



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

MONDAY, 25TH JUNE 2007, AT 6.00 PM

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors S. R. Colella, Mrs. H. J. Jones, D. McGrath,
C. R. Scurrrell, Mrs. C. J. Spencer, E. C. Tibby and C. J. K. Wilson

AGENDA

1. Election of Chairman and Vice-Chairman of the Board for the ensuing municipal year
2. To receive apologies for absence
3. Declarations of Interest
4. To confirm the Minutes of the last Meeting (Pages 1 - 4)
5. Internal Audit Process (including CIPFA Audit Committee Guidance) (Pages 5 - 64)
6. Use of Resources (Report to follow)
7. Statement on Internal Control (Pages 65 - 136)
8. Annual Audit and Inspection Letter (Pages 137 - 150)
9. CIPFA Audit Code Self-Assessment and 2007-2010 Internal Audit Strategy (Pages 151 - 178)
10. 2006/2007 Audit Opinion on the Council's Control Environment (Pages 179 - 198)

11. Local Code of Corporate Governance (including the 2006/2007 Statement of Assurance) (Pages 199 - 220)

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

19th June 2007

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

MONDAY, 19TH FEBRUARY 2007

PRESENT: Councillors Mrs. S. J. Baxter (Chairman), C. B. Lanham (Vice-Chairman), A. J. Dent, J. T. Duddy, G. H. R. Hulett and N. Psirides JP

Observers Councillors Mrs. R. L. Dent and Mrs. M. M. T. Taylor

Officers Mr. K. Dicks, Mrs. C. L. Felton, Miss J. Pickering, Mr. N. Shovell and Mr. A. C. Stephens

Mr. J. Gorrie and Mr. N. Rafiq (KPMG LLP)

28/06 **APOLOGIES**

An apology for absence was received from Councillor A. N. Blagg.

29/06 **DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS**

No interests or whipping arrangements were declared.

30/06 **MINUTES**

The Minutes of the meeting of the Audit Board held on 21st November 2006 were submitted.

Having not been in attendance at the previous meeting, Mr. Shovell responded to the questions raised in Minute Nos. 25/06 and 26/06 -

- (i) in relation to the question of the £111 million worth of fraud and overpayments identified by the National Fraud Initiative, it was reported that the most recent figures submitted to the Audit Commission in January 2006 showed that £8,300 related to the Bromsgrove District;
- (ii) of the eleven Audit Quality Questionnaires issued, ten completed forms had been received in response; and
- (iii) as to the definition of 'key committees', CIPFA guidance states that this would include the Executive and Scrutiny functions.

RESOLVED: that the Minutes be approved as a correct record and signed by the Chairman.

31/06 **ANNUAL EXTERNAL AUDIT REPORT 2005/2006**

The Chairman welcomed Mr. J. Gorrie, a Director of KPMG LLP (UK), the Council's appointed Auditor, together with Mr. N. Rafiq, Assistant Manager at KPMG LLP (UK).

Mr. Gorrie and Mr. Rafiq formally presented their report which summarised the work undertaken by KPMG throughout the year. The Audit of Data Quality was described in further detail as this was a new area for review, introduced by the Audit Commission. Mr. Rafiq outlined the three stage process which had been carried out and explained the findings of the review. Members then gave consideration to the Annual External Audit Report 2005/2006 document.

RESOLVED:

- (i) that the Annual External Audit Report for 2005/2006 be noted and accepted;
- (ii) that the management response recommendations to the External Audit Report for 2005/2006 be endorsed; and
- (iii) that the thanks of the Board be expressed to the Auditors for the valuable and beneficial working relationship during the last few years.

32/06 **COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)**

A report setting out the Council's Comprehensive Performance Assessment self assessment was submitted.

RESOLVED: that the self assessment, including the contextual information, the summary paragraph at the start of each key line of enquiry and the conclusions, as set out in Appendix 1 to the report, be noted and taken into account when considering the future work programme of the Board.

33/06 **2007/2008 AUDIT PLAN**

Members gave consideration to the Council's Internal Audit Plan for 2007/2008.

RESOLVED:

- (i) that the Internal Audit Plan for 2007/2008, as detailed in the report, be noted and approved; and
- (ii) that brief details of the new process relating to the employment of Agency and Casual Staff, referred to on page 61 of the report, be forwarded to Members of the Board.

34/06 **AUDIT PERFORMANCE AND WORKLOAD**

The Internal Audit Performance and Workload information was submitted for consideration by Members, which detailed the current workload and performance of the Internal Audit Section.

RESOLVED: that the contents of the report be noted and approved.

35/06 RECOMMENDATION TRACKER PROCESS

A report setting out the new process for monitoring implementation of 'priority one' recommendations in audit reports was submitted.

RESOLVED:

- (i) that the new processes which had been adopted for monitoring the implementation of 'priority one' recommendations be noted and approved; and
- (ii) that 'priority one' recommendations, together with those which are more than one month overdue (or colour-coded as 'red'), be reported to meetings of the Board.

36/06 AUDIT BOARD SELF-ASSESSMENT AND TERMS OF REFERENCE

Members gave consideration to both the updated Self Assessment document relating to the Board, and the updated Terms of Reference for the Board.

RESOLVED:

- (i) that cross membership by Members of the Board with other scrutiny functions carried out by the Council be considered acceptable for the time being, but that this question be reviewed following further Member Development training in the near future;
- (ii) that the action taken following the completion of the CIPFA Self-Assessment document, referred to in Minutes No. 26/06 of the meeting of the Board held on 21st November 2006, be noted and approved; and
- (iii) that the updated Terms of Reference be noted and approved.

37/06 AUDIT BOARD WORK PROGRAMME

A report detailing to both the Board's work programme and the Internal Audit Performance Indicators was submitted.

RESOLVED:

- (i) that the Corporate/Strategic Risk Register be added to the Scrutiny Steering Board Work Programme for analysis/inspection during the third quarter of the next municipal year; and
- (ii) that the report be noted and approved.

38/06 RISK MANAGEMENT STRATEGY AND PROCESS

Members gave consideration to a report, which was to be submitted to the Executive Cabinet's meeting on 7th March 2007, relating to the Council's revised Risk Management Strategy.

RESOLVED:

- (i) that, in relation to the Audit Board risk management roles and responsibilities, as detailed in the table on page 5 of the Risk Management Strategy document (*or page 107 of the combined report documentation*), the Executive Cabinet be informed that the Board

considered the first bullet point should to be amended to read as follows:-

- Scrutinising the Council's decisions to ensure that they meet the requirements of effective risk management and, in order for this to be achieved, to have oversight of the strategic risk register.
- (ii) that updates to the strategic risk register be reported to the Board at each meeting; and
- (iii) that, in all other respects, the report be noted and that the Executive Cabinet be recommended to approve the revised Risk Management Strategy.

39/06 **CONFIDENTIAL REPORTING CODE**

Members gave consideration to a report, which was to be submitted to the Executive Cabinet's meeting on 7th March 2007, relating to the Council's revised Confidential Reporting Code.

RESOLVED:

- (i) that the Head of Legal and Democratic Services be authorised to make any amendments deemed necessary to the Confidential Reporting Code following consultation with employees' representative organisations; and
- (ii) that, in all other respects, the report be noted and that the Executive Cabinet be recommended to approve the revised Confidential Reporting Code.

The meeting closed at 7.20 pm

Chairman

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th JUNE 2007

INTERNAL AUDIT PROCESS AND AUDIT BOARD GUIDANCE

Responsible Portfolio Holder	Councillor G. N. Denaro
Responsible Head of Service	Head of Financial Services

1. Summary

- 1.1 To present a summary of the internal audit process.
- 1.2 To present the CIPFA Audit Committees: Practical Guide for Local Authorities document.

2. Recommendation

- 2.1 The Audit Board is recommended to note the internal audit process.
- 2.2 The Audit Board is recommended to note the guidance detailed in the CIPFA Audit Committees: Practical Guide for Local Authorities.

3. Background

- 3.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".
- 3.2 The annual Use of Resources assessment requires the Council to ensure that:
 - A specific member group (such as an audit sub-committee or audit panel) has audit and governance issues as the principal responsibility in its terms of reference.
 - The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment.

The Council's Audit Board currently fulfils this requirement.

4. Internal Audit Definition

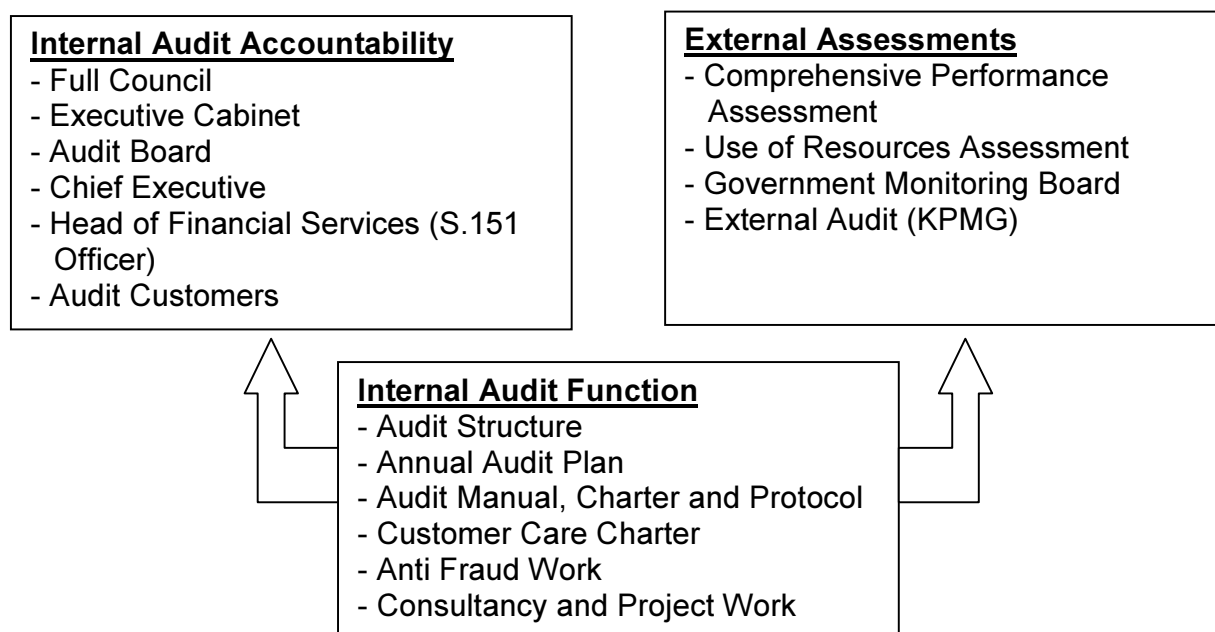
4.1 The Institute of Internal Auditors defines the internal audit process as "An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

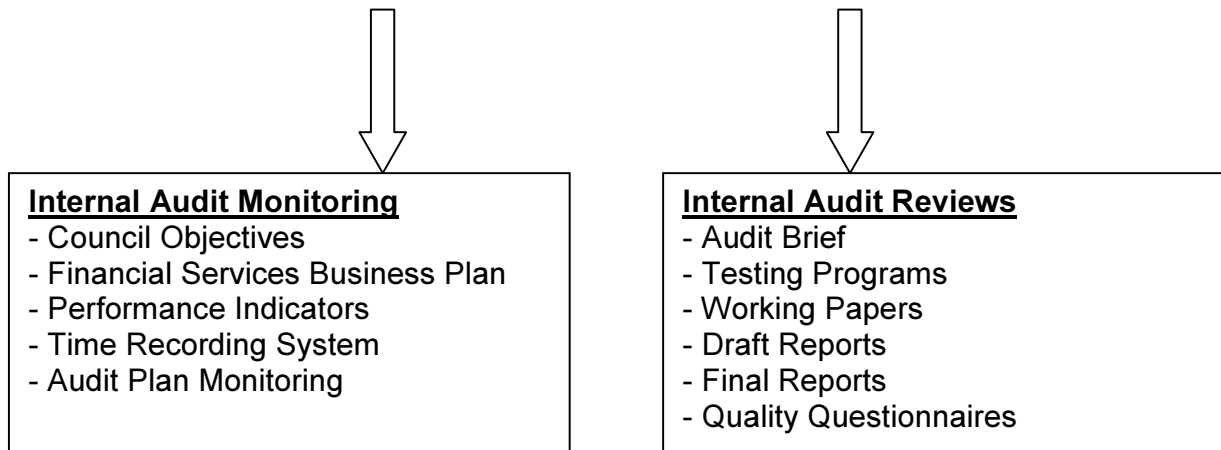
The key points from this definition are:

- Independence - Internal Audit should be independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.
- Objective - An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.
- Assurance - An examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes for the organisation.
- Consulting - Consulting services generally involve two parties, the person or group offering the advice (i.e. the internal auditor) and the person or group seeking and receiving the advice.
- Add Value - Value is provided by improving opportunities to achieve organisational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

5. Internal Audit Process

5.1 A number of different areas feed into the internal audit process. The diagram below summarises the main areas.





5.2 Each area detailed above has a key role to play in the internal audit process and system of internal control in operation within the Council.

- Internal Audit Accountability:
 - Full Council - minutes and any recommendations made to the Executive Cabinet are reported to Full Council.
 - Executive Cabinet - minutes and any recommendations made to the Audit Board are reported to the Executive Cabinet.
 - Audit Board - Internal Audit work, performance and any key issues highlighted during the internal audit process are reported to the Audit Board.
 - Chief Executive - internal control weaknesses and any other necessary details are reported to the Chief Executive.
 - Head of Financial Services (S.151 Officer) - operational Internal Audit issues and performance are reported to the Head of Financial Services.
 - Audit Customers - a quality audit service is provided to all customers, as detailed in the Audit Charter and Customer Care Charter.

- External Assessments:
 - Comprehensive Performance Assessment (CPA) - the work completed by Internal Audit assists the Council as part of the CPA process.
 - Use of Resources Assessment - the Use of Resources assessment focuses on financial management but links to the strategic management of the Authority. Internal Audit plays a key role in delivering individual requirements within the Use of Resources assessment.
 - Government Monitoring Board - the Internal Audit section assists in implementing and monitoring actions requested by the Government Monitoring Board.
 - External Audit (KPMG) - the Internal Audit section completes eleven key financial system audits (i.e. Benefits, Budgetary Control, Debtors, etc.) in order to satisfy external audit requirements. The work of Internal Audit is reviewed annually by external audit.

- Internal Audit Function:
 - Audit Structure - the Internal Audit section consists of four members of staff, with a good mixture of qualifications and experience.
 - Annual Audit Plan - the Internal Audit section maintains a three year rolling Strategic Audit Plan and also produces an Annual Audit Plan of work. The plans are collated by risk assessing the Council activities and reviews are based on the high risk areas.
 - Audit Manual, Charter and Protocol - the documents that guide each aspect of the Internal Audit section, how it operates, how individual Auditors should behave and the sections commitment to providing a quality service.
 - Customer Care Charter - details how the section consults and communicates with our customers.
 - Anti Fraud Work - the section plays a proactive role in reducing fraud and embedding an anti fraud culture by undertaking investigations, issuing marketing documentation and producing standard strategies and procedures.
 - Consultancy and Project Work - the section contributes to Council projects as and when required.

- Internal Audit Monitoring:
 - Council Objectives - the work of the Internal Audit section aids the Council to achieve its objectives, specifically "Objective 2: Improvement".
 - Financial Services Business Plan - the overall performance and key deliverables of the Internal Audit section are detailed in the annual Financial Service Business Plan.
 - Performance Indicators - the Internal Audit section has adopted thirteen local Performance Indicators, which are monitored and reported monthly to the Head of Financial Services. Performance updates are issued to the Audit Board at each meeting.
 - Time Recording System - each Auditor submits a weekly timesheet detailing the work completed that week. This ensures the work of the section can be accurately monitored.
 - Audit Plan Monitoring - using the weekly timesheets, delivery of each assignment and ultimately the Annual Audit Plan can be monitored and necessary action taken.

- Internal Audit Reviews:
 - Audit Brief - before each audit review, the objectives and scope is agreed by the Service Manager. Both the Auditor and Service Manager sign up to the agreement.
 - Testing Programs - each audit review has a detailed testing program for the Auditor to follow. Testing areas are agreed with the Service Manager in advance.
 - Working Papers - each audit review has standard working papers for the Auditor to use, to ensure consistency.
 - Draft Reports - once the audit testing has been completed, any findings and subsequent recommendations are discussed with the

- Service Manager. These are included in a draft report, issued to the Service Manager for comments.
- Final Reports - once the draft report has been agreed, a final report is sent to the Service Manager, Head of Service, Corporate Director and Chief Executive.
 - Quality Questionnaires - following completion of the audit review a quality questionnaire is issued to the Service Manager. This enables them to detail what they liked or disliked about the audit process.

6. Internal Audit Performance Indicators

6.1 The Internal Audit section has adopted thirteen local Performance Indicators. The indicators enable the service to be monitored, to ensure it is fulfilling its responsibilities, and enables any improvements or training needs to be identified. The Performance Indicators that have been adopted are:

- Delivery of Audit Plan (Jobs Finished).
- Delivery of Audit Plan (Resources).
- Productive audit time.
- Assignments completed within budget.
- Response time to fraud/allegations.
- Pre-audit meetings held for each audit.
- Post audit meetings held for each audit.
- Draft report turnaround.
- Final report turnaround.
- Number of recommendations accepted.
- Post Audit Questionnaires returned.
- Customer feedback rating.
- Attendance.

7. CIPFA Audit Committee Guidance

7.1 During 2005 CIPFA issued the Audit Committees: Practical Guide for Local Authorities document. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They also enhance public trust and confidence in the financial governance of an authority.

The Comprehensive Performance Assessment sets a challenge to Local Authorities to ensure that their audit committees work effectively.

The guidance has been written to help those authorities that have an Audit Committee in place to assess whether they are as effective as they need to be to contribute to good governance.

The guidance covers the following main subjects:

- Purpose of an Audit Committee.
- An Audit Committee's core functions.
- Features of an Audit Committee.
- An Audit Committee's structure and administration.
- Audit Committee Terms of Reference.

A full copy of the document is attached in Appendix A.

8. Financial Implications

8.1 None outside existing budgets.

9. Legal Implications

9.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

10. Corporate Objectives

10.1 Council Objective 02: Improvement.

11. Risk Management

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

- Non-compliance with Internal Audit standards and regulations for Local Government.
- Ineffective Internal Audit service.
- Internal Audit service not contributing to the Council's improvement agenda.
- Ineffective Audit Board.

11.2 These risks are being managed as follows:

- Non-compliance with Internal Audit standards and regulations for Local Government.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Internal Audit service not contributing to the Council's improvement agenda.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Audit Board.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

12. Customer Implications

12.1 No customer implications.

13. Other Implications

13.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	None
Community Safety including Section 17 of the Crime and Disorder Act 1998	None
Policy	None
Environmental	None
Equalities and Diversity	None

14. Others Consulted on the Report

14.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes

Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

15. Appendices

15.1 Appendix A: Audit Committees: Practical Guide for Local Authorities.

Background Papers

Audit Board agenda and reports - 19th February 2007.

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AUDIT COMMITTEES PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES

AT THE HEART OF
PUBLIC SERVICES



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FOREWORD

It is with pleasure that we introduce this guidance. It is very timely, as the issue of audit committees is relevant for all those concerned with good governance in local government. We hope that this guidance will help to inform the debate about what constitutes a robust and effective audit committee.

Audit committees are an essential element of good governance. They are mandatory in most sectors but local government is the exception.

CIPFA has consulted widely on its *Position Statement on Audit Committees in Local Government* and the largely positive response gives a strong indication of the level of interest that exists and the considered thinking that has taken place.

This guidance is based on that Position Statement and seeks to expand it into a practical guide that will allow authorities to develop committees to suit their needs whilst adhering to fundamental principles.

We commend this guidance to all authorities that are embarking on setting up an audit committee or are reviewing their arrangements, as a sound, practical tool for developing effective audit committees.



Caroline Mawhood
Chair, CIPFA's Public Finance and Management Board



Richard King
Chair, CIPFA's Audit Panel

ACKNOWLEDGEMENTS

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Contents

EXECUTIVE SUMMARY	1
Chapter 1 INTRODUCTION AND PRINCIPLES	5
THE POSITION STATEMENT	5
Chapter 2 PURPOSE	9
Chapter 3 CORE FUNCTIONS	13
INTERNAL AUDIT	14
EXTERNAL AUDIT AND INSPECTIONS	14
CONTROL STRATEGIES	15
FINANCIAL STATEMENTS	16
Chapter 4 FEATURES	19
Chapter 5 STRUCTURE AND ADMINISTRATION	21
STRUCTURE	21
INDEPENDENCE	22
MEETINGS	22
COMPOSITION	23
SKILLS AND EXPERIENCE	24
TRAINING	25
ADMINISTRATION	26
Appendix 1: Suggested Audit Committee Terms of Reference	27
Appendix 2: Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee	29
Appendix 3: Position Statement on Audit Committees in Local Government	33
Bibliography	37

EXECUTIVE SUMMARY

Although audit committees have been a feature of the public sector for some time, there has been a lack of clarity about how they should operate in local government. Audit committees are not just the concern of auditors; they are about the governance, financial reporting and performance of the whole authority. Yet the fact that local government is not required to establish them is unique in the public sector – less than half of all local authorities have audit committees.

Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an audit committee, independent from the executive and scrutiny functions.

Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. And they enhance public trust and confidence in the financial governance of an authority.

Now Comprehensive Performance Assessment sets a challenge to local authorities (in England) to ensure that their audit committees work effectively.

This guidance has been written to help those authorities that do not already have an audit committee to implement one effectively, and to help those authorities that have audit committee arrangements in place to assess whether they are as effective as they need to be to contribute to good governance.

CIPFA seeks to address the key issues in a discursive manner, without being prescriptive, as the variety of types, styles and sizes of local authorities mitigates against a single model for all.

This guidance, therefore, seeks to consider the key issues for all authorities to help them address the principles.

CIPFA stresses that audit committees have a key role in corporate governance. They should, therefore, be clearly integrated into an authority's governance framework.

This guidance explores the main purposes of an audit committee and concludes that these include giving independent assurance to members and the public, scrutinising financial management and reporting, and providing challenge across the council.

In addition to internal and external audit, the functions overseen by the committee should include a number of control strategies such as risk management, the authority's governance and assurance statements, and anti-fraud and anti-corruption arrangements.

This guidance identifies a range of benefits to an authority from the operation of an effective committee. These include increasing public confidence, highlighting the independence of audit, and raising awareness of the importance of internal controls. Consultees have assisted in highlighting a range of characteristics and success factors that help to identify when a committee is effective.

CIPFA believes that the audit committee must be independent of the executive and scrutiny functions and that it must have a clear right of access to full council, other council groups and committees. The number of members and the frequency of meetings are not prescribed, but this publication gives guidance to allow authorities to determine their own approach.

This guidance stresses the importance of the audit committee's relationship with the authority's chief finance officer. The audit committee helps the officer to discharge his or her statutory functions. In turn, this officer is a key source of expert advice and guidance for the audit committee.

Audit committees exist in a number of councils, although not necessarily in name. What is important is the operation of the function of an *effective* audit committee. Status and independence are important, but being effective also means having well informed people able to confirm to the

council that the right processes are in place to give confidence that the authority's financial stewardship and overall governance arrangements can be relied upon.

Everyone charged with the responsibility for governance in their authority will want to familiarise themselves with the issues covered by this guidance to enable their audit committees to work effectively.

Chapter 1

INTRODUCTION AND PRINCIPLES

The role of those responsible for corporate governance and financial reporting processes continues to be open to scrutiny by regulators, legislators and the general public. Audit committees are increasingly viewed as a critical component in the overall corporate governance process.

CIPFA, recognising this growing importance, has developed a set of principles for audit committees in local government. These were partly drawn from CIPFA's *Audit Committee Principles in Local Authorities in Scotland: A Guidance Note*, but also reflect the views and contributions of Audit Panel members.

These principles were encapsulated in the *Position Statement on Audit Committees in Local Government* (attached at Appendix 3), which has been exposed to widespread consultation. That consultation indicated broad acceptance of the principles as a sound basis for the creation and management of effective audit committees.

This guidance draws on practical experience across the public sector. It also expands on the elements of the Position Statement, both to look at the principles in more depth and to reflect the diversity of local government arrangements, which came through during the consultation process.

THE POSITION STATEMENT

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities. It also recognises that audit committees are a key component of corporate governance and that they are an important source of assurance about the organisation's

arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

The way in which an audit committee is organised will vary depending upon the specific political and management arrangements in place in any local authority. This guidance therefore explores how audit committees relate to local authorities' different arrangements for managing and governing themselves.

