Plans and Reports	8	8		
Audit Committee support	8	8		
	36	36	0	
Overall Total	230	230	0	

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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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APPENDIX 2

Performance against Key Performance Indicators 2017-2018

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2017/18. Other key performance indicators link to overall governance requirements of Bromsgrove District Council e.g. KPI 4. The position will be reported on a cumulative basis throughout the year.

	KPI	Trend/Target requirement	2017/18 Position (as at XXXXXXX)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 13 Delivered = XX	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	XX	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	XX	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	XX	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	XX	When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded (nil)	XX	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	XX	When Audit Committee convene

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

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APRIL – SEPTEMBER FINANCIAL SAVINGS MONITORING REPORT 2016/17

Relevant Portfolio Holder	Councillor Geoff Denaro
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 Committee the monitoring of the savings for 2016/17. This report includes the delivery of savings and additional income for the period April 2016 – September 2016.

2. RECOMMENDATIONS

- 2.1 That the Committee note the final financial position for savings as presented in the report for the period April 2016 – September 2016.

3. KEY ISSUES

- 3.1 This report provides a statement to show the savings for April 2016 – September 2016 for each strategic purpose and the delivery of the saving for the financial year. This report is separate to the main financial monitoring report that is presented to Cabinet and Overview and Scrutiny as it focuses on the delivery of savings rather than the overall financial position of the Council. For 2016/17 this report also presents other savings and additional income that have been generated across 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 this Committee and the statement attached at Appendix 1 details the savings to be achieved and the current financial position of each area.
- 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 April 2016 – September 2016 savings to budgets have been delivered. It is anticipated that all projected savings will be realised in line with original estimates.

3.5 In addition further savings / additional income have been made of £270k which include; planning application and lifeline income, vacant posts and general efficiencies on service costs.

3.6 **Legal Implications**

None as a direct result of this report.

3.7 **Service/Operational Implications**

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

4. **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 2016/17

7. **BACKGROUND PAPERS**

Available from Financial Services

AUTHOR OF REPORT

Name: Jayne Pickering – Executive Director Finance and Resources
Email: j.pickering@bromsgroveandredditch.gov.uk
Tel: (01527) 881400

SAVINGS & ADDITIONAL INCOME - 2016/17-2018/19

Department	Description of saving	2016-17 £'000	Comments
Corporate - Printing	Savings achieved from change in printing contract	-4	Following a full review of all budget requirements a number of expenditure allocations have been reduced. The base budget has been reduced and the savings are being delivered
BDC Reg Client	Savings realised due to efficiencies within the service	-35	Due to the service efficiencies the client cost has reduced with no impact on service delivery. The savings are being achieved
Environmental Services	Additional savings generated from service review	-31	Additional savings generated from moving to a "place" operating model. The savings are being delivered through a reduction in associated staffing costs following the review.
Community services	Various - see spread sheet	-112	Following a full review of all budget requirements a number of expenditure allocations have been reduced. The base budget has been reduced and the savings are being delivered.
Leisure and cultural services	Vacant post Business Dev	-13	vacant post (shared service) business development given up as saving. The base budget has been reduced and the savings are being delivered.
Business Transformation	Policy savings	-2	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Planning and Regeneration	Town centre	-38	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Planning and Regeneration	Strategic Planning	-3	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Planning and Regeneration	Development Control	-10	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Planning and Regeneration	Development Control	-50	Increased income due to increases in planning application income.
Business Transformation	Training budget	-5	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Leisure and cultural services	Sports Development to achieve savings	-10	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Environmental Services	Various savings in supplies & services due to restructure of the service	-12	Following a full review of all budget requirements a number of expenditure allocations have been reduced
Legal, Equalities and Democratic Services	Members allowances	-44	Reduction in Members Basic Allowance due to numbers reducing 39-31
Legal, Equalities and Democratic Services	Democratic salary savings	-15	Vacant posts in Democratic Services offered as savings
Legal, Equalities and Democratic Services	Dem Services	-5	Following a full review of all budget requirements a number of expenditure allocations have been reduced to include releasing vacant hours
Customer Access and Financial Support	Reduction in Rent	-10	Reduction in Rent to Wychavon for Dolphin Centre
Finance & Resources	Reduction in apprentice cost	-2	Reduction in cost of apprentice post in Finance
TOTAL		-401	

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DECISION TO OPT IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS WITH PSAA AS THE 'APPOINTING PERSON'

Relevant Portfolio Holder	Councillor Geoff Denaro.
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering
Wards Affected	All Wards

1. SUMMARY OF PROPOSALS

- 1.1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 1.2 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, it needs to take the decision at this meeting to enable it accept the invitation by early March 2017.