The Local Government Act 2000 introduced new ways of governing local authorities. All councils were required to have an executive and one or more scrutiny committees. The executive could be:

- a directly elected mayor with a cabinet
or
- a cabinet with a leader
or
- a directly elected mayor and council manager.

The role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals.

Whichever form of executive and scrutiny model chosen, the audit committee needs to be separate, organisationally and practically, from both these functions.

Although legislation does not require audit committees, a council is required "to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions".¹ Further, section 151 of the Local Government Act 1972 requires the council to "make arrangements for the proper administration of its financial affairs".

The chief finance officer is key to discharging these requirements. To be truly effective, the chief finance officer requires an effective audit committee to provide support and challenge, as well, of course, as adequate and effective internal audit. Both these elements are enshrined

1 *Accounts and Audit Regulations 2003 (ODPM, 2003) and Accounts and Audit (Wales) Regulations 2005 (Welsh Assembly Government, 2005).*

in CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom 2003*.

Although CIPFA does not wish to prescribe any particular model, it believes that there are features that should be common to all. These key features form the framework for this guidance:

- 1 A Statement of Purpose
- 2 Core Functions
- 3 Features
- 4 Structure and Administration.

Chapter 2

PURPOSE

Extract from the Position Statement:

1. A Statement of Purpose

The local authority should formally approve a Statement of Purpose, along the following lines:

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

In some authorities, audit committees have evolved, from ad hoc committees with few defined responsibilities to crucial committees with growing responsibilities, accountable to the full council. But this development is not reflected across local government as a whole.

There are many benefits to be gained from operating an effective audit committee. It:

- raises greater awareness of the need for internal control and the implementation of audit recommendations
- increases public confidence in the objectivity and fairness of financial and other reporting
- reinforces the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Statement on Internal Control)

- provides additional assurance through a process of independent and objective review.²

“The committee is beneficial as it provides authority and backing for the audit function and emphasises to management the need to comply with the audit process.”

Head of audit, a housing association

Audit committees are not just the concern of auditors; they are relevant to the governance, financial reporting and financial performance of the whole authority.

“Audit committees are about governance and not just audit.”

Director of resources and deputy chief executive, a Welsh county council

They are central to the provision of effective corporate governance, which depends, in part, on a systematic strategy, a framework and processes for managing risk.³ Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. This, in turn, depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been properly dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance, specifically:

- **independent assurance** of the adequacy of the risk management framework and the associated control environment within the authority
- **independent review** of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment

² *Source: Improving the Effectiveness of Audit Committees: A Good Practice Guide (Housing Corporation, 2004).*

³ *Corporate Governance in Local Government – A Keystone for Community Governance: Framework (CIPFA/SOLACE, 2001). See dimension 4 – risk management and internal control.*

- **assurance** that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with and that appropriate accounting policies have been applied.

The scope of an audit committee should be sufficient to provide challenge across all committees of the council, as well as the executive.

"It is important to recognise the uniqueness of the democratic element of local government and the statutory arrangements for scrutiny. What is important is that there is a committee separate from the executive."

Society of District Council Treasurers

An issue to be recognised and resolved is that the committee, through the exercise of its powers – particularly in relation to the annual accounts timetable – may become an obstacle to timely activity and thus delay important publications. This can be avoided through careful consideration of the timetable for the committee. The audit committee should not be involved in producing the accounts. But it should have sufficient time to appraise the process, give assurance that proper practices and policies have been followed, and commend the accounts to the authority.⁴

⁴ *Although it remains the responsibility of the chief finance officer to certify that the annual statement of accounts presents fairly the financial position and transactions of the authority.*

Chapter 3

CORE FUNCTIONS

Extract from the Position Statement:

2. Core Functions

Audit committees will:

- *Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.*
- *Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.*
- *Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.*
- *Approve (but not direct) internal audit's strategy, plan and monitor performance.*
- *Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.*
- *Receive the annual report of the head of internal audit.*
- *Consider the reports of external audit and inspection agencies.*
- *Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.*
- *Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.*

An audit committee should be able to improve corporate focus on the issues arising from risk management, internal control and reporting. It may be difficult for officers and members to identify what needs to be done to improve, or to act on significant issues arising from audit work or the review of the Statement on Internal Control, unless there is a forum for reviewing such issues and tracking action on what needs to be done.

INTERNAL AUDIT

The audit committee will have a clear role in relation to the authority's internal audit function. This should involve:

- formally approving (but not directing) the overall strategy to ensure that it meets the council's overall strategic direction
- approving the annual programme of audits (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.⁵

The audit committee's role in relation to reviewing the work carried out will include formal consideration of summaries of work done, key findings, issues of concern and action in hand as a result of audit work. The committee will wish to judge the effectiveness of internal audit by receiving feedback on the work carried out.

A key part of the role is receiving and reviewing the annual report from the head of internal audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. It is important to emphasise that the head of internal audit provides independent assurance to the audit committee, and by doing so, helps support the chief finance officer's legal responsibilities.

The head of internal audit should be able to meet privately with the committee.

EXTERNAL AUDIT AND INSPECTIONS

The audit committee's role will include receiving and considering the work of the external auditor.

⁵ *Including a view on whether internal audit meets the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.*

The programme of audits will follow a nationally agreed path to some extent but, where local flavour from the auditor's risk assessment can be added, the committee should be given the chance to comment on the inclusion of any audit work and should receive reports following the completion of such work in order to monitor action to be taken.

The audit committee should contribute to the council's response to the Audit Commission's annual audit and inspection letter, reports and opinion. It should also consider and express an opinion on the selection and rotation of the external auditor.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and to compare with any relevant internal audit and external audit reports. Inspection reports will need to be actioned either by the council's corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry to the authority.

The committee should also ensure that it is aware of the work of scrutiny and other committees so that it can take account of issues relevant to its areas of interest.

The audit committee's role extends also to ensuring that there is effective working between all audit and inspection functions to maximise the value of the review function to the authority.

CONTROL STRATEGIES

The council will have a number of strategies in place to regulate its activities and control the actions of its employees, elected members and contractors. The audit committee should take a view on whether these

strategies have been properly formulated, and remain effective. Regular reports to the committee on action taken and annual statements of the continued appropriateness of the strategies will be necessary if the audit committee is to perform this role.

The strategies to be overseen by the audit committee will include:

- risk management
- the assurance framework, including the production of the Statement on Internal Control (SIC)
- local codes of corporate governance, standards and behaviour
- arrangements for delivering value for money
- anti-fraud arrangements
- anti-corruption arrangements including the authority's whistle-blowing guidelines.

By reviewing these strategies, the audit committee will be in a position to monitor the action recommended by auditors and inspectors and agreed and implemented by officers to improve the situation. It will also be able to monitor changes to the risk environment and guide any associated actions.

“Audit committees provide independent assurance to the authority on the adequacy of the internal control environment, risk management framework and financial reporting systems.”

Director of Audit Policy and Appointments, the Audit Commission

FINANCIAL STATEMENTS

The audit committee should review the financial statements, for example, before they are approved under regulation 10 of the Accounts and Audit Regulations 2003, and again, in conjunction with the external auditor's SAS 610 (ISA 260) report to those charged with governance, following completion of the audit. The committee's review of the financial statements should focus on:

- the suitability of accounting policies and treatments

- any changes in accounting policies and treatments
- major judgemental areas, eg provisions
- significant adjustments and material weaknesses in internal control reported by the external auditor.

Suggested terms of reference are at Appendix 1.

Chapter 4

FEATURES

Extract from the Position Statement:

3. Features

Good audit committees will be characterised by:

- *A strong chair – displaying a depth of skills and interest.*
- *Unbiased attitudes – treating auditors, the executive and management equally.*
- *The ability to challenge the executive (leader/chief executive/mayor or whatever combination) when required.*
- *A membership that is balanced, objective, independent of mind, and knowledgeable.*

In order to be effective, an audit committee needs a chair and membership that has knowledge, experience and interest in the field. The committee will also benefit from members with financial awareness, independence of thinking and a balanced approach to significant issues. And members must recognise and understand the value of the audit function.

The audit committee needs to be recognised as an important body in the council's structure to allow it to provide the essential challenge to the executive when needed. Best practice from the private sector and other parts of the public sector is for an audit committee to report directly to the board, ie council, therefore making it independent from the executive and scrutiny functions. This provides status, independence and clarity to the role.

The support and interest of the chief executive and leader of the council is therefore essential.

“The active support of the chief executive in relating to the committee members is seen as an important factor in the success of the arrangements, as is the generally supportive stance of the members.”

Head of audit, a small district council

Other features of an effective audit committee include:

- meetings are characterised by free and open discussions by all members without political influences being displayed
- decisions are reached, promptly, on all matters put before the committee
- financial understanding is displayed by one or more of the members when considering issues
- agenda papers are circulated far enough in advance of meetings to allow adequate preparation by members
- the committee displays a role in monitoring and, where necessary, chasing managers for responses to audit recommendations.

Chapter 5

STRUCTURE AND ADMINISTRATION

Extract from the Position Statement:

4. Structure and Administration

Although no single model of audit committee is prescribed, all should:

- *Be independent of the executive and scrutiny functions.*
- *Have clear reporting lines and rights of access to other committees/ functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.*
- *Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.*
- *Meet privately and separately with the external auditor and head of internal audit.*
- *Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.*
- *Be properly trained to fulfil their role.*

STRUCTURE

Some authorities discharge the functions of an audit committee by other means, perhaps through other committees, or as part of the scrutiny, overview or standards committees. Such arrangements may appear to work well in practice, but there is always the danger either that audit committee functions become diluted by the pressure of other business, or that the proper functions of these other bodies become less clear. Having

a group of members bearing the name 'audit committee' will add weight when considering audit and related issues.

In general, non-executive councillors are less clear about their roles than executive councillors. In particular, they struggle with their role in scrutiny functions. Scrutiny and audit functions are quite different and combining them could lead to confusion in the minds of members, officers and the public.

INDEPENDENCE

To be effective the audit committee needs to be independent from executive and scrutiny. The link with the scrutiny function can be beneficial but the ultimate power of the audit committee could be compromised by too much cross-membership. The audit committee needs to retain the ability to challenge the executive on issues and to report to it on major issues and contraventions. Therefore cross-membership should not be the norm, and if it is seen as necessary should be restricted to one member from each.

The audit committee chair should not be, expressly, a member of the executive. A non-executive chair is important in order to promote the objectivity of the audit committee and to enhance its standing in the eyes of the public.

Whilst a separate voice is vital, a clear right of access to other committees of the council and strategic functions is also important if such independence is to lead to any beneficial action.

MEETINGS

The frequency and timing of meetings is a matter for each authority to determine, based on its own committee timetable and needs. However, from general practice, at least four meetings per year appear to be appropriate. One meeting annually will be taken up with setting the programme, agreeing audit plans and generally preparing for the year ahead, leaving three meetings which are available for monitoring purposes and to fit in with the cycle of assurance statements and financial reporting. For example, some authorities' audit committees may wish to meet before

approval of the accounts, to review both the financial statements and the draft SIC, and after completion of the audit to review the auditor's report to those charged with governance.

COMPOSITION

The size of the audit committee is relevant although not crucial. Too small a number of members and political balance may be difficult to achieve; too large and meetings may become unwieldy. HM Treasury guidance⁶ recommends between three and five members for an audit committee. It is also important that the committee set a quorum, to enhance the credence and standing of the decisions that it makes.

Some authorities adhere to the political balance rules as contained in s15 of the Local Government and Housing Act 1989, when bringing their committee together. Any audit committee, which is a properly constituted committee of the council, will need to abide by the rules concerning political balance.

Co-option may well be beneficial. Often, the injection of an external view, for specific discussion, can be seen as bringing a new approach and flavour to committee discussions. Many authorities have made provision to co-opt a member but have not bestowed voting rights on that member. This allows flexibility in co-option and retains the decision-making function for the permanent members of the audit committee. An equivalent model is the standards committee.⁷

6 *The Audit Committee Handbook (HM Treasury, 2003).*

7 *Under the Local Government Act 2000, a standards committee of a relevant authority in England or a police authority in Wales must include:*

- *at least two members of the authority, and*
- *at least one person who is not a member or an officer, of that or any other relevant authority.*

A standards committee:

- *may not include the elected mayor or executive leader, and*
- *may not be chaired by a member of the executive.*

“Having observed how effectively an experienced practitioner has participated as an independent member of an audit committee, I would urge all authorities to consider this issue carefully.”

A CIPFA Audit Panel member

SKILLS AND EXPERIENCE

To be effective, the members of the audit committee will require certain skills and will benefit from having gained experience in some of the key areas to be considered by the committee.

Whilst financial awareness is essential, particularly for the chair, an accounting background or qualification is less important than a broad understanding of the financial, risk and control, and corporate governance issues facing local authorities generally and the council specifically. An ability to question, probe and seek clarification about complex issues is also essential.

A survey of 24 housing associations⁸ carried out in 2004 identified areas that all audit committee members should be familiar with:

1. governance – understanding of the requirements of legislation and of local arrangements
2. risk management – recognising the requirements of CPA in English authorities
3. internal control assurance
4. the organisation’s core activities
5. accounting issues
6. regulation and compliance.

⁸ *Improving the Effectiveness of Audit Committees: A Good Practice Guide (Housing Corporation, 2004).*

TRAINING

Identifying sufficient members with appropriate skills and experience will be difficult, especially as many such members could already be serving on other committees and thus may not be eligible for membership.

Appropriate and timely training for members will help to overcome this problem and build upon the key attributes of independence, a risk-focused attitude, and balanced approach that preferred members will already possess.

Induction training should be provided for all new committee members and cover:

- the role of the committee
- the terms of reference
- the time input required of members
- an overview of council activities
- the financial and risk environment.

Further, regular and specific audit committee training should also be provided in:

- financial reporting
- governance
- understanding financial statements
- the regularity framework
- the role of internal and external audit
- the importance of risk management.

This training can be provided in a variety of ways, including:

- conferences
- formal courses

- internally arranged sessions
- briefings from external visitors.

ADMINISTRATION

Effective administrative support for the audit committee will clearly be important, as for any committee of the council. If the committee is to take an active part in council business, it should be administered as effectively as any other should. The regular attendance of the key senior management figures mentioned in the Position Statement is important both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

The authority's chief finance officer will have an important relationship with the committee. This officer's role and that of the audit committee are closely aligned and complementary. CIPFA's *A Statement on the Role of the Finance Director in Local Government* states that one of the finance director's key roles is "maintaining strong financial management underpinned by effective financial controls". The finance director's role is also about "supporting and advising democratically elected representatives".

This officer should therefore be a key point of contact for audit committee members. The committee will need to receive advice from the officer on most, if not all, of the matters taken to the body.⁹ Thus, it is advisable that this officer or deputy be required to attend all meetings to fulfil this function which, in turn, will give the committee additional credibility.

⁹ *This relationship should not interfere with the head of internal audit's responsibility to report independently to the audit committee in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.*

Appendix 1: Suggested Audit Committee Terms of Reference

Audit Activity

To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.

To consider summaries of specific internal audit reports as requested.

To consider reports dealing with the management and performance of the providers of internal audit services.

To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To liaise with the Audit Commission over the appointment of the council's external auditor.

To commission work from internal and external audit.

Regulatory Framework

To maintain an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

To review any issue referred to it by the chief executive or a director, or any council body.

To monitor the effective development and operation of risk management and corporate governance in the council.

To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the council's complaints process.

To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

To consider the council's compliance with its own and other published standards and controls.

Accounts

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Appendix 2: Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

ISSUE	YES	NO	N/A	Comment
Terms of Reference				
Have the committee's terms of reference been approved by full council?				
Do the terms of reference follow the CIPFA model?				
Internal Audit Process				
Does the committee approve the strategic audit approach and the annual programme?				
Is the work of internal audit reviewed regularly?				
Are summaries of quality questionnaires from managers reviewed?				
Is the annual report, from the head of audit, presented to the committee?				
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the committee?				
Does the committee input into the external audit programme?				

ISSUE	YES	NO	N/A	Comment
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?				
Does the committee take a role in overseeing: <ul style="list-style-type: none"> <li data-bbox="84 437 340 496">• risk management strategies <li data-bbox="84 512 314 571">• internal control statements <li data-bbox="84 587 426 616">• anti-fraud arrangements <li data-bbox="84 632 318 691">• whistle-blowing strategies? 				
Membership				
Has the membership of the committee been formally agreed and a quorum set?				
Is the chair free of executive or scrutiny functions?				
Are members sufficiently independent of the other key committees of the council?				
Have all members' skills and experiences been assessed and training given for identified gaps?				
Can the committee access other committees as necessary?				
Meetings				
Does the committee meet regularly?				

ISSUE	YES	NO	N/A	Comment
Are separate, private meetings held with the external auditor and the internal auditor?				
Are meetings free and open without political influences being displayed?				
Are decisions reached promptly?				
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?				
Does the committee have the benefit of attendance of appropriate officers at its meetings?				
Training				
Is induction training provided to members?				
Is more advanced training available as required?				
Administration				
Does the authority's s151 officer or deputy attend all meetings?				
Are the key officers available to support the committee?				

Appendix 3:

Position Statement on Audit Committees in Local Government

This statement reflects the views of CIPFA's Audit Panel on the role of audit committees in local government. It emphasises the importance of audit committees being in place in all principal local authorities.

Audit committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Guidance on implementing and running audit committees in local government lags behind other sectors. CIPFA will therefore be publishing further guidance drawn from practical examples and experience of other parts of the public sector in 2005.

The way in which an audit committee is organised will vary depending upon the specific political and management arrangements in place in any local authority. CIPFA's further guidance will explore how audit committees relate to local authorities' different arrangements for managing and governing themselves. It is not therefore appropriate to prescribe any particular model. But there are features that should be common to all:

- 1 A Statement of Purpose
- 2 Core Functions
- 3 Features
- 4 Structure and Administration

1 A STATEMENT OF PURPOSE

The local authority should formally approve a Statement of Purpose, along the following lines:

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2 CORE FUNCTIONS

Audit committees will:

- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control,¹⁰ properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit's strategy, plan and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the head of internal audit.
- Consider the reports of external audit and inspection agencies.

¹⁰ *"The Accounts and Audit Regulations 2003 state that the relevant body is responsible for ensuring that the body (authority) has 'a sound system of internal control'. Members and member committees should therefore establish procedures to provide sufficient assurance for them to be able to attest to this". Source: The Statement on Internal Control in Local Government – Meeting the Requirements of the Accounts and Audit Regulations 2003 (CIPFA, 2004).*

- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

3 FEATURES

Good audit committees will be characterised by:

- A strong chair – displaying a depth of skills and interest.¹¹
- Unbiased attitudes – treating auditors, the executive and management equally.
- The ability to challenge the executive (leader/chief executive/mayor or whatever combination) when required.
- A membership that is balanced,¹² objective, independent of mind, and knowledgeable.

4 STRUCTURE AND ADMINISTRATION

Although no single model of audit committee is prescribed, all should:

- Be independent of the executive and scrutiny functions.
- Have clear reporting lines and rights of access to other committees/ functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.

11 *There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.*

12 *The political balance of a formal committee of an authority will reflect the political balance of the council. However, balance in terms of apolitical attitudes is as important.*

- Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Meet privately and separately with the external auditor and head of internal audit.
- Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.
- Be properly trained to fulfil their role.¹³

¹³ *Further guidance will be available on the skills, knowledge and personal attributes required of committee members but key areas for training would include financial and risk management, auditing and accounting concepts and standards, regulatory requirements for financial reporting, and corporate governance.*

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Bromsgrove District Council



2006-07



Annual Report - Statement of Accounts for year ended 31st March 2007

Bromsgrove District Council

www.bromsgrove.gov.uk

Statement of Accounts 2006/07

Table of Contents

	Page no
Foreword	2
Statement of Responsibilities for the Statement of Accounts	9
Auditor's Report	11
The Financial Statements	
Income and Expenditure Account	113
Statement of Movement on the General Fund Balance	14
Statement of Total Recognised Gains and Losses	15
Balance Sheet	16
Cashflow Statement	17
Notes to the Financial Statements	18
Housing Revenue Account	40
Collection Fund Account	42
Statement of Accounting Policies	46
Statement on Internal Control	53
Glossary of Terms	68

FOREWORD

Introduction

The financial statements presented here are prepared in accordance with the Chartered Institute of Public Finance and Accountancy/Local Council (Scotland) Accounts Advisory Committee (CIPFA/LAAAC) Code of Practice on Local Council Accounting in the United Kingdom 2006 'A Statement of Recommended Practice' (the 2006 SORP). The 2006 SORP sets out proper accounting practices required for the financial statements by section 21(2) of the Local Government Act 2003 prepared in accordance with the Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989. The aim of the SORP is to ensure as far as possible a broad consistency of practice and a minimum standard of content enabling electors, Council taxpayers and other interested parties to obtain clear information on local government activities.

The Financial Statements

The Council's financial statements for the year ended 31st March 2007 are set out on pages 13 to 45 and comprise:

The core financial statements

The Income and Expenditure Account (I&E Account)

The Income and Expenditure Account discloses the income receivable and expenditure incurred in operating the Council for the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and projected value of retirement benefits earned by employees in the year.

Statement of the Movement on the General Fund Balance

This statement shows the change in the General Fund Balance after taking into account the Council's spending against the Council tax that it raised for the year, items required to be included or excluded by statute, the use of reserves built up in previous years and contributions to Earmarked Reserves for future expenditure.

Statement of Total Recognised Gains and Losses

The I&E Account brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. However, the Council may recognise other gains and losses in its Balance Sheet that are not debited or credited to the Income and Expenditure Account. The Statement of Total Recognised Gains and Losses brings these other gains and losses together with the surplus or deficit on the I&E Account to show the total movement in the Council's net worth for the year.

The Balance Sheet

The Balance Sheet summarises the Council's financial position as at 31st March 2007. It includes the assets and liabilities of all activities of the Council.

The Cashflow Statement

The Cashflow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. It excludes internal transfers between accounts that do not involve transactions with third parties.

The supplementary financial statements

The Housing Revenue Account

The Housing Revenue Account (HRA) shows income and expenditure on Council housing.

The Collection Fund

The Collection Fund shows the transactions of the Council in relation to the collection of Council Tax, and National Non-Domestic Rates and the way in which these have been distributed to the preceptors, the General Fund and the NNDR Pool. It is a statutory requirement for billing authorities to maintain this account.

The Statement of Accounting Policies

This statement can be found on pages 46 to 52 and details the general policies adopted by the Council in compiling the financial statements. The policies are those recommended by the 2006 SORP.

Statement of Internal Control

The council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Councils' functions and which includes arrangements for the management of risk and the prevention and detection of fraud. This statement outlines the internal control system, reviews its effectiveness and sets out improvements planned for the future.

Financial Summary

General Fund Revenue Account

At its meeting on 1st March 2006, Bromsgrove District Council set a budget of £10.455 million and a Council Tax of £164.26 (£156.45 in 2005/06) which was an increase of 4.99% on the previous year.

The General Fund Revenue Account produced a year end deficit of £0.408m compared to a budgeted deficit of £0.919m, a variance of £0.511m.

The main reasons for the variance are;

- Street Scene and Waste Management expenditure was £431k overspent. This included a shortfall of £110k in the income generated from car parking charges in the district. The budget was set using an average increase per ticket however due to the profile of actual ticket sales the budgeted increase has not been achieved. Refuse collection has a

overspend for the year of £366k. This is due to overspendings on fuel (£120k), hire costs of trade waste and recycling vehicles and increased running costs of the fleet (£126k).

- Corporate Services underspend of £118k is mainly due to an underspend of £100k on the corporate projects of the Town centre and Longbridge site developments. Officer time has been invested in preliminary work on these projects but due to the complex nature and number of stakeholders involved in both projects it has not yet been necessary to use additional resources. This budget has been requested to be carried forward into 2007/08.
- Planning and Environment underspend of £243k is mainly due to staff vacancies and underspending on consultants fees in respect of Local Planning enquiry. This was offset by a shortfall of £198k on budgeted income for building regulation fees, planning applications and land charges. This is due to the planning moratorium and the slight decrease in the housing market during 2006/07. It is anticipated that this trend will continue during 2007/08.
- Culture and Community Services income was lower than in the original budget. This is due to usage of the various leisure facilities being lower than anticipated.
- Interest generated from investments was £236k more than budget. The target for interest on investments equated to a return of 4.50% however investments benefited from three base rate increases during the year. Additionally slippage on the capital programme made more funds available for investment in the latter part of the year.

The Income and Expenditure Account details the gross costs of service provision amounting to £31.546 million. This expenditure has been analysed as follows:

	2005/06 £000	2006/07 £000
Employee expenses	10,958	11,127
Premises related expenses	1,062	1,096
Transport related expenses	1,116	1,293
Supplies and services	3,841	3,445
Third party payments	904	1,124
Transfer payments	11,681	12,059
Capital charges	4,710	1,402
Total	34,271	31,546

Employee expenses comprise payments to and on behalf of the Council's employees and include salaries, employers' National Insurance and Superannuation contributions, training, professional subscriptions and recruitment.

Transfer payments are payments made to others for which no goods or services are received and are principally in respect of housing and Council tax benefits.

Grants received in respect of housing and Council tax benefits are reflected in gross income.

Capital charges comprise of depreciation and impairment charges, where applicable. These charges represent the cost of using assets in the provision of services.

The gross income of £18.054 million shown in the Income and Expenditure Account has been analysed as follows:

	2005/06	2006/07
	£000	£000
Government grants	12,356	12,446
Fees & charges	3,960	4,197
Other grants & contributions	878	839
Internal recharges	598	572
Total	17,792	18,054

The figure for government grants income includes £ 12.320 million towards the cost of housing and Council tax benefits and their administration.

Income from fees and charges includes car parking fees, building control fees, planning fees, land charge fees, licensing fees and charges for the use of sports centres.

The General Fund Revenue Balance brought forward as at 31st March 2006 was £2.282 million. After appropriations and transferring the deficit in 2006/07, the General Fund Revenue Balance decreased to £1.874 million as at 31st March 2007.

Housing Revenue Account

Although the housing stock was transferred to BDHT on 29th March 2004 the Council was required to maintain the Housing Revenue Account (HRA) for residual items of income and expenditure. The Councils' application to the Office of the Deputy Prime Minister (ODPM) to close the HRA was granted with effect from 4th April 2006 The HRA was therefore required to be open for 4 days within 2006/07.

General Fund Capital Expenditure and Receipts

Capital expenditure amounted to £4.077m. The main areas of expenditure were ICT Infrastructure project, other various ICT schemes including the upgrading of computer systems, completion the Internet/Intranet E-government project, and upgrading of equipment (£964k); replacement vehicles for provision of Street Scene and Waste Management depot services (£811k); Strategic/Affordable Housing (£403k); Disabled Facilities Grants (£397k); and provision and refurbishment of play/leisure areas (£300k).

Capital receipts for the year totalled £0.415m. This relates to sales of vehicles and surplus land, and sales of the Council's interest in properties built under Low cost Housing schemes. These schemes allowed Council tenants to buy properties built by private developers on land provided by the Council where the Council retained 30% ownership. Receipts amounting to £2k relating to the sale of land were transferred to the Income and Expenditure Account as permitted under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

Capital contributions of £283k were received relating to Section 106 planning agreements whereby developers and other external sources provide sums to be used to fund capital expenditure. Schemes to be funded by such contributions are specific and may be time limited. Capital grants and contributions of £448k were also received from Government and other organisations.

Housing Capital Expenditure and Receipts

There was no capital expenditure in 2006/07 relating to the HRA.

During the year capital receipts amounting to £47k were received from sales of the Council's interest in property held under the Right to Buy Rent to Mortgage Scheme (£29k) and discounts recovered from Right to Buy sales before the housing transfer (£18k). The Rent to Mortgage Scheme allowed tenants to purchase a share of their property if they could not afford to buy the property outright, with the balance remaining in the ownership of the Council. Of this income £26k was paid over to Central Government under the 'Housing Capital Pooling' arrangements. Repayments of mortgage principal amounting to £12k were also capitalised as required under the Pooling regulations and £7k of this was paid over to the Government. After capital pooling, net total capital receipts for Council use amounted to £26k.

Voluntary Engagement

In June 2004 the Council requested Voluntary Engagement from the Office of the Deputy Prime Minister (ODPM) and a deferral of Comprehensive Performance Assessment. These requests were accepted. This enables the Council to receive advice, support and guidance from various Government appointed advisers whilst remaining in control of its own programme of improvement.

The Council underwent a full Comprehensive Performance Assessment in March 2007. The report was published on 12th June 2007 and the Council was given a "poor" rating.

Housing Services

Although the Councils' housing stock was transferred to Bromsgrove District Housing Trust (BDHT) on 29th March 2004, the Council still retains statutory responsibilities in respect of Strategic Housing Services. The Council has an in-house Strategic Housing Team which has responsibility for assessing the

housing needs of the District, the development of housing strategies to meet those needs, developing partnership working with other organisations to enable the provision of affordable housing and schemes that support the improvement and regulation of private sector housing. The Strategic Housing Team also monitors the performance and involvement of Registered Social Landlord's operating in the district, progress against the promises made to tenants in the transfer agreement, and the provision of support, advice and housing services to the homeless and vulnerable client groups.

Group Accounts

In accordance with the 2006 SORP the Council has considered its relationship with a number of bodies in order to determine whether or not group accounts are required. It has been concluded that no group relationships exist and therefore the Council is not required to prepare group accounts.

Welcome Break Group Limited

The Council opened a joint bank account with the Welcome Break Group Limited at HSBC Plc in June 1999, which contains £150,000 together with accumulated interest. This money was received from the developers of the Hopwood Service Station on the M42 motorway. The money will fund a nature reserve at Hopwood Park. Owing to the nature of the relationship with Welcome Break Group Limited the money in this account is not owned solely by Bromsgrove District Council and as such does not form part of these accounts.

E-Government

The Council has implemented various projects for 'E-Government', enabling residents, should they wish to do so, to communicate with the Council by electronic means to make payments and receive information. During 2006/7 E-Government has undertaken a major infrastructure refreshment project. This will enable the Council to continue to deliver other 'E-Government' schemes.

Further Information

Further information on the accounts is available from the Head of Financial Services, The Council House, Burcot Lane, Bromsgrove, Worcestershire, B60 1AA. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is complete. The availability of the accounts for inspection is advertised in the local press.

This document can also be made available in other languages and alternative formats on request from the Customer Service Centre on 01527 881288 or email worcestershirehub@bromsgrove.gov.uk.

**For a large print version of this document telephone
01527 881288**

Acknowledgements

Finally, I wish to thank all Financial Services staff, and their colleagues throughout the Council, who have worked on preparing these statements. I also wish to thank Corporate Director and Heads of Service for their assistance and co-operation throughout this process.

Jayne Pickering
Head of Financial Services

Date

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council until 17th July 2006 that Officer was the Corporate Director (Resources). From 18th July 2006 that officer was the Head of Financial Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Approve the Statement of Accounts.

Approval of the Accounts

The Statement of Accounts has been approved at the meeting of Council on 27th June 2007 in accordance with the Accounts and Audit Regulations 2003, amended 2006.

Councillor Roger Hollingworth
Leader of the Council

Date

The Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Council's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2006 (the 2006 SORP) and is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2007.

In preparing these financial statements the Section 151 Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the 2006 SORP.

The Section 151 Officer has also:

- kept proper accounting records, which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Section 151 Officers Certificate

The Statement of Accounts for Bromsgrove District Council presents fairly the financial position of the Council as at 31st March 2007 and its income and expenditure for the year ended 31st March 2007.

Jayne Pickering
Head of Financial Services

Date

Auditors Report

The Council's Auditors are KPMG LLP

To date no audit opinion has been issued on this Statement of Accounts

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**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st
MARCH 2007**

This Account summarises the resources that have been generated and consumed in providing services and managing the council during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year.

Net Expenditure 2005/06 £000		Gross Expenditure 2006/07 £000	Gross Income 2006/07 £000	Net Expenditure 2006/07 £000
1,322	Central Services to the Public	1,563	-336	1,227
8,249	Cultural, Environmental and Planning	12,487	-3,256	9,231
65	Highways and Transport	1,546	-1,424	122
2,272	Housing Services	14,155	-12,936	1,219
1,838	Corporate and Democratic Core	1,787	-100	1,687
854	Non-distributed Costs	7	-2	5
307	Housing Revenue Account - Discontinued Operation	0	0	0
1,571	Exceptional Cost of Voluntary Engagement & Restructure	0	0	0
16,478	Net Cost of Services	31,545	-18,054	13,491
0	Gain or loss on disposal of fixed assets			-52
447	Precepts of local precepting authorities			482
-102	Surplus(-)/deficit of trading undertakings or other operations including dividends (Note 3)			-65
10	Interest payable and similar charges			29
15	Amounts payable into the Housing Capital Receipts Pool			33
-1,403	Interest and investment income			-1,097
407	Pensions interest cost and expected return on pensions assets			238
15,852	Net Operating Expenditure			13,059
-5,920	Precept Demands from Collection Fund			-6,519
-1,490	Revenue Support Grant			-784
-2,600	Non-Domestic Rates			-3,849
5,842	Deficit for the year			1,907

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31st MARCH 2007

The Income and Expenditure account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last financial year. However, the Council is required to raise Council tax on a different basis and therefore is required to make adjustments for the effects of the following:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed.
- Payment of a share of housing capital receipts to Government shows as a cost in the I&E Account, but is met from useable capital receipts rather than Council tax.
- Retirement benefits are charge as amounts become payable rather than as future benefits are earned.

This statement shows the change in the General Fund Balance after taking into account the Council's spending against the Council tax that it raised for the year, items required to be included or excluded by statute, the use of reserves built up in previous years and contributions to Earmarked Reserves for future expenditure.

31 st March 2006 £000		31st March 2007 £000
-2,550	General Fund Balance as at 1 st April	-2,282
5,842	Surplus or deficit for the year on the Income and Expenditure Account	1,907
-5,574	Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance for the year	-1,499
-2,282	General Fund Balance as at 31st March	-1,874

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR
THE YEAR ENDED 31st MARCH 2007**

31st March 2006 £000		31st March 2007 £000
-5,842	Surplus/deficit(-) on the Income and Expenditure Account for the year	-1,907
6,030	Surplus/deficit(-) arising on revaluation of fixed assets	12,296
652	Actuarial gains and losses(-) on pension fund assets and liabilities	2,269
101	Any other gains and losses required to be included	
	Collection fund balance	-74
536	Pension Reserve	-96
1,172	Capital receipts received in year	473
1,442	Capital grants received in year	705
-2,012	Capital grants applied to fund expenditure in year	-1,135
-3,001	Value of Fixed Assets written out	-1,096
-922	Total Recognised Gains(-) and Losses for the year	11,435

BALANCE SHEET AS AT 31st MARCH 2007

2005/06 £000	Note	2006/07	
		£000	£000
486			373
		Intangible Assets	
		Fixed Assets:	
		Operational Assets -	
16,981		28,219	
2,099		4,542	
489		458	
869		1,145	
		Non Operational Assets -	
6,283		6,464	
1,510		153	
28,231	13		40,981
		Total Fixed Assets	
		Other Long Term Assets:	
50	19	50	
52	20	32	
28,819			82
		Total Long Term Assets	
		Current Assets:	
92	21	64	
5,523	22	3,949	
2	23	185	
25,126	24	21,612	
30,743			25,810
		Less: Current Liabilities:	
-7,268	25	-5,714	
-118		-350	
-60		0	
-257	26	-108	
51,859			61,074
		Total Assets less Current Liabilities	
		Other Long Term Liabilities	
-52			-32
-1,868	33		-1,732
			0
-100			-165
-181			-11,356
-13,304	34		
36,354			47,789
		Total Assets less Liabilities	
		Financed by:	
-42,145	29		-30,984
68,970	30		70,582
2,179	32		1,749
			15,000
17,495	31		748
607			-11,356
-13,304	34		0
20			1,874
2,282			176
250			
36,354			47,789
		Total Equity	

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31st MARCH 2007**

2005/06 £000		2006/07 £000
	Revenue Activities	
	Cash Outflows:	
10,525	Cash paid to and on behalf of employees	11,107
5,281	Other operating cash payments	7,544
8,136	Housing Benefit paid out	8,395
37,055	Precept payments	40,753
19,149	Non domestic rate payments to National Pool	20,100
15	Capital Receipts paid to National Pool	32
80,161		87,931
	Cash Inflows:	
-40,907	Council Tax receipts	-42,947
-3,263	Non domestic rates payments from National Pool	-4,289
-19,002	Non domestic rates receipts	-19,587
-1,490	Revenue support grant	-784
-11,966	Housing & Council Tax Benefits	-12,919
-1,224	Other government grants	-1,269
-4,602	Other income and charges	-5,476
-82,454		-87,271
-2,293	Net cash inflow(-)/outflow from Revenue Activities	660
	Returns On Investments And Servicing Of Finance	
	Cash Outflows	
10	Interest paid (Net)	27
	Cash Inflows:	
-1,334	Interest received	-1,168
-3,617	Net cash inflow(-)/outflow from investments and servicing of finance	-481
	Capital Activities	
	Cash Outflows:	
4,872	Purchase of Fixed Assets	5,322
	Cash Inflows:	
-362	Sale of Fixed Assets	-1,234
-480	Capital Grants	-202
-768	S106 Contributions	-283
3,262	Net Cash Inflow(-)/Outflow on Capital Activities	3,603
-355	NET CASH INFLOW(-)/OUTFLOW BEFORE FINANCING	3,122
	Management Of Liquid Resources	
14	Repayments of amounts borrowed	149
-674	Net increase/decrease(-) in investments	-3,514
-1,015	Net Increase(-)/Decrease in Cash	-243

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Note of reconciling items for the Statement of Movement on the General Fund Balance

31 st March 2006 £000		31st March 2007 £000	
	<i>Amounts included in the income and expenditure account but are required by statute to be excluded when determining the movement on the General Fund Balance for the year:</i>		
-901	Depreciation and impairment of fixed assets	-1,061	
379	Government Grants Deferred amortization	1,181	
-3,915	Write down of deferred charges financed from capital resources	-1,540	
0	Net gain or loss on sale of fixed assets	52	
-775	Amount by which pension costs calculated in accordance with the SORP (in accordance with FRS 17) are different from the contributions due under the pension scheme regulations	-224	
-5,212	<i>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year:</i>		-1,592
0	Statutory provision for repayment of debt	0	
31	Capital expenditure charged to the General Fund Balance	7	
-15	Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool.	-33	
16	<i>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year:</i>		-26
-246	Statutorily required transfer of the surplus or deficit for the year on the Housing Revenue Account calculated in accordance with statute to the HRA Balance	-20	
-82	Net transfer to or from earmarked reserves	139	
-50	Net transfer from Major repairs reserve	0	
-378			119
-5,574	Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance for the year		-1,499

2. Comparative figures for 2005/06

In preparing these statements in accordance with the 2006 SORP, the Council has adopted three significant new accounting policies that impact on the comparative figure for 2005/06 in the income and Expenditure Account. These are:

- Capital financing charges for the use of fixed assets are no longer made to the service revenue accounts, support services and trading accounts
- Credits for Government Grants Deferred are now posted to service revenue accounts, support services and trading accounts and therefore included within the Net Cost of Services rather than being included within the Transfer from the Capital Financing Account.
- Gains and losses on the disposal of fixed assets are recognised in the I&E Account.

The 2005/06 figures in the I&E Account have been restated to reflect all these changes and the table below shows the changes made to the Consolidated Revenue Account for 2005/06 to give the restated figures.

	Consolidated Revenue Account in 2005/06 Statement of Accounts £000	Removal of Capital Charges £000	Relocation of Government Grant Deferred credits £000	Other Adjustments necessary relating to Support Services and HRA £000	2005/06 I&E Account £000
Central Services to the Public	1,388	0	-15	-51	1,322
Cultural, Environmental and Planning	8,929	-341	-210	-129	8,249
Highways and Transport	169	-88	0	-16	65
Housing Services	2,379	-57	0	-50	2,272
Corporate and Democratic Core	1,889	-14	-25	-12	1,838
Non-distributed Costs	719	0	0	135	854
HRA - discontinued		0	0	307	307
Exceptional Cost of Voluntary Engagement & Restructure	1,571	0	0	0	1,571
Net Cost of Services	17,044	-500	-250	184	16,478
Asset Management Revenue Account	-997	617	380	0	0
Precepts to Parish Councils	447	0	0	0	447
Contribution of Housing Capital Receipts to Government Pool	15	0	0	0	15
Surplus From Trading Operations	-75	-27	0	0	-102
Depot		0	0	0	0
Support Services	135	-100	-130	95	0
Interest Payable & similar charges		10	0	0	10
External Interest Received	-1,403	0	0	0	-1,403
Pensions Interest Cost & Expected Rate of Return	407	0	0	0	407
Net Operating Expenditure	15,573	0	0	279	15,852

3. Trading Operations

These are activities of a commercial nature, which are financed substantially by charges made to the recipient of the services.

2005/06			2006/07	
Turnover £000	Profit(-) /Loss £000	External Trading Services	Turnover £000	Profit(-) /Loss £000
109	33	Market Services	103	20
154	-109	Industrial Sites	132	-85
263	-76	Total External Trading Services	235	-65

4. Discretionary Expenditure

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote well-being in their area. Expenditure amounted to £354,110 in 2006/07 (£366,552 in 2005/06) and has mainly been used in providing grants to the Voluntary sector serving the community in Bromsgrove.

5. Publicity

Set out below, under the requirements of Section 5(1) of the Local Government Act 1986, is the Council's spending on publicity:

2005/06 £000		2006/07 £000
46	General Advertising	41
91	Recruitment Advertising	80
84	Marketing, Promotion and publicity	65
221	Total	186

6. Local Authorities (Goods and Services) Act 1970

There were no significant transactions in 2006/07 with organisations covered by the Act.

7. Building Control Regulations

The Building (Local Council Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The table below shows only the chargeable element of operational services.

Building Regulations Total 2005/06 £000		Fee Earning Total 2006/07 £000	Non Fee Earning Total 2006/07 £000	Building Regulations Total 2006/07 £000
	Expenditure:			
3	Printing, Stationery, etc.	1	2	3
310	Building Control IBU	146	143	289
313	Total Expenditure	147	145	292
	Less Income:			
-290	Fees	-287	0	-287
-2	Sundries	-4	0	-4
-292	Total Income	-291	0	-291
21	Surplus(-)/Deficit for the Year:	-144	145	1

8. Members Allowances

In accordance with the Local Council (Members' Allowances) Regulations 1991, the Local Council (Members' Allowances) (Amended) Regulations 1995, and the Local Council (Members' Allowances) (England) Regulations 2001 the Council publishes each year details of the total amount of basic allowances, attendance allowances and special responsibility allowances paid to members of Bromsgrove District Council.

2005/06 £000		2006/07 £000
110	Basic Allowance	121
38	Special Allowance	51
5	Chairman's Allowance	5
1	Vice Chairman's Allowance	1
154	Total Allowances Paid	178

Members' Allowances were reviewed by an Independent Remuneration Panel in accordance with Regulation 5 of the Local Authorities (Members' Allowances) (England) Regulations 2001. Members ceased receiving attendance allowance from 29 July 2001 and instead receive a flat rate £2,850, plus reimbursement for travel, subsistence and telephone line rental expenses. Special responsibility allowances are paid to thirteen members undertaking specific duties and

responsibilities for nominated roles of office (e.g. Council Leader, Deputy Leader, and Scrutiny Chairs).

9. Payments made to Employees 2006/07

Under Regulation 7(2) of the Accounts and Audit Regulations 2003, the Council is required to disclose the number of employees whose remuneration exceeds £50,000 in bands of £10,000.

2005/06	Numbers of Employees	2006/07
3	Over £50,000 and up to £60,000	6
0	Over £60,000 and up to £70,000	1
3	Over £70,000 and up to £80,000	1
2	Over £80,000 and up to £90,000	1
2	Over £90,000 and up to £100,000	1

10. Profit/ loss on sale of fixed assets

This note shows any profit or loss on the sale of fixed assets compared to the market value of those assets. The surplus is properly accounted for within the Income and Expenditure Account, but is reversed out in the Statement of Movement of General Fund Balance, with the proceeds being transferred to Capital Receipts Unapplied.

2005/06 £000		2006/07 £000
-530	Proceeds of Sales	-394
530	Market Value of Fixed assets sold	394
0	Deferred capital grants relating to assets sold	-52
0	Profit/loss for the year	-52

11. Related Parties

The 2006 SORP requires disclosure of transactions with related parties in line with FRS8 'Related Party Disclosures'. Parties are defined as related if one party can or has potential to exert control or influence over the other party or are subject to a common control from the same source.

During 2006/07 the Council had the following transactions with related parties:

2005/06			2006/07	
Expenditure £000	Income £000		Expenditure £000	Income £000
5,008		West Midlands Police Authority:	5,348	
		- Precept	161	
		- Distribution of Collection Fund Surplus		
447		Parish Councils:	482	
26		- Precepts	0	
		- Lighting Grants		

2005/06			2006/07	
Expenditure £000	Income £000		Expenditure £000	Income £000
87		- Concurrent Functions	88	
		Hereford and Worcester Fire and Rescue Authority		
2,066		- Precept	2,205	
		- Distribution of Collection Fund Surplus	66	
		Worcestershire County Council:		
29,981		- Precept	32,012	
		- Distribution of Collection Fund Surplus	961	
6		Active Sports Partnership	0	
8		Community Safety Projects	13	
61		Dual Use Leisure Centres	46	
70		Tipping charges	119	
8		Sports facilities hire	9	
18		Miscellaneous	17	
0		Internet Project	30	
2		Tourism publicity	10	
28		Local Searches	28	
14		Museum	14	
8		Emergency Planning	10	
	-12	- Abandoned Vehicles	0	
	-69	- Recycling	0	
1,326		- Superannuation	1,456	
		Bromsgrove District Housing Trust		
366		Homelessness and Hostels	354	
4		Repair and Maintenance	1	
223		Social Housing Grant		
	-149	Service Level Agreements		-79
2,857	-2,857	Payroll transactions on behalf of BDHT	2,500	-2,500
	-108	Rents and charges collected on behalf of BDC		-132
	-170	Contribution from sale of former Council houses		-70
1	-19	Miscellaneous	1	-1
		Trade Waste		-11
		Street Cleansing contract		-17
		Government Departments:		
	-1,491	- Revenue Support Grants		-784
	-2,600	- Redistributed NNDR		-3,849
	-11,891	- Housing Benefits		-11,880
4		- HRA Subsidy		0
	-109	- Other		-111

12. External Auditors

The Audit Commission has appointed KPMG LLP to be Bromsgrove District Council's External Auditor until the conclusion of the 2006/07 accounts. The Audit Commission has appointed District Audit as the Council's external auditors from 2007/08 onwards.

For the financial year 2006/07 Bromsgrove District Council incurred the following fees in respect of external audit and statutory inspection.

2006/07 £000		2006/07 £000
12	KPMG LLP with regards to the certification of grant claims and returns.	12
80	KPMG LLP in respect of audit services.	90
0	KPMG LLP in respect of additional services.	7
18	Audit Commission in respect of statutory inspection.	30
110	Total	139

13. Analysis of movements in Fixed Assets

	Operational assets				Non Operational		Total
	Other Land & Buildings	Vehicles Plant & Equipment	Infra-structure	Community Assets	Investment Properties	Assets under Construction	
	£000	£000	£000	£000	£000	£000	
Gross Book Value at 1st April 2006	18,358	2,951	531	869	6,283	1,510	30,502
Additions (transfers from Assets Under Construction)	12	1,446	0	52	0	-1,510	0
Additions	16	1,531	1	224	0	153	1,925
Disposals	0	-127	0	0	-354	0	-481
Reclassification and Adjustments	-18	18	0	0	0	0	0
Revaluation	10,102	-52	0	0	535	0	10,585
Gross Book Value at 31st March 2007	28,470	5,767	532	1,145	6,464	153	42,531

	Operational assets				Non Operational		Total
	Other Land & Buildings	Vehicles Plant & Equipment	Infra-structure	Community Assets	Investment Properties	Assets under Construction	
	£000	£000	£000	£000	£000	£000	
Depreciation at 1st April 2006	1,377	852	42	0	0	0	2,271
Depreciation for year	538	491	32	0	0	0	1,061
Transfers and adjustments	-5	5	0	0	0	0	0
Disposal	0	-71	0	0	0	0	-71
Revaluation	-1,659	-52	0	0	0	0	-1,711
Depreciation at 31st March 2007	251	1,225	74	0	0	0	1,550
Net Book Value at 1st April 2006	16,981	2,099	489	869	6,283	1,510	28,231
Net Book Value at 31st March 2007	28,219	4,542	458	1,145	6,464	153	40,981

14. Capital Expenditure and Financing

The following table shows the total expenditure incurred in the year and the funding of that expenditure. The Capital Financing Requirement is the underlying borrowing requirement for previous expenditure, calculated under the prudential controls.