2. RECOMMENDATIONS

- 2.1 **The Audit, Standards and Governance Committee are requested to RECOMMEND that**

The Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1st April 2018.

3. KEY ISSUES

Financial Implications

- 3.1 There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 3.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 3.3 If the national scheme is not used some additional resource will be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state

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what, if any, additional resource may be required for audit fees for 2018/19.

Legal Implications

- 3.4 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31st December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Authority is a local Council operating Cabinet arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of a Cabinet of the Council under those arrangements;
- 3.5 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 3.6 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

Service/Operational Implications

Background

- 3.7 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5th October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.8 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

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- 3.9 In July 2016 PSAA were specified by the Secretary of State as an appointing person under Regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association.
- 3.10 PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 3.11 The principal benefits from such an approach are as follows:-
- a) PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
 - b) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - c) Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - d) It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
 - e) The overall procurement costs would be lower than an individual smaller scale local procurement;
 - f) The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector;
 - g) There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see paragraph 3.16 below;

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- h) The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
 - i) A sustainable market for audit provision in the sector will be easier to ensure for the future.
- 3.12 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. The Council's current external audit fees are £58K per annum.
- 3.13 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.
- 3.14 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.15 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, as described immediately below, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

Other Options

- 3.16 If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or Officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

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- 3.17 Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 3.18 Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

The invitation

- 3.19 PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided in an Appendix to this Report
- 3.20 In summary the national opt-in scheme provides the following:-
- a) The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
 - b) Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - c) Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
 - d) Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
 - e) Minimising the scheme management costs and returning any surpluses to scheme members;
 - f) Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
 - g) Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
 - h) Ongoing contract and performance management of the contracts once these have been let.

AUDIT, STANDARDS & GOVERNANCE COMMITTEE

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The way forward

- 3.21 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.
- 3.22 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

Customer / Equalities and Diversity Implications

- 3.23 There are no equalities or diversity implications arising from this report.

4. RISK MANAGEMENT

The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

5. APPENDICES

Appendix 1 – Invitation letter and background information from Public Sector Audit Appointments

6. BACKGROUND PAPERS

None

7. KEY

LGA – Local Government Association
PSAA – Public Sector Audit Appointments
NAO – National Audit Office

AUTHOR OF REPORT

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27 October 2016

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Bromsgrove Worcestershire B60 1AA

Copied to: Jayne Pickering, Executive Director (Finance And Corporate Resources) [and Section 151 Officer], Bromsgrove District Council
Claire Felton, Head of Legal, Bromsgrove District Council

Dear Mr Dicks

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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WORK PROGRAMME 2016/17

8th December 2016

- Monitoring Officers' Report
- Grant Thornton Annual Audit Letter
- Grant Thornton Progress Report / Action Plan Update
- Quarter 2 (June to September 2016) Financial Savings Update
- Internal Audit Monitoring Report
- Draft Internal Audit Plan 2015/2016 – (to include Internal Audit 3 year plan)
- Risk Management Champion Verbal Update
- Audit, Standards & Governance Work Programme 2016/2017

30th March 2017

- Annual Review of Operation of the Audit, Standards & Governance Committee
- Monitoring Officer's Report
- Grant Thornton Certification Work Report 2015/2016
- Grant Thornton Audit Plan March 2017
- Grant Thornton Progress Report
- Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20
- Quarter 3 (September to December 2016) Financial Savings Update
- Internal Audit Monitoring Report
- Internal Audit Plan 2016/2017
- Benefits Investigations Monitoring Update Report
- Audit, Standards & Governance Work Programme 2016/2017
- Breakdown of Section 106 Monies

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