2005/06 £000		2006/07 £000
24	Opening Capital Financing Requirement	24
	Capital Investment	
2,488	Additions to Fixed Assets	1,925
159	Non Enhancing Expenditure	726
3,653	Intangible Assets & Deferred Charges	1,426
6,300	Total Expenditure	4,077
	Source of Finance	
4,258	Capital Receipts	2,935
-1	Major Repairs Reserve	0
623	Capital Grants	503
1,389	Capital Contributions	632
31	Revenue Contributions	7
0	Movement in capital creditors	0
6,300	Total Financing	4,077
24	Closing Capital Financing Requirement	24

15. Valuation of Fixed Assets

The basis for valuation of the individual classes of the fixed assets owned by the Council is explained in the Statement of Accounting policies. The net book value as at 31st March represents the value of assets belonging to the General Fund.

The freehold and leasehold property owned by the Council has been valued in accordance with the Statement of Valuation Principles and guidance notes issued by The Royal Institute of Chartered Surveyors as recommended by the Chartered Institute of Public Finance and Accountancy. The valuations were carried out by the Council's own Valuation Officer Mr. D Rogers-Davies MRICS and Mr Colin Booth BA (Econ) MRICS, the District Valuer.

The Council is in the process of reviewing all information on fixed assets held to ensure both completeness and compliance with the requirements of SORP. A programme of valuations, to be carried out by the Council's Valuation Officer, is in place to ensure all appropriate fixed assets are revalued every 5 years with the inclusion of residual land values. These financial statements reflect the revaluations carried out during 2006/07.

The following table is analysis of the gross book value of fixed assets by the year in which they were revalued.

	Other Land & Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Investment Property	Total
	£000	£000	£000	£000	£000	£000
Valued at historic cost		5,767	532	1,145		7,444
Valued at current value						
2002/03						
2003/04						
2004/05	3,982				160	4,142
2005/06	4,985				5,837	10,822
2006/07	19,485				469	19,954
Total Gross Book Value as at 31 st March 2007	28,452	5,767	532	1,145	6,466	42,362

16. Intangible assets & Deferred charges

Intangible assets refer to capital expenditure that does not create a fixed asset for the Council but the benefit of which lasts for more than one year (mainly items such as computer software). Deferred charges represent expenditure that is capital under the capital controls definition but which does not result in assets for the benefit of the Council (items such as improvement grants).

This expenditure is charged to the I&E Account over the period of estimated benefits. Intangible assets, which relate to expenditure on computer software, is charged over 3 years and deferred charges are written off in the year the expenditure is incurred.

	Intangible Assets Computer Software £000	Deferred Charges		Total £000
		Improvement Grants	Other	
		£000	£000	
Balance as at 1st April 2006	486	0	0	486
Expenditure in year	237	461	728	1,426
Written off to Income and Expenditure Account	-350	-461	-728	-1,539
Balance as at 31st March 2007	373	0	0	373

17. Capital Commitments

Future capital expenditure committed as at 31st March 2007 amounted to £7.368m and includes the following major schemes:

Spatial Project (£6.178m)

Replacement of Multi-lift Vehicles (£161k)

Street Cleaning Vehicles and Equipment (£156k)

Affordable and Low Cost Housing Schemes (£122k)

Contribution towards New Sports Facilities (£130k)

New Park/Football Pitches at Barnsley Hall (£215k)

18. Fixed Assets Held

The fixed assets held by the Council include the following:

31 st March 2006 No's		31 st March 2007 No's
1	Council Offices at Burcot Lane	1
1	Depot	1
1	Sport Centre	1
1	Customer Service Centre	1
3	Public Conveniences	3
1	Caravan Site	1
13	Car Parks	13
2	Cemeteries	2
1	Museum and TIC	1
1	Market Hall	1
6	Hostels	6
1	Other Properties	1
8	Allotments Sites	8
62	Parks/Recreation Grounds/Open Spaces and Play Areas	62

19. Long Term Investments

These consist of a debenture loan to the Association of District Councils for £50,000 (£50,000 as at 31st March 2006) and investment in Charities Investment Fund for £53 (£53 as at 31st March 2006).

20. Long Term Debtors

These represent the balance outstanding on mortgages granted for the purchase of Council Houses, under the right to buy scheme. The amount is off set by a deferred capital receipt

31st March 2006 £000		31st March 2007 £000
52	Mortgagors re. Sale of Council Houses	32

21. Stocks

The stock at the year-end consisted of:

31st March 2006 £000		31st March 2007 £000
13	Postal Franker	23
70	General Stock Items held at the Council's Depot	38
2	Various Vending machines	1
5	Sports Centres Stock	0
1	Pest Control Poisons and Baits	1
1	Dolphin Centre Items for Resale	1
92	Total	64

22. Debtors

31st March 2006 £000		31 st March 2007 £000
	<u>Amounts falling due within one year</u>	
440	NNDR Pool Contribution	592
1,455	NNDR arrears	1,672
1,680	Council Tax arrears	1,585
429	Interest receivable	358
10	Rechargeable works	0
1,338	Government Departments	677
6	Officers car loans	6
47	Payments in advance	332
2,109	Other debtors	901
7,514	Sub-total	6,123
	<u>Amounts falling due after one year</u>	
8	Car Loans to Employees	2
7,522	Gross Debtors	6,125
	Less Provision for Bad Debts:	
-31	General Fund	-31
-1,597	Collection Fund	-1,682
-371	HB Overpayments	-463
5,523	Net Debtors	3,949

23. Cash In Hand and Bank

Cash in hand consists of petty cash imprest accounts held by various officers throughout the Council. Bank balances include cash in transit at the balance sheet date.

24. Short Term Investments

These are surplus monies temporarily invested externally.

25. Creditors

2005/06 £000		2006/07 £000
923	Employee related	516
967	Sundry Creditors	526
141	Government Departments	384
1	NNDR Pool Contributions	0
631	NNDR prepayments	710
1,562	Collection Fund Balance due to other precepting authorities	1,100
893	Council Tax prepayments	660
2,150	Other creditors	1,818
7,268	Total	5,714

26. Borrowing – Short Term

This represents monies temporarily borrowed for less than twelve months.

27. Leases

The Council has acquired a variety of assets such as vehicles, office equipment and vending machines by the means of operating lease agreements. The rentals on these leases have been charged to the I&E Account when payable. The amount paid under the arrangements in 2006/07 was £68,440. Future commitments under these existing leases are:

Financial Year	Future Commitment £
2007/08	24,431
2008/09	11,931
2009/10	1,493
2010/11	0

28. Summary of Movements in Reserves

The Council maintains a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans

Reserve	Balance 1 st April 2006 £000	Net Movement in year £000	Balance 31 st March 2007 £000	Purpose of Reserve
Fixed Asset Restatement Account	-42,145	11,161	-30,984	Accumulation of gains on the revaluation of fixed

Reserve	Balance 1st April 2006 £000	Net Movement in year £000	Balance 31st March 2007 £000	Purpose of Reserve
Capital Financing Account	68,970	1,612	70,582	assets. Accumulation of capital resources set aside to meet past capital expenditure
Capital Grants and Contributions Unapplied	2,179	-430	1,749	Sums received from third parties, which are available to meet future capital investment
Capital Receipts Unapplied	17,495	-2,495	15,000	Proceeds of fixed asset sales, and other sums treated as capital receipts, available to meet future capital investment
Earmarked Reserves				
Building Control Partnership	9	0	9	Funds associated with partnership arrangements on Building Control
Planning Delivery Grant	276	27	249	Accumulation of unused Planning Delivery Grant
Replacement Reserve	322	107	429	Sums set aside to fund future replacement of vehicles and ICT equipment
Leisure Reserve	0	61	61	Unspent government grant to be used within Culture and Community for leisure programs
Pension Reserve	-13,304	1,948	-11,356	Balance account to allow the inclusion of pension liability in the balance sheet
Major Repairs Reserve	20	-20	0	Resources to support major works on Council housing stock
General Fund	2,282	408	1,874	Resources available to meet future revenue running costs.
Collection Fund	250	-74	176	Surplus on Collection Fund which is available for distribution to authorities precepting on the fund
Total	36,354	11,436	47,789	

29. Movement in Fixed Asset Restatement Account

The Fixed Asset Restatement Account represents the difference between fixed assets historic value (cost) and the value it is currently carried at in the Balance Sheet. It also includes the write down of asset disposals and capital expenditure written off.

2005/06 £000		2006/07 £000
-45,174	Balance as at 1st April	-42,145
6,046	Gains on revaluation in year	12,296
-16	Other adjustments	0
6,030	Total increase in unrealised resources	12,296
-159	Capital expenditure not included in Fixed assets in year	-726
-2,842	Amount of assets disposed	-409
-3,001	Total movement in Reserve	-1,135
-42,145	Balance as at 31st March	-30,984

30. Movement in Capital Financing Account

The Capital Financing Reserve contains the amounts which have been required to be set aside from capital receipts and amounts charged to revenue for the repayment of external loans, together with the amounts of revenue, capital receipts and grants and contributions which have been used to fund capital expenditure.

2005/06 £000		2006/07 £000
67,682	Balance as at 1st April	68,970
4,258	Useable receipts applied	2,935
31	Revenue funding	7
-901	Reconciling amount of depreciation	-1,061
1,816	Grants and Contributions applied	1,271
-1	Major Repairs Reserve applied	0
-3,915	Amounts written out in year	-1,540
1,288	Total movement in year	1,612
68,970	Balance as at 31st March	70,582

31. Movement in Capital Receipts Unapplied

Capital Receipts Unapplied represents the income from the sale of fixed assets that can be used to fund capital expenditure.

2005/06 £000		2006/07 £000
20,596	Balance as at 1st April	17,495
1,157	Amounts Receivable	440
-4,258	Applied to finance capital expenditure	-2,935
-3,101	Increase in Realised Capital Resources	-2,495
17,495	Balance as at 31st March	15,000

32. Movement in Government Grants and Contributions Unapplied

Government Grant and Contributions Unapplied relates to sums received to fund capital expenditure. The sums include contributions from developers for planning gain agreements made under S106 of the Town and Country Planning Act 1990.

2005/06 £000		2006/07 £000
2,819	Balance as at 1st April	2,199
1,442	Amounts Receivable	705
-50	Transfer of MRR to HRA	-20
-2,012	Applied to finance capital expenditure	-1,135
-620	Increase in Realised Capital Resources	-450
2,199	Balance as at 31st March	1,749

33. Deferred Government Grants and Contributions

The Deferred Government Grant and Contributions account represents amounts received to fund capital expenditure, which will be released to the Income and Expenditure Account to offset depreciation in respect of the assets to which they relate. Sums relating to assets that will not be depreciated are transferred to the Capital Financing Account in the year they are applied.

2005/06 £000		2006/07 £000
1,672	Balance as at 1st April	1,868
2,012	Grants and Contributions applied	1,135
-379	Amounts credited to the I&E Account	-350
-1,437	Amounts written out in year	-921
196	Total movement in year	-136
1,868	Balance as at 31st March	1,732

34. Pensions Benefits (Financial Reporting Standard 17)

The Council participates in the Local Government Pension Scheme for Council employees, which is administered by Worcestershire County Council. This is a funded scheme, meaning both the Council and employees pay contributions into the fund, calculated at a level intended to balance the pension's liabilities with investments.

The requirement of FRS 17 is for the cost of retirement benefits to be recognised in the net cost of services when the employees earn the benefits rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against Council tax is based on the cash payable in the year, so the real cost of benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure.

The following transactions have been made in the Income and Expenditure Account during the year.

2005/06 £000	Cost of retirement benefits in Income and Expenditure Account	2006/07 £000
	Net Cost of Services	
1,020	Current Service Costs	1,218
-613	Past Service Costs	0
1,089	Curtailment costs	103
	Net operating Expenditure	
2,115	Interest Costs	2,238
-1,708	Expected Return on Assets	-2,000
	Statement of Movement on General Fund Balance Amount by which pension costs calculated in accordance with the SORP (in accordance with FRS 17) are different from the contributions due under the pension scheme regulations Movement on Pensions Reserve	
-775		-224
1,128	Actual amount Charged against Council tax for Pensions in year - Employers Contributions Payable	1,335

The underlying assets and liabilities of the Pension Fund attributable to the Council at 31st March 2007 are as follows:

31st March 2006 £000		31st March 2007 £000
-45,847	Estimated Liabilities	-45,647
32,543	Estimated Assets	34,291
-13,304	Net Liabilities	-11,356

The liabilities show underlying commitments that the Council has, in the long run, to pay retirement benefits. The net liabilities of £11.356m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction of 19.2% to the overall balance of £59.145m.

However, statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees as assessed by the Fund's Actuary and finance only being required to be raised to cover the pensions when they are actually paid.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. Mercer Human Resource Consulting Ltd, an independent firm of actuaries, has assessed the Fund's liabilities based on the 31st March 2004 actuarial valuation assumptions, with the exception of the financial assumptions which are shown below:

The main assumptions used in the calculations are as follows:

Financial Assumptions as at	31st March 2005 % per annum	31st March 2006 % per annum	31st March 2007 % per annum
Rate of Inflation	2.9	2.9	3.1
Rate of increased in salaries	4.40	4.40	4.6
Rate of increase in pensions	2.9	2.9	3.1
Discount rate	5.4	4.9	5.4

The assets are valued at fair value, principally market value for investments, and consist of the proportions, together with rate of return on the class of asset.

Assets	31st March 2006			31st March 2007		
	Value £000	Proportion of Assets %	Expected rate of return %	Value £000	Proportion of Assets %	Expected rate of return %
Equities	26,588	81.7	7.0	30,965	90.3	7.5
Government						
Bonds	4,035	12.4	4.3	1,715	5.0	4.7
Other Bonds	1,432	4.4	4.9	1,234	3.6	5.4
Other	488	1.5	4.5	377	1.1	5.25
Total	32,543	100.0		34,291	100.0	

Movements in Pensions Reserve

	31st March 2006 £000	31st March 2007 £000
Net pensions liability as at 1st April	13,717	13,304
Current service Cost	1,020	1,218
Employee contributions	-1,664	-1,238
Past service/curtailment costs	476	103
Net interest/return on assets	407	238
Actuarial gain(-)/loss	-652	-2,269
Net pensions liability as at 31st March	13,304	11,356

The actuarial gains/losses identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007.

2004/05		2005/06		Worcestershire County Council Pension Fund	2006/07	
£000	%	£000	%		£000	%
889	3.5	4,839	14.9	Differences between the expected and actual return on assets	-75	-0.2
1,271	3.2	-813	-1.8	Differences between actuarial assumptions about liabilities and actual experience	0	
-6,280	-	-3,374	-7.4	Changes in demographic and financial assumptions used to estimate liabilities	-2,194	-4.8
-4,120		652		Total actuarial gains(-)/losses	-2,269	

35. Notes to The Cash Flow Statement

Reconciliation of Deficit to Net Revenue Cashflow

2005/06 £000		2006/07 £000
5,842	Surplus(-)/Deficit on General Fund	1,907
-730	Surplus(-)/Deficit on Collection Fund	536
	Non Cash Transactions	
-4,437	Capital Charges	-1,420
-775	FRS17 Pension Costs	-224
193	Contributions to(-)/from Bad Debt Provisions	-177
-111	Transfer from Suspense	-232
-246	Statutory Transfer from HRA	-20
82	Contribution to(-)/from Earmarked Reserve	-140
31	Contribution to Capital Expenditure	7
15	Contribution from Capital Receipts	85
50	Contribution to(-)/from Major Repairs Reserve	0
	<u>Items on an Accruals Basis</u>	
-827	Increase(-)/decrease in Creditors	-153
-2,711	Increase/decrease(-) in Debtors	-622
8	Increase/decrease(-) in Stock	-28
	<u>Items included in other classifications</u>	
-10	Interest paid	-27
1,334	Interest received	1168
-2,293	Net cash flow from revenue activities	660

Liquid Resources

The principal liquid resources of the Council are short term investments. The opening and closing balances for the financial year 2006/07 are given below:-

2005/06 £000		2006/07 £000
25,800	Balance at 1 st April	25,126
25,126	Balance at 31 st March	21,612
-674	Movement in Year	-3,514

Net increase/Decrease in Cash

2005/06 £000		2006/07 £000
-1,015	Increase/Decrease(-) in Cash Overdrawn	-243
0	Increase/Decrease(-) in Petty Cash and Cash in Hand	0
-1,015	Net Increase/Decrease(-) in Cash	-243

Government Grants

Amounts received in respect of government grants (other than for housing and council tax benefits and capital grants) are listed below:

2005/06 £000		2006/07 £000
167	Community Safety	151
109	Admin Grant – Local Taxation	111
307	Other	446
268	Planning Delivery Grant	121
373	Benefit Administration Grants	440
1,224	Total Other Government Grants	1,269

**HOUSING REVENUE ACCOUNT
FOR THE YEAR ENDED 31st MARCH 2007**

2005/06 £000		2006/07 £000
	Income:	
-5	Non-dwelling rents (gross)	0
-5	Total Income	0
	Expenditure:	
22	Supervision and Management	0
12	HRA Subsidy payable	0
34	Total Expenditure	0
29	Net cost of Services	0
	HRA Investment Income	
-7	Interest on notional cash balances	0
-4	Mortgage interest	0
18	Net Operating Expenditure	0
	Appropriations	
278	Prior period amendments	0
-50	Transfer to/from(-) Major Repairs Reserve	-20
246	Total Surplus(-)/Deficit for the year	-20
-246	Balance brought forward 1st April	0
0	Balance transferred to General Fund Balance	20

Notes to the Housing Revenue Account

1. General

Following a Council decision to review the provision of housing services within the district, Council tenants voted to transfer the properties to Bromsgrove District Housing Trust (BDHT) which is a registered as a Social Landlord. The housing stock was transferred on 29th March 2004. The Councils' application to the Office of the Deputy Prime Minister for consent to close the HRA was granted on 4th April 2006.

The account for 2006/07 consists of residual items which relate to the Council rather than BDHT. The residual balance of the Major Repairs Reserve was credited to the Housing Revenue Account and total surplus for the year on the Housing Revenue Account was transferred to the General Fund Balance.

2. Housing Stock

All the dwellings and garages were transferred to BDHT as part of the stock transfer. The Council retained some small areas of non-operational land which were transferred to the General Fund on 1st April 2005.

3. Major Repairs Reserve

The Major Repairs Reserve represented the amount of subsidy provided by Government to support major works necessary to bring the Council's housing stocks up to an acceptable standard. The balance was transferred to the HRA in 2006/07.

2005/06 £000		2006/07 £000
-70	Balance as at 31st March	20
50	Amount transferred to HRA during the year	0
0	Transfer to Housing Revenue Account	-20
-20	Balance as at 31st March	0

4. Housing Capital Expenditure

There was no capital expenditure on during the year.

5. Housing Revenue Account Subsidy

With the closure of the Housing Revenue Account, no housing subsidy was receivable or payable in 2006/07.

2005/06 £000	Subsidy Element	2006/07 £000
4	Mortgage interest	0
4	HRA subsidy receivable(-)/payable(+)	0

**COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT
YEAR ENDED 31st MARCH 2007**

2005/06 £000		2006/07 £000
	<u>Income:</u>	
-40,637	Income from Council Tax (Net)	-43,116
-3,423	Council Tax Benefits	-3,567
0	Reduction in Provision for Bad and Doubtful Debts Council Tax	-53
-18,803	Income from Business Ratepayers	-19,824
-62,863	Total Income	-66,560
	<u>Less Expenditure:</u>	
42,975	Precepts and Demands	47,272
	Business Rates:	
18,522	Payments to Pool	19,508
109	Costs of Collection	111
180	Increased Provision for Bad and Doubtful Debts Council Tax	0
172	NDR	205
175	Prior Period Amendment	0
62,133	Total Expenditure	67,096
-730	Surplus(-)/Deficit for the year	536
-1,082	Collection Fund Surplus(-) brought forward	-1,812
-1,812	Collection Fund Surplus(-) carried forward	-1,276

Notes to the Collection Fund Account

1. General

These accounts represent the transactions of the Collection Fund, a statutory fund separate from the main accounts of the Council. The fund accounts independently for income relating to Council Tax and National Non Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. Administration costs are borne by the General Fund. The transactions are however consolidated in the Council's Balance Sheet and Cashflow Statement.

2. Council Tax Base

The Council set a total Council Tax of £1,275.82 based on Band 'D' equivalent, with a tax base of 35,593.67.

The Council Tax Base is the number of chargeable dwellings in each valuation band adjusted for dwellings where discounts apply, and converted into an equivalent number of Band D properties. A collection rate of 98.5% has been assumed in the calculation of the tax base.

Items for parish precepts are additional.

Band	Valuation	Numbers	Ratio	Band D
A	Up to £40,000	2,567.50	6/9	1,711.7
B	Over £40,000 and up to £52,000	5,955.00	7/9	4,631.7
C	Over £52,000 and up to £68,000	7,447.75	8/9	6,620.2
D	Over £68,000 and up to £88,000	6,723.50	9/9	6,723.5
E	Over £88,000 and up to £120,000	5,947.50	11/9	7,269.2
F	Over £120,000 and up to £160,000	3,090.50	13/9	4,464.1
G	Over £160,000 and up to £320,000	2,409.25	15/9	4,015.4
H	Over £320,000	258.00	18/9	516.0
Total Band D equivalent properties				35,953.20
Collection Rate				99.00%
Council tax base				35,593.67

The costs of individual Council tax benefits are met from the General Fund to which any Government grants are payable.

3. National Non-Domestic Rates

Non Domestic Rates are collected on behalf of the government and paid into a National Pool. The Collection Fund receives amounts paid by the local ratepayers in the area, and pays this amount over to the national pool net of allowable costs of collection. The National rate specified by government was an amount of 43.3p in the £ for 2006/07 (42.2p for 2005/06) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by

multiplying their rateable value by that amount. A revaluation of all non-domestic properties took effect from 1st April 2000; the rateable value as at 31st March 2007 was £54,535,185.

4. Precepts

The precepts were as follows:

2005/06 £000		2006/07 £
29,981	Worcestershire County Council	32,012
5,920	Bromsgrove District Council (including Parish Councils)	6,329
5,008	West Mercia Police Authority	5,348
2,066	Hereford and Worcester Fire and Rescue Authority	2,205
	Distribution of Collection Fund Surplus	
0	Worcestershire County Council	961
0	Bromsgrove District Council	190
0	West Mercia Police Authority	161
0	Hereford and Worcester Fire and Rescue Authority	66
42,975	Total	47,272

5. Bad Debt Provision

Bad and doubtful debt provisions comprised the following amounts:

2005/06 £000		2006/07 £000
1,456	Balance as at 31st March	1,597
	Council Tax	
-171	Written-off during the year	-32
180	Movement in Provision	-53
	Non-Domestic Rates	
-40	Written-off(-)/on(+) during the year	-35
172	Movement in Provision	205
1,597	Balance as at 31st March	1,682
	<u>Represented By:</u>	
697	Council Tax Provision	612
900	Non-Domestic Rates Provision	1,070
1,597	Balance as at 31st March	1,682

6. Collection Fund Balance

The Collection Fund Balance is available for distribution to the authorities which precept on the Collection Fund. During 2006/07 a total of £1.378m was distributed to the precepting authorities as detailed in Note 4 above. The balance is set out below:

2005/06 £000		2006/07 £000
1,082	Balance brought forward 1st April	1,812
730	Surplus/Deficit(-) in the Year	-536
1,812	Balance carried forward 31st March	1,276

The Collection Fund Balance represents council tax collected but not paid over to the precepting authorities. This balance has accumulated due to both the collection rates and income received being higher than budgeted for at the beginning of the financial year. This surplus is available to be shared amongst the precepting authorities (prorate to the amount of the total precepts). The amount attributable to Bromsgrove District Council is £176k (13.8%). This amount is shown within the total Equity in the Balance Sheet as a Collection Fund Balance. The remainder is shown within creditors.

2005/06 £000		2006/07 £000
250	Bromsgrove District Council Collection Fund Balance	176
1,562	Creditor - Other precepting bodies	1,100
1,812		1,276

STATEMENT OF ACCOUNTING POLICIES

General Principles

The general policies adopted in compiling the financial statements are those recommended by the CIPFA/LASAAC Joint Committee in the Code of Practice on Local Council Accounting in the United Kingdom 2006 'A Statement of Recommended Practice' (the 2006 SORP). If exception occurs these are noted at the appropriate place in the statements.

Best Value Accounting Code of Practice

All Councils have to comply with the Best Value Accounting Code of Practice (BVACOP), the main items being the mandatory charging of depreciation (with some exceptions), identification of trading services, and a standard service expenditure analysis in the Income and Expenditure Account. The 2006/07 Income and Expenditure Account complies with these requirements.

Comparator Figures

In line with the 2006 SORP, comparative figures for the previous financial year are shown. Where there have been changes to the presentation or accounting treatment of items the previous year's figures have been restated to ensure that they are comparable.

Fixed Assets - Recognition and Valuation

The requirements of the 2006 SORP are that all appropriate assets should be carried at a valuation that would be the lower of the net current value or net realisable value for existing use. Also all those assets should be revalued at least once every five years.

The recorded fixed assets are subject to a review to ensure the completeness of the record and that the valuations are in accordance with the 2006 SORP. A programme of valuations, to be carried out by the Council's Valuation Officer, is in place to ensure all appropriate fixed assets are revalued every 5 years. These financial statements reflect the revaluations carried out during 2006/07.

The basis for valuation of each class of asset is as follows:

- Intangible assets such as software are recorded at cost in the balance sheet and are amortised to revenue over an appropriate period.
- Operational assets such as the Council Offices, leisure centres and car parks have been included at depreciated replacement cost.
- Infrastructure assets such as environmental improvements, from 2003/04 onwards, are recorded at cost.
- Vehicle, Plant and Equipment, from 2003/04 onwards, are recorded at cost.

- Community assets, such as parks and recreation grounds, are recorded as historic cost.
- Investment Properties, which are assets that are not directly used in the delivery of a service, such as Industrial Properties, are shown at market value.
- Assets under Construction are new capital works that will result in the creation of a new asset but will involve expenditure over several years are carried on the Balance Sheet at cost and classified as non-operational until they are finished and brought into operational use.

Capital Expenditure

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. In this context enhancement means the carrying out of works on the fixed asset that are intended to increase substantially the life, value or use of the asset.

Expenditure that falls under this definition but that is considered to be immaterial by virtue of not adding value to the asset (generally less than £10,000) is written off to the Income and Expenditure Account during the year. All other expenditure is added to the fixed assets at cost. The expenditure will be carried at cost on the Balance Sheet until the asset is revalued.

Intangible Assets/Deferred Charges

Intangible Assets and Deferred Charges represent expenditure that has been properly capitalised but which does not create a tangible asset for the Council. Intangible assets include major software purchases, whilst deferred charges include disabled facilities grants, home repair and housing renewal grants, grants to other persons and bodies such as registered social landlords for capital expenditure purposes. All expenditure on deferred charges is usually written off to the Income and Expenditure Account in the year the expenditure is incurred. Expenditure on intangible assets is written off to the Income and Expenditure Account over the period of the benefit to be received from the asset. However there is a corresponding transfer from the Capital Financing Account to neutralise the effect of these charges on the General Fund Balance.

Depreciation

Depreciation is charged on all assets used in the provision of services. It represents the use of capital assets by that service. It is calculated on a straight line basis by writing off the cost or revalued amount for assets, less the residual value for each asset (usually land), over the useful life of each asset.

Depreciation is charged on the asset values at the beginning of the financial year. Some assets which have been revalued during 2006/07 did not have a quantified residual (land) value at the beginning of the year. This meant that the valuation

upon which the depreciation was based was higher than the valuation which will be used for future year's depreciation calculations. Therefore the depreciation charge in 2006/07 is higher than in it will be in future years. The programme of revaluations has addressed this issue. All assets have now been revalued within the last three years and a valuation of the residual (land) value is included in the Asset Register, where applicable.

No depreciation is charged on assets in the year of acquisition or enhancement. No charge is made for non operational assets.

The useful life of assets is based on individual assets but generally is based on:

	Estimated useful life
Other Land and Buildings	5-50 years
Vehicles, Plant and Equipment	2-7 years
Infrastructure	5-20 years

Capital Charges

In previous years a capital financing charge based on the opening book value of each asset and a specified percentage rate was charged to the revenue account. The 2006 SORP no longer requires capital charges to be made.

Prudential Code

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 provide the framework for the prudential code that came into force on 1st April 2004. Since that date the Council has been able to plan its capital expenditure under the Prudential Framework. This focuses on the Council's ability to fund the consequences of spending decisions from future years revenue accounts and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy. Prudential indicators are defined within the Council's Treasury Management strategy. The Council has not undertaken any prudential borrowing and remains debt-free.

Government Grants

Whatever their basis of payment, revenue grants are matched with the expenditure to which they relate. Grants received to finance general activities of the Council or to compensate for a loss of income are credited to the I&E Account in the year to which they relate. Government grants are accounted for on an accruals basis and are recognised in the accounting statements when the conditions for their receipts have been complied with and there is reasonable assurance that the grant will be received.

All grants and other contributions used to fund capital expenditure are credited in the first instance to the Government Grants and Contributions Unapplied account.

These deferred contributions are released to the Income and Expenditure Account in line with the depreciation of the asset they are funding. Where an asset does not attract a depreciation charge, the grant or contribution is transferred to the Capital Financing Account in the year it is used for financing.

Repayment of Debt

Regulation 27 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires Councils to charge a minimum revenue provision (MRP) to its revenue accounts for the repayment of debt. This calculation is based on the Council's Capital Financing Requirement (CFR) as derived from the Balance Sheet after allowable adjustments.

For 2006/07 the Council's Capital Financing Requirement was £24k and after allowable adjustments have been applied there is a nil MRP requirement.

Capital Receipts

Capital receipts arise from the sale of fixed assets. The sums received on the disposal of fixed assets are credited to the Income and Expenditure Account in the first instance and transferred to Capital Receipts Unapplied on the Balance Sheet where they are only available to the Council to fund capital investment. However, in accordance with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, receipts below £10,000 can be treated as revenue income and remain within the Income and Expenditure Account.

Receipts from the sale of former Housing Revenue Account assets are subject to national pooling. The regulations allow the reduction in amounts paid to the pool but limit the use that the Council may make of the retained element of the receipt.

Basis on which Debtors and Creditors have been included in the accounts

The revenue and capital transactions of the Council are maintained on an accrual basis in accordance with the 2006 SORP and FRS 18 'Accounting Policies'. That means that sums due to or from the Council during the year are included irrespective of whether cash has actually been received or paid in the year. Where there was insufficient information available to provide actual figures, estimates have been included although this element is not significant.

Nature of Reserves, Provisions and Contingent Liabilities

Reserves: In addition to the revenue balances, the Council has sums set aside for use in future accounting periods, to meet known or predicted liabilities. These

earmarked financial reserves are for specific purposes, for example for capital developments or asset purchases.

Two other capital accounts exist in the name of the "Fixed Asset Restatement Account" and the "Capital Financing Account". These accounts were previously called reserves but their titles have been changed in accordance with recommended practice as neither of these accounts represents funds available to meet future expenditure.

Provisions: The 2006 SORP requires that provisions are recognised when the Council has a present obligation as a result of a past event; it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Council established two provisions in 2005/06. Both were related to costs and compensation relating to employment issues, Both matters were settled and the provisions have been used within 2006/07.

Contingent liabilities: Municipal Mutual Insurance Limited (MMI) – Scheme of Arrangement

On 30 September 1992 the Council's then insurer MMI announced that it had ceased taking new business and had placed a moratorium on claims payments. On 6 October 1992 MMI resumed the full payment of claims. Subsequently there has been further strengthening in the company's financial position and its directors remain of the view that a solvent run off can be anticipated. If a solvent run off is not achieved the Council currently has a potential contingent liability of up to £268,216. No provision has been made in the Balance Sheet for this amount.

Basis of Valuation of Investments

Investments are recorded in the Balance Sheet at cost.

Support Service Costs

The Best Value Accounting Code of Practice requires that all support service and service management costs are fully charged to services. During 2005/06 the basis for the apportionment of support service costs was reviewed and revised. Some support services are charged out based on staff time whereas other areas use a basis more appropriate to the service provided e.g. Human Resources is recharged on number of employees and the Information and Communication Technology recharge based on the number of PC's each service area operates. The charge to the Capital Programme is based on staff time involved with the administration of various schemes within the programme.

Stocks and Stores

These are valued at cost. Stocks in hand are brought into the accounts for Central Depot Stores, Vending Machine Stock, Pest Control Stock and the Postal

Franking Machine. The valuation of the stores is a departure from SSAP 9 however the effect is not material.

Leasing

Finance Leases

Statement of Standard Accounting Practice 21 (SSAP 21) defines a finance lease as a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the present value of the minimum lease payments is 90% or more of the fair value of the leased asset. If a lease qualifies as a finance lease under SSAP 21 then the value of the asset is treated as capital expenditure and recognised in the Council's balance sheet as a fixed asset matched by a liability. Rental payments under finance leases are apportioned between the finance charge and the reduction of the liability, with the finance charge being charged to the I&E Account over the term of the lease. The Council does not hold any assets under finance leases.

Operating Leases

If a lease meets the SSAP 21 definition of an operating lease, then the payments under the lease are charged to the service revenue accounts. Details of the Council's operating leases are outlined in Note 27 to the Income and Expenditure Account.

Interest Charges

Provision has been made in the accounts for the accrual of loan interest due to the Council as at 31st March 2007.

Pensions

This Statement of Accounts incorporates the full effects of FRS17 – Retirement Benefits, the purpose of which is to ensure that these financial statements reflect at fair value the assets and liabilities underlying the Council's obligations relating to retirement benefits and that the true cost of those obligations is recognised.

The Worcestershire County Council Pension Fund covers eligible members of the Local Government Pension Scheme in Bromsgrove and the Superannuation Fund Regulations require contributions to be sufficient to maintain fully the solvency of the fund. The fund is a defined benefits scheme based on final pensionable salary. Currently the Pension Fund is in a deficit position and the impact of FRS17 requirements has been to show a Pensions Liability in the Balance Sheet of £11.356m, which is the Council's share of the overall deficit of the fund.

An independent actuary, based on triennial valuations, determines the employers' contributions. The review was last carried out as at 31st March 2004.

Since 2003/04 the way the pension costs are charged to services changed in that the actuary now provides annual costs of the fund liabilities. These figures replace the actual costs paid by the employers shown within the Net Cost of Services. An adjustment in the Statement of Movement on the General Fund Balance reverses these cost out and replaces them with the actual costs paid.

STATEMENT OF INTERNAL CONTROL FOR BROMSGROVE DISTRICT COUNCIL FOR THE YEAR ENDED 31st MARCH 2007

1. Scope of Responsibility

Bromsgrove District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for whilst demonstrating value for money in its use. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk and the prevention and detection of fraud and corruption.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives, comply with statutory requirements and to make best use of public funds and assets. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is maintained through an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

That process has been in place at the Council for the year ended 31st March 2007 and up to the date of the approval of the annual accounts for that year.

3. The Internal Control Environment

3.1 General

The key elements of control are described below:

- (a) The Council sets out its objectives through a series of Plans; the Improvement Plan, the Annual Performance Plan, the Council Plan, and Service Business Plans, together with Action Plans arising from External Inspection reports, and Revenue and Capital

Budgets. The objectives of the Council are linked to individual targets of achievement through the Performance and Development Review process.

- (b) The Council's policy and decision making process is set out in the Council's Constitution which explains and regulates how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is supplemented by a range of policies and processes to support the operation of the Council, including schemes of delegation to officers, and codes of conduct for members and officers.

- (c) The financial management of the Council is integrated with and influenced by many of the above processes. It includes processes for forward planning of expenditure and resources, budget consultation; budget setting and monitoring, and completion of final accounts, all aimed to be accurate, informative and timely. The Council also has in place, as part of the Constitution, financial regulations designed to support sound financial management policies and procedures, and contract procedural rules to ensure compliance with procurement objectives. These also reflect the Council's current political and management structure and business activities.
- (d) In order to ensure compliance with policies, procedures and statutory requirements, the Council has a range of controls and processes in place, as set out below. These processes also assist the Council in ensuring the economical, effective and efficient use of resources, in securing continuous improvement in exercising its functions, and provide for an effective performance management and reporting process.

3.2 Financial

The Head of Financial Services has responsibility for ensuring that effective financial control is maintained. The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The Council's Financial Regulations provide a framework for managing the council's financial affairs and apply to every member and officer of the council and anyone acting on the council's behalf. The regulations cover, inter alia, budgetary control, payment of accounts, contracts for building,

constructional or engineering work, and procurement of consultancy services, treasury management and control of income.

The system of internal financial control is based upon a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a structure of delegation and accountability. Managers within the Council undertake development and maintenance of the system, either directly or through partners.

In particular the system in 2006/07 included

- Comprehensive budgeting systems
- Setting targets to measure financial and other performance
- Detailed monthly financial monitoring statements to Heads of Service and Budget Holders to include both revenue and capital
- Designated accountants to support departmental budget holders
- Financial training for managers
- Preparation of regular financial reports to Members which indicate actual expenditure against the forecasts;
- Capital expenditure guidelines
- Adoption of statutory and professional standards
- Financial regulations and contract procedure rules
- Budget and policy framework procedure rules
- Delegations of authority and accountability as outlined in the Council's Constitution
- Agreed financial administration procedures
- Internal and external audit.

During 2006/07, financial monitoring reports highlighted areas of overspending and shortfalls in income. These were managed by reviewing services to ensure they could be delivered within revised financial resources and reducing expenditure where appropriate. As a result, outturn expenditure remained within budget.

The improvements in 2006/07 have been recognised by the Audit Commission in the scoring of the Use of Resources framework increasing from 1 to 2. This reflects the Council's focus on robust financial management, budgetary control and risk management during the financial year.

3.3 Council Priorities and Objectives

The Council acknowledges that its performance in some services is stronger than in others and committed itself during the year to continue its improvement programme. The focus during the first quarter of 2006/07

was on the Councils' Recovery Plan and from July 2006 onwards the Council's Improvement Plan.

During the year the Council reviewed its corporate objectives and adopted the following Vision, Council Objectives and priorities:

<p>Vision</p> <p>“Working together to build a district where people are proud to live and work, through community leadership and excellent services”</p>
--

Council Objectives	Council Priorities
Regeneration	Town Centre Longbridge Housing
Improvement	Customer Service Reputation Performance
Sense of Community and Well Being	Community Influence Community Events
Environment	Clean District Planning

3.4 Policy and Decision Making

The Council's decision making process is defined in its' Constitution which can be summarised as follows:

- The Council decides policy.
- The Council operates through an Executive Cabinet and regulatory committees for Planning and Licensing.
- A Standards Committee is also in place.
- Overview and Scrutiny arrangements were in place during 2006/07 and included Scrutiny Steering Board.

3.5 Compliance

(a) Policy and Legislation

The Council's statutory officers are the Chief Executive, the Monitoring Officer and the Section 151 Officer. They are responsible for ensuring that the Council acts within the law and in accordance with established policy and procedures.

The Chief Executive is responsible for the corporate and operational management of the Council, taking an active role in corporate governance arrangements, determination and organisation of the Council's staff.

The Council's Monitoring Officer has statutory and other duties in relation to maintaining the Council's Constitution, ensuring lawfulness and fairness in decision making, supporting the Standards Committee,

acting as the proper officer for access to information, advising whether Cabinet decisions are within the Budget and Policy framework and providing advice on the scope of powers and authority to make decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues

The Section 151 Officer has statutory and other duties in relation to the effective discharge of the Council's financial arrangements including responsibility for ensuring lawfulness and financial prudence of decision making including reporting to elected members where any proposal is unlawful or where expenditure is likely to exceed resources.

Heads of Service and senior service area managers have responsibility for ensuring that legislation and policy relating to service delivery and Health and Safety are implemented in practice.

(b) Risk Management

The Council's Risk Management Strategy and process was reviewed and updated during the year. The new strategy and process was approved by the Executive Cabinet on the 7th March 2007 and aims to embed risk management into the culture of the organisation whilst enabling the Council to manage risks in accordance with best practice. A steering group consisting of officers and led by the Chief Executive exists and meets monthly to provide a formal framework, develop risk registers and instigate training in risk identification, control and monitoring.

A significant amount of work has been completed on updating the Council's risk management process and collating new risk registers. The strategy will be implemented across the Council during 2007/08 with departmental and corporate risk registers being produced and reviewed by the Audit Board on a quarterly basis.

Risk assessments are also included within reports submitted to Members as part of the risk management process. Members are provided with the financial, legal and risk implications of recommendations they are being asked to approve and the consequences of not approving recommendations or "not taking the decision at that time".

(c) Best Value and Comprehensive Performance Assessment (CPA)

Each year the Council publishes its Best Value Performance Plan showing how it performed against national and local performance indicators.

At its meeting on 3rd June 2004, the Council resolved to seek Voluntary Engagement with the Government in order to secure progressive improvement in the performance of the Council. Therefore in June 2004, the Council requested voluntary engagement from the ODPM and

a deferral of the CPA planned for September 2004. These requests were accepted. As part of this agreement the Council was given, and accepted, the CPA category of a “poor” council in September 2004

The ODPM appointed a Lead Official and a Monitoring Board. The Recovery Plan was approved by Council in October 2004 and submitted to the ODPM on 1st November 2004. This was subsequently replaced with the Improvement Plan covering the period July 2006 to June 2007 being approved at Council in September 2006.

The Monitoring Board has monthly meetings to assess the Council's progress against its Improvement Plan. Progress is also reported monthly to the Performance Management Board.

The Council requested an early CPA against the new 2006 Framework in order to validate the Improvement Plan and identify areas of improvement which will be added to our next Improvement Plan update. The Council underwent a full CPA Inspection in Feb/March 2007. As preparation to that the Council undertook a CPA Self Assessment in January 2007. The Corporate Assessment Report was published on 12th June 2007 and gave the CPA Category as poor which was in line expectations.

The report highlighted four areas for improvement, namely are:-

- Place the customer at the heart of Council activity.
- Develop and enhance councillor capacity in order that they can contribute effectively to the development of a high performing Council.
- Ensure that there are sufficient resources and capacity to deliver the breadth and pace of change required by the Council in order to deliver high quality services for local residents.
- Ensure that performance management consistently leads to performance improvement.

(d) Financial Management

The Council's financial management framework for 2006/07 is summarised as follows:

- An annual capital and revenue budget and setting of the Council Tax
- Capital and Revenue Monitoring
- Reporting the annual outturn position to the Council.

Financial monitoring relates to the perpetual evaluation of performance in financial terms. The process incorporates the following:

- Close down of monthly accounting period.
- Reports issued to Heads of Service and budget holders comparing annual budget to actual expenditure to date.

- Discussions between designated accountants and budget holders to identify areas of potential over and under spending.
- Quarterly Integrated Financial and Performance monitoring report to Members including identification and explanation of variances and actions required to ensure total actual expenditure remains within budget.

(e) Performance Management

The fundamentals of performance management are becoming increasingly embedded in the way the Council operates. A performance management framework is in place and can be summarised as follows

- a. Setting targets within service business plans and within individual team members PDR.
- b. Data collection and calculation of local and national Performance Indicators
- c. Monthly monitoring at Departmental and Corporate Management Teams
- d. Monthly reporting to Members
- e. Quarterly Integrated Financial and Performance monitoring report to Members including explanation of instances of not meeting target and actions required to improve performance.
- f. Reporting of annual results to Council

Throughout 2006/07 Members and Officers became increasingly focused on the management of performance which resulted in improvements in the performance indicators compared to 2005/06.

(f) Partnerships

The Council has a duty under the Local Government Act 2000 to promote the social, environmental and economic well being of their area. To fulfil this duty the Council entered into the Community Safety Partnership as directed by the Home Office.

The Council acts as the “accountable body” for the local Community Safety Partnership. This means that the Council is responsible for ensuring that any grant monies received by the Community Safety Partnership are expended for the purpose they were intended.

4. Review of Effectiveness of Internal Controls

4.1 Introduction

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of internal audit and the Statutory Officers within the Council who have a responsibility for the maintenance and development of the internal

control environment. The review is also informed by comments made by the Council's external auditors and other review agencies and inspectorates.

Control	Review of Effectiveness
<p>Statutory roles of Council's Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.</p>	<p>Council, Cabinet, Committees, Chief Executive, Corporate Directors and Heads of Service have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements.</p> <p>The Chief Executive, Corporate Director (Services) and Heads of Service have signed a statement acknowledging their responsibilities in achieving reasonable levels of internal control in the services and systems within their remit.</p>
<p>Internal Audit provides an independent and objective assurance across the whole range of the Council's activities.</p>	<p>Under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006), the Council has a responsibility for maintaining an effective Internal Audit function. This responsibility is delegated to the Council's Section 151 Officer. The Internal Audit Section reports to the Section 151 Officer through the Audit Services Manager. Internal Audit's primary role is to provide an independent and objective opinion on the Council's internal control system and how it supports and promotes the achievement of the Council's objectives.</p> <p>The Section 151 Officer is supported by the Audit Board, which is responsible for monitoring and reviewing the Council's risk, control and governance processes. The Audit Board provides an independent perspective and a process of constructive challenge. The Audit Board operates within their agreed Procedure Rules and Terms of Reference, which were both reviewed and updated during February 2007.</p> <p>Internal Audit's work is directed by a risk based Annual Audit Plan, which is approved by the Council's Audit Board. The section reviews, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.</p>

Control	Review of Effectiveness
	<p>The Audit Board approved the 2006/07 Audit Plan on the 28th March 2006. The Audit Plan progress was reported at each Audit Board meeting during 2006/07.</p> <p>For 2006/07, the section delivered 90% of the planned audit work. This included all eleven key financial system audits and a further eleven operational reviews.</p> <p>The section was subject to an annual review by the Council's external auditors during March and April 2007. The aim of the review was to establish the effectiveness of the Internal Audit function.</p> <p>The external auditors are able to place reliance on the work of the section, as detailed in the 2005/06 Interim Memorandum.</p>
<p>External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to their statutory functions and codes of practice.</p>	<p>The Council's Internal Control arrangements are assessed as one of the five areas in the Use of Resources for 2006. The Council received a score of 2 out of 4. This is an improvement from the previous score. The external auditor noted the arrangements for risk management, a fully resourced internal audit operating with relevant codes of practice and the Audit Board. A number of recommendations were made including embedding risk management throughout the organisation, monitoring compliance with financial regulations and providing ethics training to Members and officers. The Council has responded to these and developed or amended action plans to address the issues.</p>
<p>Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the Council in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by</p>	<p>Risk management is a key cornerstone of effective overall governance and is important in providing the Council with a mechanism to make critical decisions as to its financial plans and funding arrangements.</p> <p>During 2006/07 the Council completed a full</p>

Control	Review of Effectiveness
Cabinet.	<p>review of its risk management arrangements. This included:</p> <ul style="list-style-type: none"> • Updating the Council's Risk Management Strategy, which was approved by the Executive Cabinet on the 7th March 2007. • Redesigning the risk management process, documentation and reporting arrangements. • Reviewing the Risk Management Steering Group membership and function to ensure it added value to the new process. <p>During the beginning of 2007, all Council service areas had reviewed and updated their risk register and work on the updated Corporate Risk Register was nearing completion.</p> <p>The Council has also held the first of several Risk Management training sessions for staff. The training will cover general risk management principles and the Council's new approach.</p>
Standards of Financial Conduct and the Prevention and Detection of Fraud	<p>It is management's responsibility to ensure that there are appropriate controls in place to prevent loss through fraud and error. The Council uses a range of measures to ensure that effective governance is in place. These include:</p> <ul style="list-style-type: none"> • Anti Fraud & Corruption Strategy. • Confidential Reporting Code. • Quarterly Fraud Newsletters. • Contract Procedure Rules. • Financial Regulations and Internal Control Framework. • Internal Audit section. • Benefit Fraud Investigators • Money Laundering Policy. • NFI data matching exercise.
Provision of effective, efficient and responsive systems of financial management.	The Council's external auditor issued an unqualified opinion within the statutory deadline on the Statement of Accounts for

Control	Review of Effectiveness
	<p>2005/06 confirming that it fairly presented the financial position of the Council as at 31st March 2006</p> <p>The Council achieved an overall score of 2 out of 4 in the annual use of resources assessment. This was an improvement from the previous years score of 1 out of 4 and is external recognition of improvements made within financial systems and the financial standing of the Council</p> <p>Internal Audit has completed eleven key financial system reviews during 2006/07:</p> <ul style="list-style-type: none"> • Asset Management. • Budgetary Control & Strategy. • General Ledger & Bank Reconciliations. • Treasury Management. • Creditors. • Payroll. • Debtors. • Council Tax. • NNDR. • Benefits. • Customer Service Centre. <p>Internal Audit's opinion is that the overall systems of financial management are basically sound. This is based on:</p> <ul style="list-style-type: none"> • One system operating effectively. • Six systems being basically sound. • Four systems having identified weaknesses. <p>The main systems that need improvements are:</p> <ul style="list-style-type: none"> • NNDR. • Debtors. • Treasury Management. • Creditors. <p>Action plans have been agreed to improve</p>

Control	Review of Effectiveness
<p>Codes of practice are issued by external bodies in respect of Council services and processes with which the Council is expected to comply.</p>	<p>controls in all eleven key financial systems.</p> <p>The Council has complied with the 2003 CIPFA Code relating to Capital Finance & Treasury Management and a report was presented to Cabinet on 13th June 2007</p> <p>The Council's accounts have been prepared in line with various legislation and guidance documents including the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2006 A Statement of Recommended Practice (the 2006 SORP), the CIPFA Best Value Accounting Code of Practice and applicable Financial Reporting Standards (FRS).</p>
<p>Ensuring the economical, effective and efficient use of resources</p>	<p>The Council's Value for Money arrangements are assessed as one of the five areas in the Use of Resources for 2006. The Council received a score of 1 out of 4. This was unchanged for the previous score however the Council considers that it has made progress in the following areas</p> <ul style="list-style-type: none"> • Development of a VFM strategy to present how the Council aims to embrace VFM • Development of departmental action plans within business plans to be monitored quarterly by Corporate Management Team • Raising the profile of VFM through member training and workshops
<p>The Council's Overview and Scrutiny Arrangements</p>	<p>The Council has appointed a Scrutiny Steering Board to discharge the functions conferred by Section 21 of the Local Government Act 2000 i.e. to perform all overview and scrutiny functions on behalf of the Council.</p> <p>In addition two other Boards have been set up: Performance Management Board to have overall responsibility for monitoring</p>

Control	Review of Effectiveness
	and driving the performance improvement of the Council and an Audit Board which is responsible for monitoring the good stewardship of the Authority's resources through the work of the Internal Audit function.
Performance monitoring processes are in place to measure progress against objectives and to provide for remedial action where appropriate.	<p>The Council has in place a performance management framework. The Assistant Chief Executive is responsible for co-ordination of performance data, and Performance Leads and Co-ordinators have been appointed for each Service Area to help ensure that performance management is embedded across the Council. Performance is regularly reported to the Performance Management Board.</p> <p>During 2006/07, external auditors were required, for the first time, to review management arrangements over data quality. The Council received an overall score of one out of four and the external auditor made a number of recommendation which the Council s currently addressing.</p>
Continued implementation of Best Value reviews and related improvement plans.	These reviews have not been undertaken due to the necessity to focus on the Improvement Plan.
Reports received from external agencies and inspectorates.	<p>The Council has been classified as 'poor' under a CPA Inspection carried out in Feb/March 2007. This was in line with expectations as the review is retrospective.</p> <p>The Council undertook a Department for Work and Pensions (DWP) self assessment of policies and procedures in benefits. The result of the assessment improved our score rating from 1 to 3 i.e. a rating of "good"</p> <p>The Council Strategic Housing Service was assessed by the Audit Commission as "poor (0 stars) with uncertain prospects for improvement". The Council has developed</p>

Control	Review of Effectiveness
	an action plan to address the concerns identified.
Delivery of services by trained, skilled and experienced personnel.	<p>The Council has demonstrated its commitment to staff through the relaunch of its Performance and Development Review process in the year.</p> <p>The Council continue to follow its action plan to address the weakness highlighted by the recent Investors in People (IIP) inspection and is working to achieve reaccreditation in 2008.</p> <p>The Council has launched its Bromsgrove Way Management Charter and Modern Manger Framework which sets out clearly for all managers what to do and how to do it. This is underpinned by a range of training open to all staff.</p>

5. Significant Internal Control Issues

- 5.1 On the basis of this statement compiled by officers following a review of the Council Processes and reviewed by the Council's Corporate Management Team, we are satisfied that the Council considers that there are sufficient mechanisms in place to ensure a reasonable assurance of effectiveness of the system of internal control. The Council will continue to develop the controls in place to secure the system to be embedded in the fabric of the organisation.
- 5.2 The Council is committed to ensuring that all necessary measures are taken to further develop controls that are currently in place. The key activities for the Council during subsequent months to enhance the control environment will be:-
- To address the areas for improvement highlighted in the CPA report and incorporate these into the Council improvement plan for 2007/08
 - To implement the action plans in relation to Value for Money and to demonstrate the Councils achievement of VFM in the delivery of services.

- To continue to enhance the risk management awareness and focus within the Council with regular review and monitoring of departmental and corporate risk registers.
- To continue to embed performance management across the Council so as to improve its performance in all areas. To undertake performance “clinics” with Heads of Service to identify areas of declining performance and to plan for improvements.
- To improve the arrangements for data quality as identified in the KLOE assessment. This includes preparation of a data quality strategy to support the Councils commitment to improving the quality of data. In addition managers will focus on the need to provide data quality checks within their policies and procedures and there is to be an Internal Audit Review of data quality and performance indicators during 2007/08.

We are satisfied that these steps will address improvements and we will review their implementation and operation as part of our next annual review.

Jayne Pickering
Head of Financial Services

Councillor Roger Hollingworth
Leader of the Council

Date

Date

GLOSSARY OF TERMS

ABBREVIATIONS

The symbol “k” following a figure represents thousand.
The symbol “m” following a figure represents million.

ACCRUALS

This is the accounting concept that income and expenditure are shown in the financial year they are earned or incurred, not as money is received or paid.

ADDED YEARS

Additional years of service awarded to increase benefits of employees taking early retirement.

BUDGET

The Council’s statement of spending plans for both revenue and capital for a financial year, expressed in financial terms.

CAPITAL EXPENDITURE

Capital expenditure is expenditure on acquisition or construction of assets which have a value to the Council for more than one year. Examples are land, buildings, vehicle, plant and equipment and computer software. Capital Expenditure can also be used to enhance existing assets so as to significantly prolong their useful life, increase their market value or increase the use of the asset.

CAPITAL FINANCING

This term describes the method of financing capital expenditure. The principal methods are loan financing, leasing, capital receipts, capital grants and contributions from third parties.

CAPITAL RECEIPTS

Income received from the sale of the Council’s fixed assets such as land and buildings. This money is available, subject to rules laid down by Central Government to finance new capital expenditure or to repay debt.

COLLECTION FUND

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. The fund accounts for income which is collectable from Council Tax and National Non Domestic Rates (NNDR) payers and for payments to the major precepting authorities and to the Government in relation to NNDR.

CONTINGENT LIABILITIES

Potential losses for which a future event will establish whether a liability exists and for which it is inappropriate to set up a provision in the accounts.

COUNCIL TAX

The Council Tax is the main form of local taxation in England, Scotland and Wales and is used to fund the service provided by local Council's and Police and Fire Authorities. The base for the tax is residential property. Each dwelling is allocated to one of eight bands coded by letters A through H on the basis of its assumed capital value as of 1st April 1991. The basic amount of Council tax, expressed as the annual levy on a Band D property, is calculated by dividing the revenue expenditure requirement by the Council tax base. The Council tax amounts of properties in other bands are calculated by applying ratios set by central Government to the basic amount of Council tax.

CREDITORS

This is monies owed by the Council to others for goods and services that have been supplied but not paid for by the end of the financial year.

DEBTORS

This is sums owing to the Council from others for goods and services that they have received but have not been paid for by the end of the financial year.

DEFERRED CAPITAL RECIEPTS

These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

DEFERRED CHARGES

Deferred charges are capital expenditure which does not create a tangible asset for the Council. An example would be a grant made to another organisation for them to use for capital expenditure.

DEFERRED LIABILITIES

These are creditor balances repayable after at least one year.

EARMARKED RESERVES

These are reserves set aside for a specific purpose, a particular service or type of expenditure.

FIXED ASSETS

These are tangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

Gross Expenditure and Gross Income arise from the provision of services as show in the General Fund. Net Expenditure is the cost of service provision after the income is taken into account.

HOUSING SUBSIDY

This represents a Government grant payable towards the cost of providing Local Council housing and the management and maintenance of that housing.

INTANGIBLE ASSETS

Intangible assets relate to capital expenditure which does not create a physical asset for the Council, e.g. computer software, but which provides benefit for a period of more than one year.

LEASING

This is a method of financing capital expenditure where a rental charge for an asset is paid for a specific period. There are two forms of lease, 'finance leases' which transfer substantially all the risks and rewards of ownership to the lessee and other leases which are known as 'operating leases'.

NATIONAL NON-DOMESTIC RATE (NNDR)

Businesses pay national non domestic rates instead of Council Tax. It is a levy calculated by multiplying the national rate in the pound set by central Government by the rateable value of the property the business occupies. It is also often referred to as business rates. Non domestic rates are collected from businesses by billing authorities and paid over to the national pool. These monies are then redistributed back to the Council and other authorities based on a standard amount per head of local adult population. The amount is fixed at the beginning of each financial year.

PRECEPT

A precept is a charge raised by one authority on another authority to meet its net expenditure. The major precepting authorities for this Council which precept on the Collection Fund are Worcestershire County Council, West Mercia Police Authority and Hereford and Worcester Fire and Rescue Authority. The local precepting authorities, which precept directly on the Council's General Fund, are the 20 Parish Councils within the Bromsgrove area.

PROVISIONS

These are sums of money set aside to meet specific expenses which are likely or certain to be incurred, but where the amounts cannot be accurately determined or dates on which they will arise.

RESERVES

These are sums of money set aside to net the cost of specific future expenditure.

REVENUE SUPPORT GRANT

This is the Government Grant provided by the Department of Communities and Local Government (DCLG), which is based on the Government's perception as to what should be spent on local services via the Formula Spending Share. The amount provided by the DCLG is fixed at the beginning of each financial year.

REVENUE BALANCES

These reserves represent surplus accumulated from previous years which can be used in the future.

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th June 2007

ANNUAL AUDIT AND INSPECTION LETTER

Responsible Portfolio Holder	Councillor Roger Hollingworth
Responsible Head of Service	Chief Executive

1. SUMMARY

- 1.1. The Audit Commission and Council's External Auditor (KPMG LLP) has issued the Annual Audit and Inspection Letter. A copy of the report is attached at Appendix A.
- 1.2. Members will note that the Annual Audit and Inspection Letter addresses a number of matters, however the letter is less detailed than usual due to the forthcoming publication of the Council's Comprehensive Performance Assessment (CPA).
- 1.3. This report was considered by the Cabinet on 13th June 2007.

2. RECOMMENDATIONS

- 2.1 Members are asked to note the Annual Audit and Inspection Letter.

3 ANNUAL AUDIT AND INSPECTION LETTER

- 3.1 Attached at Appendix A is the Annual Audit and Inspection Letter. The letter provides an overall summary of the Audit Commission's assessment of the Council.
- 3.2 The two main actions arising from the report are that the Council should ensure that:
 - 3.2.1 Continued progress is developed in the way the Council uses its resources. In particular there needs to be significant progress in demonstrating value for money; and
 - 3.2.2 Sustained progress is achieved in strategic housing services through the delivery of the improvement plan.
- 3.3 With regard to value for money the Council has approved a value for money strategy and is currently developing a schedule of value for money reviews in order to improve the Council's position with regard to this.

3.4 On the strategic housing service an improvement plan was formulated which is on target for delivery.

4. FINANCIAL IMPLICATIONS

4.1 None.

5. LEGAL IMPLICATIONS

5.1 None.

6. CORPORATE OBJECTIVES

6.1 In support of the Council's objective of Improvement.

7. RISK MANAGEMENT

7.1 None.

8. CUSTOMER IMPLICATIONS

8.1 None.

9. OTHER IMPLICATIONS

Procurement Issues - None
Personnel Implications - None.
Governance/Performance Management - contained In the annual audit letter.
Community Safety including Section 17 of Crime and Disorder Act 1998
Policy - None.
Environmental - None.
Equalities and Diversity - None.

10. OFFICERS CONSULTED ON THE REPORT

Chief Executive	Yes
Corporate Director (Services)	Yes
Assistant Chief Executive	Yes

Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	Yes
Head of Organisational Development & HR	Yes
Corporate Procurement Team	No

CONTACT OFFICER

Name: Kevin Dicks - Chief Executive

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Tel: (01527 881400)

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Annual Audit and Inspection Letter

Bromsgrove District Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Contents

Our overall summary	4
Action needed by the Council	4
How is Bromsgrove District Council performing?	5
Service inspections	6
Financial management and value for money	7
Conclusion	10
Availability of this letter	10

Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the external audit of the Council, undertaken by its appointed auditor, KPMG LLP ("KPMG") Jon Gorrie and from any inspections that have been undertaken in the last year. This report is presented in advance of the publication of the Council's first Comprehensive Performance Assessment (CPA), which will present a more detailed analysis of overall performance. This Letter would usually include our review of how well the Council has progressed (our Direction of Travel report). Because the Council has been accepted for a CPA categorisation assessment, the Direction of Travel assessment did not take place.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are as follows.
 - The Council's performance in the Use of Resources Assessment shows significant improvement. Overall the Council meets minimum requirements and its performance is now adequate. Performance in the key area of value for money remains poor and remains below minimum requirements.
 - The Council's strategic housing service was assessed as being poor (0 star) with uncertain prospects for improvement. This indicates a need to deliver significant improvements, and the Council has prioritised actions designed to achieve this.
 - A more detailed assessment of overall council performance and improvement priorities will be identified in the imminent publication of CPA.

Action needed by the Council

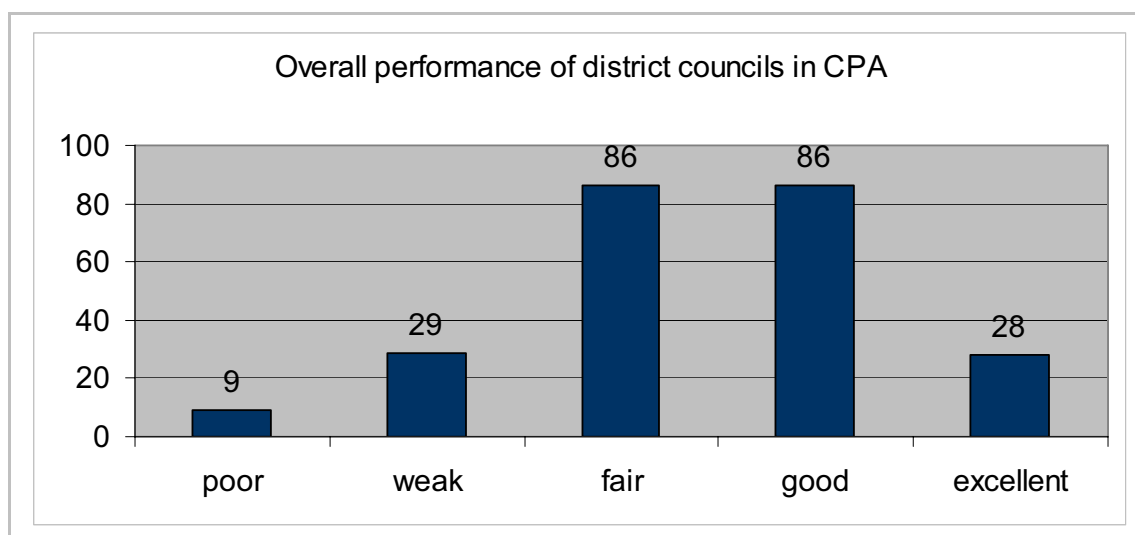
- 4 The Council should ensure that:
 - continued progress is delivered in the way the Council uses its resources. In particular there needs to be significant progress in demonstrating value for money; and
 - sustained progress is achieved in strategic housing services through the delivery of the improvement plan.

How is Bromsgrove District Council performing?

- 5 The Council is unique in England in that it was not subject to all aspects of Comprehensive Performance Assessment. In June 2004 the Council requested engagement with the Office of the Deputy Prime Minister. As a consequence of the council's request for engagement the Audit Commission agreed to change its approach to the council's CPA. It agreed that the assessment would not take place as planned along with the other Worcestershire district councils in September 2004. As part of the agreement to do this the council was given, and accepted, a CPA category as a poor council. The Council will continue to be categorised as a poor council until such time as the commission completes a full CPA.
- 6 CPA assessments have been completed in all other district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. An updated corporate assessment for this Council is scheduled to report in June 2007. The following chart is the latest position across all district councils.

7

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

Service inspections

- 8 In July 2006 we published a inspection of the Council's strategic housing service. This judged that the Council provided a poor (0 star) service with uncertain prospects for improvement.
- 9 The service was judged to be poor for a range of reasons. There was no overarching vision, a lack of comprehensive service standards, a lack of leadership on diversity and equality, poor quality temporary accommodation and a weak approach to delivering value for money. The council has not achieved a balance of supply in the local housing market and its approach to strategic planning and private sector housing were not having the necessary impacts.
- 10 Despite the overall poor judgement the service did have a number of positive aspects. For example the Council has good up to date housing stock condition information and an effective understanding of local housing needs.
- 11 The service had uncertain prospects for improvement for a range of reasons. There was a lack of leadership in setting a clear strategic vision and a weak track record of improvement. Difficult decisions on affordable housing and homeless services had been avoided. Performance management arrangements were not effective, and there was a continuing lack of focus on achieving value for money.
- 12 There were however, a number of more encouraging signs. For example council staff had a good range of skills and experience and there was a good focus on reducing the use of bed and breakfast accommodation.
- 13 The Council has responded positively to the publication of our report. A detailed improvement plan has been developed and a high priority has been given to delivering significantly better performance. In February 2008 we will conduct a re-inspection which will assess how much progress has been made.

Financial management and value for money

- 14 KPMG has issued separate reports to the Council setting out the findings of the 2005/06 audit work. These reports included:
- an Interim Report, setting out the findings of work completed prior to the commencement of the audit of accounts;
 - a Report to Those Charged with Governance, summarising the findings of the accounts audit prior to issuing the audit opinion;
 - an Annual External Audit Report, giving an overview of all our work in 2005/06 and our findings from our review of management arrangement over data quality;
 - a report providing feedback on our Use of Resources work for the year; and
 - a review of the role of the Monitoring Officer.
- 15 KPMG has also issued the following statutory opinions to the Council during the year:
- an unqualified opinion on your accounts;
 - a conclusion on your arrangements for the use of resources 2005 which stated that these arrangements are inadequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited and complies with statutory requirements.
- 16 KPMG's findings are an important component of the CPA framework described above. In particular, the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).

- 17 For the purposes of the CPA, KPMG has assessed the Council’s arrangements for use of resources 2006 in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	1 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1: inadequate performance; 2: adequate performance; 3: performing well; 4: performing strongly)

- 18 The key issues arising from our audit during the year are as follows:
- 19 Use of Resources and Value for Money Conclusion.
- During our work for on UOR 2006, the Authority scored 2 on the first four themes of Use of Resources, representing a clear improvement from last year when the overall score was 1. This is the consequence of some notable developments to the Authority’s policy framework and procedures and improvements to monitoring by management and Members – for example, budgetary control.
 - The key challenge for the Council in future is to imbed its processes and use its mechanisms in place to delivery cost effective and good quality services to its users. We have set out our findings in more detail in our ‘Use of resources feedback 2006 report.
- 20 Management arrangements over data quality.
- The Audit Commission for the first time required auditors to review management arrangements over data quality. We reviewed the management arrangements over data quality using Key Lines of Enquiry (KLOEs) set by the Audit Commission. We gave the arrangements in place a score of 1, indicating that they did not meet the minimum standards set out in the KLOEs. The Council needed to demonstrate more clearly its commitment to data quality in its key corporate documents and policies and improve its arrangements for reviewing underlying data and data quality training for staff.
- 21 We reported our findings in detail with specific recommendations to improve the management arrangements over data quality in our Annual External Audit Report issued in February 2007.

22 Financial Statements

- During our financial statements audit we did not find any material errors however we made a number of performance improvement observations relating to asset management and investments. We detailed our findings and recommendations in our ISA 260 Report to Those Charged with Governance in September 2006.

Conclusion

- 23 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the executive cabinet on 13 June 2007.
- 24 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

- 25 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website.

Name Sandy McMillan
Relationship Manager

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th JUNE 2007

2007-2010 INTERNAL AUDIT STRATEGY AND SELF ASSESSMENT

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

1. Summary

- 1.1 To present a summary of the Internal Audit self assessment against the standards detailed in the new CIPFA Code of Practice for Internal Audit in Local Government.
- 1.2 To present the 2007-2010 Internal Audit Strategy.

2. Recommendation

- 2.1 The Audit Board is recommended to note the Internal Audit self assessment against the standards detailed in the new CIPFA Code of Practice for Internal Audit in Local Government.
- 2.2 The Audit Board is recommended to note and approve the 2007-2010 Internal Audit Strategy.

3. Background

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom sets out the proper practices for the Internal Audit service. A revised Code of Practice was issued during 2006.
- 3.2 To enable Internal Audit functions to evaluate their compliance with the revised Code of Practice, a self assessment document was circulated. A copy of the self assessment document was obtained and completed by Internal Audit during February 2007. The self assessment evaluates the sections compliance with all of the Code's standards and enables the Internal Audit service to detail full, partial or no compliance with each standard.

4. CIPFA Code of Practice for Internal Audit Self Assessment

4.1 The self assessment has 195 standards under eleven subheadings. The table below details the level of compliance with each subheading as at February 2007:

Subheading	No of Standards	Full	Partial	No
Scope of Internal Audit	21	14	6	1
Independence	17	14	2	1
Ethics for Internal Auditors	11	9	2	0
Audit Committees	11	9	2	0
Relationships	14	9	2	3
Staffing, Training and CPD	11	11	0	0
Audit Strategy and Planning	21	13	2	6
Undertaking Audit Work	18	11	3	4
Due Professional Care	11	8	3	0
Reporting	32	28	1	3
Performance, Quality and Effectiveness	28	25	1	2
TOTAL	195	151	24	20

4.2 Where partial or no compliance has been established, an Action Plan of improvements has been collated. The main improvements under each subheading are:

- Scope of Internal Audit:
 - define the role and resource requirements for fraud and consultancy work.
 - consider the Council's risk management arrangements as part of the annual audit planning process.
 - determine how the audit service can be provided in partnership and how assurances will be obtained.
- Independence:
 - define how declarations and/or conflicts of interest will be documented.
- Ethics for Internal Auditors:
 - establish a rotation process for Internal Audit assignments.
- Audit Committees:
 - seek approval for the 2007-2010 Internal Audit Strategy and the section's objectives.
- Relationships:
 - define how Internal Auditors work with other Council staff in obtaining assurance.
 - establish a good working relationship with the Council's external auditors, including regular meetings.
 - establish a dialogue with the necessary regulatory and inspection agencies.

- Audit Strategy and Planning:
 - collate the 2007-2010 Internal Audit Strategy, include the necessary areas as detailed in the Code of Practice and seek Audit Board approval.
- Undertaking Audit Work:
 - collate an audit document retention policy.
- Due Professional Care:
 - define Auditor confidentiality and disclosing material information.
- Reporting:
 - establish audit report circulation process.
- Performance, Quality and Effectiveness:
 - establish a process for reviewing service objectives against the 2007-2010 Internal Audit Strategy and Financial Services Business Plan.

4.3 The Action Plan of improvements will be implemented by January 2008. Detailed in the table below is a summary of compliance with the Code before and after the improvements have been implemented.

Compliance Level	Pre-Action Plan Implementation	Post Action Plan Implementation
Full compliance with the Code's Standards	151	185
Partial compliance with the Code's Standards	24	5
No compliance with the Code's Standards	20	5
TOTAL	195	195

4.4 The ten areas detailed in 3.4 where there will be partial or no compliance with the Code are:

Subheading	Standard	Comment	Compliance
Independence (2.1.2)	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	The sections preferred approach is to involve Auditors at any stage where there experience is required.	No
Undertaking Audit Work (8.1.1 c)	Does the Audit Brief set out timing of the audit?	The timing of the audit is agreed during the annual planning process.	No

Subheading	Standard	Comment	Compliance
Undertaking Audit Work (8.1.1 d)	Does the Audit Brief set out resources?	Each review is allocated to one Auditor, who consults with the customer during the entire process.	Partial
Undertaking Audit Work (8.1.1 e)	Does the Audit Brief set out reporting requirements?	Report distribution is agreed at the end of the review.	No
Undertaking Audit Work (8.2.3)	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	The Internal Audit Manual contains sufficient details on interim reporting.	Partial
Undertaking Audit Work (8.3.3)	Is there an access policy for audit files and records?	The Internal Audit Manual contains sufficient details on audit file security.	Partial
Reporting (10.2.6 b)	Is the report circulation included in the brief for each individual audit?	Report distribution is agreed at the end of the review.	No
Reporting (10.3.3)	Where appropriate, is a revised opinion given following a follow up audit and reported to management?	Audit opinions are given following each full review not when recommendations are followed up.	Partial
Performance, Quality and Effectiveness (11.1.2 a)	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of each individual audit?	The quality review process and "number of recommendations accepted" evaluates audit effectiveness.	Partial
Performance, Quality and Effectiveness (11.3.2 a)ii)	Does the performance management and quality assurance framework include as a minimum a comprehensive set of targets to measure	Performance indicators are monitored monthly and separate report is issued to the Head of Financial	No

Subheading	Standard	Comment	Compliance
	performance which are included in service level agreements?	Services.	

5. **2007-2010 Internal Audit Strategy**

- 5.1 Following completion of the self assessment, the main identified improvement was the need to adopt a three year Internal Audit Strategy. The document sets out the future strategy for the Internal Audit service for the period 1st April 2007 to 31st March 2010. It is intended to demonstrate how Internal Audit supports the Council in delivering its overall vision, values and objectives.
- 5.2 The strategy provides assurances that the Council complies with all legal, audit and inspection requirements. The document also intends to clearly establish how the service will contribute to the Council's corporate governance arrangements, risk management processes and key internal control systems over the next three years.
- 5.3 The Internal Audit Strategy 2007-2010 is based on best practice guidance and documentation. The strategy forms the basis of Internal Audit work over the next three years and the document covers the following areas:
- Aims and Objectives.
 - Role and Purpose of Internal Audit.
 - Internal Audit Service Delivery.
 - Internal Audit Assurance Process.
 - Anti Fraud and Corruption.
 - Advice and Consultancy.
 - Internal Audit Resources.
 - External Assessments.
 - Related Documents.
 - Audit Review Categories.
 - Available Audit Resources.
 - Internal Audit Performance Indicators.
- 5.4 The strategy will be subject to ongoing review to ensure the Internal Audit section is proactive in its response to all internal and external initiatives, standards and regulations.

6. **Financial Implications**

- 6.1 None outside existing budgets.

7. **Legal Implications**

- 7.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective

system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

7.2 The Internal Audit service is required to comply with the proper practices as detailed in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

8. Corporate Objectives

8.1 Council Objective 02: Improvement.

9. Risk Management

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

- Non-compliance with Internal Audit standards and regulations for Local Government.
- Ineffective Internal Audit service.
- Lack of forward planning and the Internal Audit service not contributing to the Council's improvement agenda.

9.2 These risks are being managed as follows:

- Non-compliance with Internal Audit standards and regulations for Local Government.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Lack of forward planning and the Internal Audit service not contributing to the Council's improvement agenda.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

10. Customer Implications

10.1 No customer implications.

11. Other Implications

11.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	None
Community Safety including Section 17 of the Crime and Disorder Act 1998	None
Policy	None
Environmental	None
Equalities and Diversity	None

12. Others Consulted on the Report

12.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

13. Appendices

13.1 Appendix A: 2007-2010 Internal Audit Strategy.

Background Papers

None.

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Bromsgrove
District Council

www.bromsgrove.gov.uk

Internal Audit Strategy

2007-2010



Internal Audit Strategy 2007-2010

Contents

Ref.	Description	Page No.
1.	Introduction	3
2.	Aims and Objectives	3
3.	Role and Purpose of Internal Audit	4
3.1	- Definition	4
3.2	- Service of Objectives	4
4.	Internal Audit Service Delivery:	5
4.1	- Factors Affecting Service Requirements	5
4.2	- General Approach	5
4.3	- Internal Audit Plans	6
4.4	- Recommendation Tracking	7
4.5	- Corporate Projects	7
5.	Internal Audit Assurance Process:	8
5.1	- Audit Services Manager Annual Report	8
5.2	- Internal Audit Performance	8
5.3	- Audit Report Grading	9
5.4	- Corporate Governance Arrangements	10
5.5	- Risk Management	10
5.6	- Alternative Assurance Processes	11
6.	Anti Fraud and Corruption:	12
6.1	- General Approach	12
6.2	- Proactive Work	12
7.	Advice and Consultancy:	12
7.1	- General Approach	12
7.2	- Further Improvements	13
8.	Internal Audit Resources:	13
8.1	- Internal Audit Reporting Line	13
8.2	- Internal Audit Structure	13
8.3	- Partnership Working	14
9.	External Assessments:	15
9.1	- External Audit	15
9.2	- Comprehensive Performance Assessment	15
9.3	- Use of Resources Assessment	15
9.4	- Other Inspection Agencies	16
Appendix A	Related Documents	17
Appendix B	Audit Review Categories	18
Appendix C	Available Audit Resources	19
Appendix D	Internal Audit Performance Indicators	20

1. Introduction

This document sets out the future strategy for the Internal Audit service for the period 1st April 2007 to 31st March 2010. It is intended to demonstrate how Internal Audit supports the Council in delivering its overall vision, values and objectives:

Vision Working together to build a District where people are proud to live and work, through community leadership and excellent services.

Values Leadership.
Partnership.
Customer First.
Equality.

Corporate Objective Improvement.

This strategy will give the Council confidence that it complies with all legal, audit and inspection requirements. It is intended to clearly establish how the service will contribute to the Council's corporate governance arrangements, risk management processes and key internal control systems over the next three years. The strategy is supported by the relevant documentation listed in Appendix A.

2. Aims and Objectives

The Internal Audit Strategy 2007-2010 is based on best practice guidance and documentation. The strategy forms the basis of Internal Audit work over the next three years and its main aims will be to:

- Continue to develop and promote the role of Internal Audit within the Council;
- Reflect the statutory requirements of the Accounts and Audit Regulations 2003 (as amended 2006) and the proper Internal Audit practices as detailed in the CIPFA Code of Practice for Internal Audit in Local Government;
- Assist the Council in fulfilling their requirements as detailed in Section 151 of the Local Government Act 1972;
- Implement the development requirements to cope with the demands of the Comprehensive Performance Assessment (CPA), the Council's external auditors and other inspection regimes;
- Contribute to the constantly changing local government environment and ensure that where possible, the section is involved in the modernising government agenda; and
- Assist in the implementation of the Council's Risk Management Strategy and corporate governance arrangements.

To continue the ongoing development of the Internal Audit section and to meet the challenges outlined above it is intended that the main aims of Internal Audit over this strategy period will be to:

- Adapt the audit approach to meet the requirements that may arise from CPA, Use of Resources assessment, the Council's external auditors and other inspection regimes;
- Consider audit requirements arising from the Council's Risk Management Strategy and corporate governance arrangements;
- Continue the systems audit approach in conjunction with external audit and adapt its application where necessary;
- Review the current audit approach and consider new tools and techniques to constantly improve the service provided;
- Consider moving towards a more risk based internal audit approach (RBIA);
- Regularly update the audit activity areas detailed in the Rolling Three Year Audit Plan to help deliver the Council's objectives;
- Encourage and assist management in recognising its responsibility to:
 - Introduce effective control systems.
 - Assign adequate line management responsibilities.
 - Operate secure procedures.
- Review Internal Audit's staffing requirements and develop and train auditors to achieve and complete their duties in a manner which meets the customers requirements and fulfils professional standards; and
- Embrace the use of information technology and computer software within the Internal Audit section so that audit performance can be enhanced.

Within the Council's current structure, the Internal Audit function is placed under the Head of Financial Services responsibility. The Audit Board has specific responsibility for monitoring the effectiveness and performance of the Internal Audit section.

3. Role and Purpose of Internal Audit

3.1 Definition

The Institute of Internal Auditors defines the Internal Audit service as:

"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."

3.2 Service of Objectives

The objectives for the Internal Audit section are to:

- Give independent assurance to senior management and Council Members that the Authority's significant risks are adequately managed and that it has a sound internal control system; and

- Advise on risk management and internal control to ensure that these are continually improving and optimised.

Service specific objectives are detailed in the Financial Services Business Plan and the Internal Audit Manual. The detailed roles and responsibilities of the service are contained within the terms of reference for the service as laid out in the Audit Charter.

4. Internal Audit Service Delivery

4.1 Factors Affecting Service Requirements

The Internal Audit section has been undergoing a period of considerable change over the last two years and this is set to continue. The key drivers affecting the service requirements are:

- Under the Accounts and Audit Regulations 2003 (as amended 2006), the Council is required to publish an annual Statement on Internal Control. Internal Audit work is a key source of information for this statement;
- The service makes a significant contribution to the external auditors 'Use of Resources' judgement in relation to risk management, internal control and fraud prevention. This affects the Council's Comprehensive Performance Assessment;
- The external auditors carry out an annual assessment of the adequacy of the Internal Audit service. This is reported on in their annual Audit and Inspection Letter;
- The external auditors also use the work of the Internal Audit service to fulfil their requirements under their Code of Practice. This approach requires the completion of a number of fundamental systems audits each year; and
- The service must demonstrate compliance with the CIPFA Code of Practice for Internal Audit in Local Government.

The Internal Audit profession is moving away from a systems based audit approach to a risk based internal audit (RBIA) approach. To assist in this approach, the section has adopted an Audit Risk Model Policy, which enables all potential auditable areas to be risk assessed and prioritised accordingly.

4.2 General Approach

To ensure there is continuity in the basic audit approach and the section's objectives are achieved, it is intended that Internal Audit resources will concentrate primarily on the same audit activity headings in the initial stages of this period, as those identified previously:

- Key Financial Systems (Payroll, Benefits, Creditors, Budgetary Control, etc.);
- Operational Audits (the Depot, Leisure Centres, Car Parks, etc.);
- Information Technology reviews;

- Contracts and Projects;
- Frauds and Investigations;
- Risk Management process;
- Corporate Governance arrangements; and
- General advice and ad-hoc reviews.

It is also intended that the Internal Audit section will continue to develop its consultancy role and advisory service to assist customers in improving their levels of efficiency and effectiveness.

The audit approach will need to be adapted to meet new challenges such as the revised CPA requirements, the local government agenda, external auditor requirements and other inspection regimes. Internal Audit may also be required to review and assess the benefits that may arise from departmental reviews and inspections.

During the strategy period, the aim is for the Internal Audit section to move towards a system of risk based auditing. However, until the Council is sufficiently risk mature to enable this approach to be effective, a system based auditing style will be utilised.

System audits are necessary to provide sufficient information to enable Internal Audit to provide an annual opinion on the adequacy of controls in the Audit Services Manager's Annual Report.

4.3 Internal Audit Plans

Internal Audit plans will continue to be prepared on an annual basis using the adopted Audit Risk Model Policy. The Annual Audit Plan will feed into the Rolling Three Year Audit Plan. This approach enables the section to risk assess all Council activities on an annual basis and focus resources on the high priority areas. The Annual Audit Plan is split into Individual Audit Plans for each Auditor. Progress against these plans will be monitored on a weekly basis in order to:

- Ensure that all areas have sufficient audit coverage and that adequate resources are available;
- Establish that the requirements of the Council's external auditors; and
- Monitor and compare actual performance against the Annual Audit Plan.

Appendix B categorises the types of reviews that Internal Audit will undertake on an annual basis:

- Category A: Key financial systems, such as Budgetary Control and Benefits, which are the Section 151 Officer's audit priority areas and are required to be reviewed annually;
- Category B: High profile or high risk systems that currently need to be reviewed and followed up at least every two years; and

- Category C: Lower risk systems that are reviewed on a rotational basis. It is intended that all these areas will be reviewed once during the strategy period.

A summary of the available audit resources over the three-year strategy period is included in Appendix C. The total available audit days will determine the annual level of coverage that Internal Audit can provide.

When risk assessing each auditable area, as detailed in the Audit Risk Model Policy, both objective and subjective elements are considered. Objective factors relate to the levels of income, expenditure, staff and transaction volume, whilst subjective elements include the consideration of internal controls, quality of management, organisational impact and likelihood of risk. The Council's Corporate Risk Register is also considered when preparing annual plans, and audit-day allocations will be reviewed to take account of changes to the risk register, as appropriate.

4.4 Recommendation Tracking

On a quarterly basis the section will monitor progress on the implementation of "Priority 1" recommendations. This is done using the Recommendation Tracker report and process.

An update on progress is reported to the Audit Board for discussion and further action.

4.5 Corporate Projects

Within the Annual Audit Plan there is limited scope for the service to complete corporate level audits, such as

- Project Management;
- Performance Management;
- Data Quality;
- Equalities and Diversity;
- Information Management; and
- Corporate Projects (i.e. Spatial Project, Purchase Order Processing Project, etc.).

The Council can also utilise external sources to provide assurance for any corporate initiatives. Sources could include self assessments, benchmarking exercises or partnership working. Internal Audit will be involved, as and when required.

5. Internal Audit Assurance Process

5.1 Audit Services Manager Annual Report

The Account and Audit Regulations require the Council to maintain an adequate and effective Internal Audit service in accordance with proper internal audit practices. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which sets out proper practice for internal audit, requires the Audit Services Manager to provide an Annual Report to those charged with governance. The report includes an opinion on the overall adequacies of the internal control environment in operation within the Council.

Management are responsible for developing and maintaining the internal control framework and to ensure compliance. The Internal Audit section is then responsible for forming an independent opinion on the adequacy of the system of internal control.

The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working as required. This is a key part of the Authority's internal control system as it measures and evaluates the adequacy and effectiveness of controls so that:

- The Council can establish the extent to which they can rely on the whole system; and
- Individual managers can establish the extent to which they can rely on the systems and controls for which they are responsible.

The Audit Services Manager Annual Report covers the following main areas:

- Opinion on the Council's Internal Control Environment;
- Internal Control Weaknesses;
- Basis of Audit Opinion;
- Anti-Fraud Work; and
- Summary of Internal Audit Delivery and Performance.

The Audit Services Manager Annual Report is submitted to the Council's Audit Board for consideration and approval and forms part of the Statement on Internal Control documentation.

5.2 Internal Audit Performance

The Internal Audit section has adopted 13 local performance indicators. These performance indicators are set annually and approved by the Audit Board. Details of the section's annual performance indicators are attached in Appendix D and are designed to monitor the:

- Delivery of the Annual Audit Plan, in terms of reviews completed and available resources;
- Level of audit days classed as productive;
- Number of audit reviews completed within budgeted timescales;
- Level of consultation before and after each review;
- Draft and final report turnaround;
- Number of recommendations accepted; and

- Section's customer feedback rating.

The performance indicators are monitored and reported on a monthly basis. The summary report is issued to the Head of Financial Services.

5.3 Audit Report Grading

Internal Audit's approach to completing a review is to establish the main operational areas and determine the control objective for each area. Once the review is completed, Internal Audit arrives at an overall opinion on the adequacy of controls in place, based on each control objective summary and the Auditors professional judgment. Following each review, a final report is prepared which includes the overall opinion on the adequacy of internal controls tested.

Internal Audit's opinion on the overall effectiveness of the controls in place falls into three categories:

Operating Effectively: Overall, the controls that are in place provide a level of assurance that the system's objectives will be met.

Basically Sound: The basic acceptable level of controls are in place, although improvements can be made to ensure the system fully meets its objectives.

Identified Weaknesses: The controls in place do not provide an acceptable level of assurance that the system's objectives will be met.

Included in each final report is an action plan of recommendations. A timescale for implementing the recommendations is agreed with the Service Manager. Internal Audit recommendations fall under three priorities:

Priority 1: Recommendations that are fundamental to improving the controls within the system.

Priority 2: Recommendations that are important to improving the controls within the system.

Priority 3: Recommendations that are desirable to improving the controls within the system.

Since April 2006, the implementation of "Priority 1" recommendations have been monitored and reported to the Audit Board quarterly.

5.4 Corporate Governance Arrangements

CIPFA/SOLACE has produced a framework for Local Authorities to use to review their existing corporate governance arrangements (“Corporate Governance in Local Government – A keystone for Community Governance”). The key recommendations included in the document are:

- Local Authorities should review their corporate governance arrangements against the CIPFA/SOLACE framework; and
- Local Authorities should prepare, adopt and maintain an up-to-date Local Code of Corporate Governance, including arrangements for ensuring its implementation and ongoing application.

It is intended that the document be used as a model of best practice and includes the collation of a Local Code of Corporate Governance, which should document all the policies, procedures and system the Council has adopted to ensure good governance.

Local Authorities should also make an annual Statement of Assurance on how the Council is complying with its Local Code, including how it has monitored the effectiveness of its corporate governance arrangements during the year and any planned changes in the coming period.

Bromsgrove District Council adopted a Local Code of Corporate Governance in May 2005. The document was reviewed during May 2006 and has been approved by the Council’s Executive Cabinet. It is planned that the Local Code of Corporate Governance will be reviewed annually and reported to the Audit Board.

The Local Code of Corporate Governance designates the Council’s Senior Management Team as the body responsible for the overseeing, monitoring and reviewing of the operation of the Code in practice. In addition, the Head of Financial Services has been given the responsibility for independently reviewing and reporting on the adequacy and effectiveness of the Local Code and the extent to which the Council complies with it. This annual review is currently completed by the Internal Audit section.

5.5 Risk Management

Risk management is of particular relevance to Internal Audit in its objective of providing assurance to the Authority as to the effectiveness of its internal control environment.

Support for the management of the process is also in the remit of the service which includes maintenance of the risk management documentation and providing appropriate guidance and training to employees and officers.

The Council revised its Risk Management Strategy in March 2007 to ensure the Council’s risk management arrangements are kept up to date and assist the Authority in achieving its objectives. The aim is to move the organisation towards being risk enabled to allow risk based auditing to be implemented across the Authority.

The Council has introduced a Risk Management Steering Group, in which Internal Audit plays an active role. The Steering Group reviews Service Risk Registers on a cyclical basis and quarterly up dates on risk register actions are presented to the Audit Board.

The Risk Management Strategy includes a Risk Management Framework that details the responsibilities and reporting lines for risk management throughout the Authority.

Currently it is not possible to provide dedicated resources to assist projects risk assessments or decision making risk assessments. It is a longer term objective for the service to be able to provide this support once the requirement for risk management development work has reduced. In the mean time, some support may be available over the strategy period from the project and contingency day allocation.

The results of risk management processes will be fed into the annual audit planning process. It is also the intention of this strategy that operational risk registers are used to inform individual internal audits.

In the meantime, the Internal Audit section plans to maintain the normal audit approach but supplement this with some reviews of operational or partnership registers and facilitation of registers not yet in place.

5.6 Alternative Assurance Processes

In addition to Internal Audit work, the Council is able to gain assurances that procedures are in place and controls are working effectively from several sources. These include:

- Performance Management processes;
- Civil Contingencies Act Self Assessment;
- Equalities Impact Assessments;
- Project Management Methodology;
- Control Risk Self Assessments;
- The Royal Society for the Prevention of Accidents Inspections;
- Improvement Action Plans; and
- Individual service risk assessments.

The Internal Audit section will continue to work with all sections of the Council to ensure appropriate internal controls are in place and the Authority's business risks are managed. This will involve developing cross service relations to assist sections in completing risk assessments, identifying process improvements and enhancing internal controls.

6. Anti Fraud and Corruption

6.1 General Approach

The role of Internal Audit to date has been mainly to carry out special investigations when requested by departments or as a result of an allegation raised through the Council's Confidential Reporting Code.

The service is responsible for maintaining an appropriate Anti Fraud & Corruption Strategy, which includes a Fraud Response Plan, to ensure that the approaches are consistent and meet legal requirements.

The Internal Audit section has also adopted a Fraud Risk Assessment Policy to ensure allegations are appropriately prioritised and given due consideration.

6.2 Proactive Work

The annual Use of Resources assessment requires the Council to undertake proactive anti fraud and corruption work to raise ethical standards and reduce fraud. To ensure this, the section will contribute by:

- Reviewing annually the Anti Fraud & Corruption Strategy;
- Reviewing annually the Fraud Risk Assessment Policy and the section's general approach to completing investigations;
- Contribute when Council documents are updated (i.e. Confidential Reporting Code, Financial Regulations, etc.);
- Issue quarterly Fraud Newsletters to raise awareness;
- Lead on the National Fraud Initiative; and
- Implement recommendations made by external bodies regarding anti fraud and corruption work.

Consideration will also be given to creating a Corporate Fraud team. The team could meet on an ad-hoc basis and consider allegations that require input from several sections. Members of the team could include representatives from Human Resources, Internal Audit, Legal Services and Benefit Fraud.

The section will also consider utilising external resources on investigations, as required. Utilising any external resources will be subject to the necessary needs assessment and will be completed in line with the Council's approved procurement practices.

7. Advice and Consultancy

7.1 General Approach

Within the current audit planning process, a certain amount of contingency is allocated for additional audit reviews, corporate initiatives and consultancy. This time is used when the section is asked to contribute to unforeseen assignments during the financial year.

To date, the section has been involved in providing advice and guidance on several Council initiatives including projects, working groups and process improvements.

7.2 Further Improvements

During the past few years the internal audit profession has been moving towards a more consultative approach that adds value to an organisation. It is the intention of the Internal Audit section to continue to embrace these developments and provide more advice and consultancy resource to the Council.

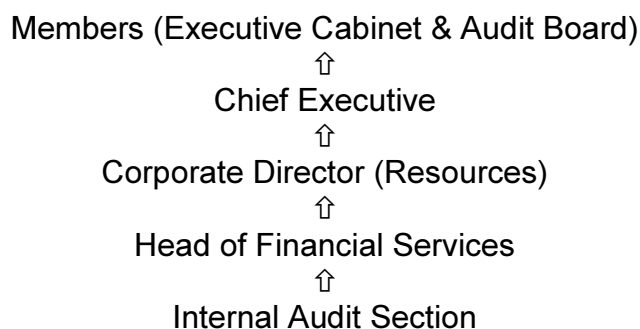
The support provided by Internal Audit will depend on the current pressures being placed on the Council, and any resource provided will be subject to the usual risk assessment.

8. Internal Audit Resources

8.1 Internal Audit Reporting Line

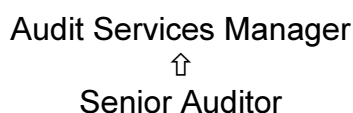
Within the Council's current structure, Internal Audit report direct to the Head of Financial Services. However, due to the section's status, additional reporting lines to the Chief Executive, Audit Board and Full Council are also available as and when required.

As detailed in CIPFA Code of Practice for Internal Audit in Local Government, the section is independent of all other functions within the Council and reports solely as Internal Audit. The current reporting line is:



8.2 Internal Audit Structure

The current Internal Audit section consists of four members of staff, with a mixture of qualifications and experience. The section is structured as follows:



↑
Auditor ↔ Auditor

The Council is committed to meeting the training and development needs of its employees. As part of this process, each internal auditor will have an annual personal development review to discuss their training needs throughout the strategy period.

It is anticipated that training requirements will involve auditors extending their knowledge and experience, with particular emphasis on reviewing the ongoing developments within local government internal auditing and the Council's changing service provision.

To ensure audit resources are used effectively and maximum coverage is provided throughout this period, it is proposed that internal auditors will continue to operate both individually and as part of a team, depending upon the complexity and nature of the work to be completed.

8.3 Partnership Working

There are currently pressures on Local Authorities to look for efficiency savings when providing services. This agenda is also applicable to the Internal Audit section. During the strategy period, a range of alternative service delivery options will be considered, including:

- Greater cross boundary working and communications with other Councils in Worcestershire;
- The potential for sharing audit resources with other Local Authorities;
- Working with other Internal Audit sections on Worcestershire County initiatives and projects;
- Improved communications with relevant groups, i.e. Hereford and Worcester Audit Group, Midlands District Chief Internal Auditors, etc.; and
- The possibility of procuring additional audit resources to provide the service.

Depending on the pressures placed on the section during the strategy period, a mixture of the above options will be considered. Additionally, when providing the service in partnership, certain parameters would be agreed, including:

- Operational arrangements.
- Access rights of both parties.
- Audit reporting and assurance process.
- Duration of any partnership working.

All necessary arrangements would be agreed in advance of any partnership working.

9. External Assessments

9.1 External Audit

During 2007 the Council is due to change its external auditors for the first time for several years. This is a key time and it will be important that the Internal Audit section develops a good working relationship with the Council's new external auditors. During this strategy period, the main aims with regard to the Council's external auditors will be to:

- Work together to add value to the Council's operations;
- Establish clear communication lines and cooperate on audit work issues;
- Receive technical support in specialist areas;
- Exchange relevant information for areas of mutual interest to avoid duplication of effort; and
- Undertake joint audits where particular knowledge or expertise is required.

Effective working relations with the Council's external auditors are important and will assist in ensuring that the internal control framework is being complied with.

9.2 Comprehensive Performance Assessment

The Council was subject to its first CPA review during February 2007. The CPA framework pulls together a range of information in an objective and comparable way to reach an overall judgement on the Council's performance. The framework has four common components:

- Corporate Assessments;
- Use of Resources Assessments;
- Service Assessments; and
- Direction of Travel Assessments.

The Internal Audit section will continue to assist the Council during future CPA's. The section will also contribute, where necessary, to ensure the Council implements any recommendations made and that processes and controls are improved.

9.3 Use of Resources Assessment

The Use of Resources Assessment is conducted annually in all Councils. It provides a judgement on how well a Council manages and uses its financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. The assessment covers the following themes:

- Financial Reporting;
- Financial Management;

- Financial Standing;
- Internal Control; and
- Value for Money.

The Use of Resources Assessment helps the Council to establish where improvements need to be made in managing its financial resources.

The Council's most recent assessment was for 2006. An overall Use of Resources Assessment score of 2 was achieved, on a scale of 1 to 4, where 4 is the highest. Following this assessment, the Internal Audit section has adopted an action plan of improvements to enable the Council to achieve a score of 3 by the end of 2007.

Throughout this strategy period the section will continue to assist the Council in attaining the top Use of Resources score.

9.4 Other Inspection Agencies

In addition to external audit, the CPA and Use of Resources Assessment, the Council is also subject to ongoing scrutiny by a number of outside review bodies. These reviews include:

- Service inspections (i.e. Housing, Leisure, etc.);
- Information Commissioner assessments.
- Investors in People;
- National Fraud Initiative;
- Charter Mark and ISO9000 reviews;
- Surveillance Commissioner assessments; and
- Benefit Fraud Inspectorate.

The Internal Audit section will assist any external inspection where possible. The section will also contribute, where necessary, to ensure the Council implements any recommendations made and that processes and controls are improved.

Related Documents

Annual Audit Plan.

Anti Fraud & Corruption Strategy.

Audit Board Operating Arrangements and Terms of Reference.

Audit Customer Care Charter.

Audit Leaflet.

Audit Risk Model Policy.

Confidential Reporting Code.

Contract Procedure Rules.

Financial Services Business Plan.

Financial Standing Orders and Regulations.

Fraud Newsletter.

Fraud Risk Assessment Policy.

Internal Audit Charter.

Internal Audit Manual.

Internal Audit Protocol.

Internal Control Framework.

Local Code of Corporate Governance and Statement of Assurance.

Local Code of Practice for Internal Audit in Local Government.

Risk Management Strategy.

Rolling Three Year Audit Plan.

Statement of Accounts.

Statutory Officer Responsibilities.

Audit Review Categories

Category A: Key Financial Systems

These are the Council's key financial systems and are required to be reviewed on an annual basis as part of the Section 151 Officer's duties and the Council's external auditors requirements. Audit reviews included within the category are:

- Asset Management.
- Benefits.
- Budgetary Control.
- Council Tax.
- Creditors.
- Customer Service Centre.
- Debtors.
- General Ledger & Bank Reconciliation.
- NNDR.
- Payroll.
- Treasury Management.

Category B: High profile or high risk systems

These reviews are of high profile or high risk systems that currently need to be reviewed and followed up at least every two years. Audit reviews included within the category are:

- Car Parks.
- CCTV.
- Depot.
- Dolphin Centre.
- Equality and Diversity.
- Information Management.
- Procurement.
- Refuse Collection and Recycling.
- Section 106 Monies.
- Street Cleansing.

Category C: Low Risk Systems

These reviews are of lower risk systems that are reviewed on a rotational basis. It is intended that all these areas will be reviewed at least once during the strategy period. Audit reviews included within the category are:

- Data Protection.
- Development Control.
- Disabled Facilities Grants.
- E-mail Policy and Internet Usage.
- Freedom of Information.
- Insurance.
- Licensing.
- Local Sports Centres.
- Members Expenses.
- Parks and Open Spaces.
- Sports Development.
- Stores and Garage.
- Travel and Subsistence (Officers).
- Travel Concessions.

Available Audit Resources

The Internal Audit section staffing levels are planned to remain constant throughout the strategy period.

Day allocation per year:

Description	Audit Services Manager	Senior Auditor	Auditor	Auditor	TOTAL
Audit Reviews	60	155	125	135	475
Projects	40	10	40	30	120
Contingency	13	17	20	20	70
Previous Years Audit Work	1	3	3	3	10
Fraud	18	7	10	10	45
Audit Administration	0	5	5	5	15
Audit Management	80	15	15	15	125
Leave	48	48	42	42	180
TOTAL	260	260	260	260	1040

Internal Audit Performance Indicators

The Internal Audit section adopts annual performance indicators that are approved by the Audit Board. The performance indicators for 2007/08 are detailed below. The performance indicators for the rest of the strategy period will be set before each financial year.

No	Description	2007/08 Target	Comments
1	Delivery of Audit Plan (Jobs Finished)	90%	Number of jobs planned for the year actually finished
2	Delivery of Audit Plan (Resources)	95%	Planned total time for month v total time actually booked for month
3	Productive audit time	69%	Actual time booked for the month that is classed as productive
4	Assignments completed within budget	85%	Number of finished jobs completed within budget
5	Response time to fraud/allegations	5 days	Amount of time taken to respond to an allegation
6	Pre-audit meetings held for each audit	100%	A pre-audit meeting held for each audit
7	Post audit meetings held for each audit	100%	A post audit meeting held for each audit
8	Draft report turnaround	5 days	Time taken to issue the draft report, following the post audit chat
9	Final report turnaround	10 days	Time taken to issue the final report, following receipt of the draft report action plan
10	Number of recommendations accepted	95%	Number of recommendations reported that were accepted / implemented
11	Post Audit Questionnaires returned	85%	Number of post audit questionnaires returned
12	Customer feedback rating	92%	Number of customer surveys returned that scored the service as good
13	Attendance	8 days	Sick days taken per member of staff

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th JUNE 2007

2006/2007 INTERNAL AUDIT OPINION

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

1. Summary

- 1.1 To present the 2006/2007 Internal Audit Opinion on the Council's internal control environment.

2. Recommendation

- 2.1 The Audit Board is recommended to approve the Internal Audit Opinion report on the Council's internal control environment for 2006/2007.

3. Background

- 3.1 The Account and Audit Regulations require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which sets out proper practice for Internal Audit, requires the Audit Services Manager to provide an annual report to those charged with governance. The report should include an opinion on the overall adequacies of the internal control environment in operation within the Council.
- 3.2 Management are responsible for developing and maintaining the internal control framework and to ensure compliance. The Internal Audit section is then responsible for forming an independent opinion on the adequacy of the system of internal control.
- 3.3 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. This is a key part of the Authority's internal control system as it measures and evaluates the adequacy and effectiveness of controls so that:
- The Council can establish the extent to which they can rely on the whole system; and

- Individual managers can establish the extent to which they can rely on the systems and controls for which they are responsible.

4. Internal Audit Opinion

4.1 The Audit Services Manager's opinion is that Bromsgrove District Council's system of internal control does not fully facilitate the effective exercise of the Council's functions and a number of weaknesses have been identified. Subsequently, only limited assurance can be provided that the Council's internal control system provides the effective, efficient and economic use of the Council's resources.

4.2 This opinion has been arrived at following full reviews of 22 of the Council's key financial and operational systems. From these 22 reviews, overall system opinions can be summarised as:

- Operating Effectively - one system.
- Basically Sound - nine systems.
- Identified Weaknesses - twelve systems.

4.3 The opinions above appear to show very little improvement since 2005/2006. However, when comparing the ten areas reviewed in both 2005/2006 and 2006/2007, good progress has been made. The table below details the how the opinions of the Council's ten key financial systems reviews have changed during the last twelve months:

Opinion Category	2005/06	2006/07
Operating Effectively	0	1
Basically Sound	4	6
Identified Weaknesses	6	3
TOTAL	10	10

4.3 In providing our audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit section can provide to Members and officers is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that may exist, or of all the improvements that may be required.

5. Financial Implications

5.1 None outside existing budgets.

6. Legal Implications

6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective

system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

7. **Corporate Objectives**

7.1 Council Objective 02: Improvement.

8. **Risk Management**

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

- Non-compliance with Internal Audit standards and regulations for Local Government.
- Ineffective Internal Audit service.
- Internal Audit service not contributing to the Council's improvement agenda.

8.2 These risks are being managed as follows:

- Non-compliance with Internal Audit standards and regulations for Local Government.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Internal Audit service not contributing to the Council's improvement agenda.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

9. **Customer Implications**

9.1 No customer implications.

10. **Other Implications**

10.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	None
Community Safety including Section 17 of the Crime and Disorder Act 1998	None

Policy	None
Environmental	None
Equalities and Diversity	None

11. **Others Consulted on the Report**

11.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

12. **Appendices**

12.1 Appendix A: 2006/2007 Internal Audit Opinion.

Background Papers

18th September 2006 Audit Board agenda item 8: 2005/2006 Internal Audit Opinion.

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District Council

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Bromsgrove District Council

Internal Audit Section

Annual Report of the Audit Services Manager

2006/07



Index

No.	Details	Page
1.	Introduction	3
2.	Responsibilities	3
3.	Opinion on the Council's Internal Control Environment	3
4.	Internal Control Framework	4
5.	Basis of Audit Opinion	5
6.	Anti-Fraud	7
7.	Internal Audit Section	7
8.	Summary of Internal Audit Delivery and Performance for 2006/07	9
8.1	2006/07 Internal Audit Plan Delivery	9
8.2	2006/07 Internal Audit Review Methodology and Opinion	10
8.2.1	Internal Audit Review Summary	11
8.2.2	Other Internal Audit Work	13
8.2.3	Planned Reviews Not Completed	14
8.3	2006/07 Internal Audit Performance Indicators	15

1. Introduction

The Account and Audit Regulations require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which sets out proper practice for Internal Audit, requires the Audit Services Manager to provide an annual report to those charged with governance. The report should include an opinion on the overall adequacies of the internal control environment in operation within the Council.

2. Responsibilities

Management are responsible for developing and maintaining the internal control framework and to ensure compliance. The Internal Audit section is responsible for forming an independent opinion on the adequacy of the system of internal control.

The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. This is a key part of the Authority's internal control system as it measures and evaluates the adequacy and effectiveness of controls so that:

- The Council can establish the extent to which they can rely on the whole system; and
- Individual managers can establish the extent to which they can rely on the systems and controls for which they are responsible.

3. Opinion on the Council's Internal Control Environment

The Audit Services Manager's opinion is that during 2006/07 progress has been made on improving the Council's internal control environment. However, for 2006/07, Bromsgrove District Council's system of internal control does not fully facilitate the effective exercise of the Council's functions and a number of weaknesses have been identified. Subsequently, only limited assurance can be provided that the Council's internal control system provides the effective, efficient and economic use of the Council's resources.

This opinion has been arrived at following full reviews of 22 of the Council's key financial and operational systems. From these 22 reviews, overall system opinions can be summarised as:

- Operating Effectively – one system.
- Basically Sound – nine systems.
- Identified Weaknesses – twelve systems.

The opinions above appear to show very little improvement since 2005/06. However, when comparing the ten areas reviewed in both 2005/06 and 2006/07, good progress has been made. The table below details the how the opinions of the Council's ten key financial systems reviews have changed during the last twelve months:

Opinion Category	2005/06	2006/07
Operating Effectively	0	1
Basically Sound	4	6
Identified Weaknesses	6	3
TOTAL	10	10

A summary of the work undertaken during 2006/07, which forms the basis of the audit opinion on the internal control environment, is shown in section 8.2.

4. Internal Control Framework

For 2005/06 there were a number of significant internal control weaknesses at Bromsgrove District Council. During 2006/07 work was ongoing to address these issues and improve the Council's internal control system. The improvements that have been made include:

- Adopting a Money Laundering Policy;
- Revising the Council's Financial Regulations;
- Revising the Council's Contract Procedure Rules;
- Introducing an Internal Control Framework;
- Revising the Council's Confidential Reporting Code;
- Introducing Purchase Order Processing;
- Updating the Business Planning process;
- Revising the Risk Management Strategy, process and documentation;
- Addressing issues raised as part of external inspections (Benefit Fraud Inspectorate, E-Government and Strategic Housing Services); and
- Ongoing work on the Information Management project.

However, during the course of our work, a number of internal control weaknesses have been identified. The main areas include:

- Although a significant amount of work has been completed on the Council's Internal Control framework, this is yet to be fully embedded throughout the organisation. Work will need to be continued during 2007/08 to ensure a fully robust internal control system is in place and is adhered to.
- The need to embed risk management within all aspects of the Council operations. A significant amount of work was completed during the end of 2006/07 to update the Council's Risk Management Strategy and process and this work needs to be completed during 2007/08.
- A number of recommendations have been reported as part of external inspections. The Council needs to ensure all issues included in these reports are addressed and recommendations implemented. Action plans have been created and a number of improvements have already been made following these inspections.
- A number of weaknesses within the Council's procurement processes were identified. Updated Contract Procedure Rules have been adopted and a Central Procurement Section has been established. However, there is still further work to

be done to embed a robust procurement culture throughout the organisation and to develop relevant officer and member financial and procurement procedural skills.

- The need to embed and monitor compliance with the Council's updated Financial Regulations. This will contribute to ensuring the Council's resources are used effectively and efficiently.
- A lack of standard procedure documents for certain key systems across the organisation. Procedure documents are key to the continuity of any Council service and need to be produced. Some work has been completed during 2006/07 and will continue during 2007/08.
- The need to improve budget monitoring procedures and processes across the organisation. The Council also needs to embed a budget ownership and accountability culture, which is linked to employees Performance Development Reviews and Job Descriptions.
- To ensure the aims and objectives of the Council's Spatial Project are delivered and overall service improvements are realised.
- The lack of a standard Council wide Records Management and Document Retention Policy (Electronic Document Management System). We acknowledge that work is ongoing with this project.

Throughout the year, all the control issues identified during audit reviews are subject to a formal report and agreed action plan to mitigate risk. Additionally, from April 2006, any significant control issues or areas where Internal Audit consider that risks are not receiving adequate management attention are reported to Members, through the Audit Board. Necessary action is then taken to ensure these risks are addressed and managed.

5. Basis of Audit Opinion

During 2006/07, a review of Internal Audit documentation was completed. Amendments were made where required and the updated documents were adopted by the section. The documents reviewed were the:

- CIPFA Internal Audit Manual;
- CIPFA Internal Audit Protocol;
- CIPFA Internal Audit Charter;
- Internal Audit Customer Care Charter;
- Service Quality Questionnaire;
- 13 Local Internal Audit Performance Indicators;
- CIPFA Fraud Approach;
- Fraud Newsletter;
- Internal Audit Fraud Risk Assessment Policy;
- Internal Audit Risk Model Policy; and
- Internal Audit Marketing Leaflet.

The above documents assist the Internal Audit section to fulfil their statutory duty and comply with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Code of Practice requires the Internal Audit section to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of the Council's resources. The Council's external auditors (KPMG) undertake an annual assessment of the Council's Internal Audit section, as part of the annual external audit.

The Internal Audit section also completed a self assessment to establish the level of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The assessment evaluates compliance against all of the Code's Standards, detailing either full, partial or no compliance. Where there is partial or no compliance, an Action Plan of improvements has been collated, which should be implemented during 2007/08. Detailed below is a table that summarises the results of the assessment before and after the improvements have been implemented.

Compliance Level	Pre-Action Plan Implementation	Post Action Plan Implementation
Full compliance with the Code's Standards	78%	95%
Partial compliance with the Code's Standards	12%	3%
No compliance with the Code's Standards	10%	2%
TOTAL	100%	100%

The main actions detailed in the improvement plan are to:

- Collate and adopt a three year Internal Audit Strategy;
- Update the Internal Audit Manual with references to Auditor conflicts of interest, disclosing information, rotation on audit reviews and partnership working; and
- Increase communication with the Council's external auditors.

The Council's Audit Board approved the 2006/07 Internal Audit Plan on the 28th March 2006. The Internal Audit Plan was developed using the adopted Internal Audit Risk Model Policy. The policy enables the Internal Audit section to score risk and prioritise all of the Council's key activities. The high risk areas were then included in the Internal Audit Plan, which enabled the section to focus specifically on financial management, corporate improvement agendas and processes. During 2006/07, the section was fully staffed and 100% of audit resources were available to ensure a comprehensive level of audit coverage was achieved.

The scope of the internal control environment, which comprises the whole network of systems and controls established to manage Bromsgrove District Council, exists to ensure that the Council's objectives are met, its resources are used efficiently and effectively and its activities provide value for money.

In providing our audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit section can provide to Members and officers is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a

comprehensive statement of all the weaknesses that may exist, or of all the improvements that may be required.

6. Anti-Fraud

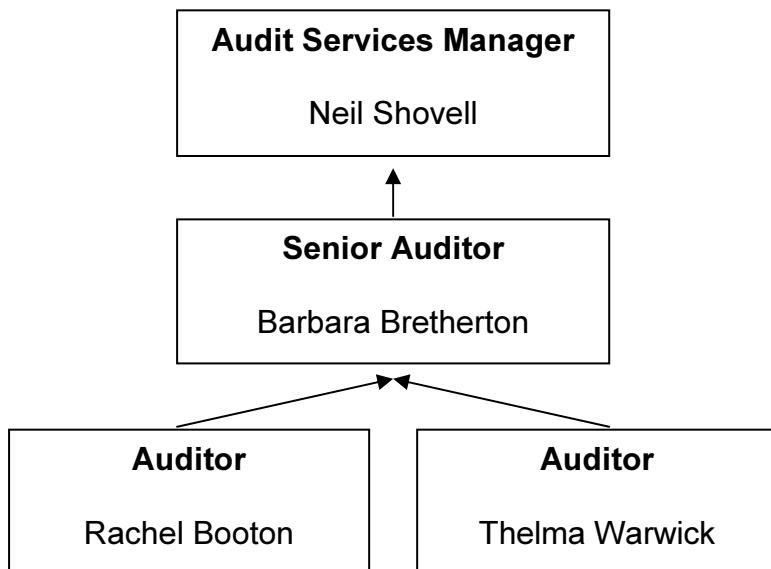
Details of our work in this area are reported on a quarterly basis to the Audit Board and on an ongoing basis to the Section 151 Officer (Head of Financial Services).

The Council's Anti-Fraud and Corruption Strategy was updated during October 2006 to take into consideration the Council's new structure. The Council's Confidential Reporting Code was also updated during March 2007, as it had not been reviewed since 2004. The new Confidential Reporting Code is more robust than the previous version and ensures that the Council and its staff are fully protected when allegations are disclosed. The Confidential Reporting Code was approved by the Executive Cabinet on the 7th March 2007. The Internal Audit section also produces quarterly Fraud Newsletters, which are distributed to staff to raise fraud awareness across the organisation.

Internal Audit assisted in seven fraud and irregularity investigations during 2006/07, which resulted in action being taken where appropriate. However, none of the investigation outcomes presented a significant risk to the Council. The outcome of each review has contributed to the overall audit opinion detailed in section 3. Internal Audit adopts a proactive approach to combating fraud and promoting an anti-fraud culture across the organisation.

7. Internal Audit Section

The Internal Audit section works to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and approved internal policies and procedures. The section consists of four members of staff, with a good mixture of qualifications and experience, and is structured as follows:



Following a period of significant change, 2006/07 was an opportunity for the section to consolidate the previous years work and look forward to a period of stability. However,

during 2006/07 the pace of change continued and the section has achieved the following:

- A fully staffed Internal Audit section;
- Reviewed and updated standard manuals, charters, protocols, procedures and working papers;
- Developed a fully risk focused Internal Audit Plan;
- Expanded the consultancy service offered by the team;
- Embedded a customer focused audit service approach;
- Completed Internal Audit awareness training;
- Introduced audit marketing leaflets and fraud newsletters;
- Reviewed the Council's Anti-Fraud and Corruption Strategy;
- Delivered all of the section's 13 Internal Audit Local Performance Indicators within target;
- Updated the Council's Local Code of Corporate Governance and producing the annual Statement of Assurance;
- Supported the Council's Audit Board;
- Contributed to the Council obtaining a Level 2 on the Use of Resources assessment.

2006/07 proved a challenging year for the Internal Audit section. However, with the work that has already been completed and the positive feedback received from the Council's external auditors (KPMG), the section intend to implement further improvements during 2007/08.

Neil Shovell

Audit Services Manager

June 2007

8. Summary of Internal Audit Delivery and Performance for 2006/07

8.1 2006/07 Internal Audit Plan Delivery

Detailed below is a high level summary on the delivery of the 2006/07 Internal Audit Plan.

Audit Area	Planned Days	Actual Days	Difference	Comments
Key Financial Systems	250	260	+ 10	All the planned Key Financial System reviews were completed and good coverage was achieved.
Operational Audit Reviews	285	308	+ 23	Good coverage of the operational audit reviews was achieved. Additional time spend on facilitating the implementation of the Council's updated Risk Management Strategy.
Projects, Consultancy and Ad-hoc Requests	100	83	- 17	Assistance was provided on several corporate initiatives, including procurement processes, equalities and diversity agenda and money laundering.
Fraud Investigations and Awareness	50	37	- 13	A number of allegations were investigated during 2005/06 which required additional time being allocated from contingency. Work was also done on raising fraud awareness and updating corporate fraud policies.
Administration	20	23.5	+ 3.5	Planned administrative time was utilised.
Management, Training and Performance	133.5	156.5	+ 23	Additional unplanned time was spend on general audit meetings and training.
Annual Leave, Bank Holidays and Sickness	175.5	144	- 31.5	Planned annual leave and bank holiday allocations were used. Overall under spent due to a low sickness rate.
TOTAL	1014	1012	-2	

8.2 2006/07 Internal Audit Review Methodology and Opinion

Internal Audit's approach to completing a review is to establish the main operational areas and detail the control objective for each area. Once the review is completed, Internal Audit comment on each control objective and detail whether they are delivering the desired results. Internal Audit then arrives at an overall opinion on the adequacy of controls in place, based on each control objective and the Auditors professional judgment.

Internal Audit's opinion on the overall effectiveness of the controls in place fall into three categories:

Operating Effectively: Overall, the controls that are in place provide a level of assurance that the system's objectives will be met.

Basically Sound: The basic acceptable level of controls are in place, although improvements to ensure the system fully meets its objectives.

Identified Weaknesses: The controls in place do not provide an acceptable level of assurance that the system's objectives will be met.

Following each review, a final report is issued which includes an action plan of recommendations. A timescale for implementing the recommendations is agreed with the Service Manager. Internal Audit recommendations fall under three priorities:

Priority 1: Recommendations that are **fundamental** to improving the controls within the system.

Priority 2: Recommendations that are **important** to improving the controls within the system.

Priority 3: Recommendations that are **desirable** to improving the controls within the system.

8.2.1 Internal Audit Review Summary

Detailed below is a summary of the overall audit opinion and number of recommendations relating to each review completed during 2006/07.

No.	Review	2005/06 Overall Audit Opinion	2006/07 Overall Audit Opinion	Recommendations			
				Priority 1	Priority 2	Priority 3	Total
1	Asset Management	Basically Sound	Basically Sound	13	5	0	18
2	Benefits	Basically Sound	Basically Sound	4	10	3	17
3	Budgetary Control & Strategy	Identified Weaknesses	Basically Sound	2	11	2	15
4	CCTV – System (incl. Control Room)	N/A	Basically Sound	6	22	7	35
5	Council Tax	Identified Weaknesses	Basically Sound	11	17	0	28
6	Creditors	Basically Sound	Identified Weaknesses	12	6	3	21
7	Customer Service Centre	Identified Weaknesses	Basically Sound	9	16	2	27
8	Data Protection	N/A	Identified Weaknesses	4	7	2	13
9	Debtors	Basically Sound	Identified Weaknesses	8	8	1	17
10	Development Control	N/A	Identified Weaknesses	9	15	1	25
11	General Ledger & Bank Reconciliations	Identified Weaknesses	Operating Effectively	5	4	0	9
12	Haybridge Sports Centre	N/A	Identified Weaknesses	14	20	2	36
13	Housing Enabling	N/A	Identified	5	4	2	11

No.	Review	2005/06 Overall Audit Opinion	2006/07 Overall Audit Opinion	Recommendations			
				Priority 1	Priority 2	Priority 3	Total
			Weaknesses				
14	Museum & TIC	N/A	Basically Sound	2	14	1	17
15	NNDR	Identified Weaknesses	Identified Weaknesses	18	16	2	36
16	Parks & Open Spaces	N/A	Identified Weaknesses	13	17	1	31
17	Payroll	Identified Weaknesses	Basically Sound	3	6	3	12
18	Section 106 Monies	N/A	Basically Sound	9	5	1	15
19	Sports Development	N/A	Identified Weaknesses	7	8	0	15
20	Travel Concessions	N/A	Identified Weaknesses	8	8	4	20
21	Treasury Management	N/A – high level checks completed	Identified Weaknesses	7	12	0	19
22	Woodrush Dual Use Centre – Wythall	N/A	Identified Weaknesses	11	16	4	31
TOTAL				180	247	41	468

8.2.2 Other Internal Audit Work

Detailed below is a summary of the additional audit work completed during 2006/07.

No.	Review	Comments
1	Corporate Governance & Recovery Plan	Internal Audit reviewed the Council's Local Code of Corporate Governance and prepared the 2006/07 Statement of Assurance. These documents were formally adopted by the Council during August 2006.
2	E-Gov - Projects	Internal Audit attended the initial E-Government Steering Group meetings and offered ad-hoc advice and guidance.
3	Financial Regulations	Internal Audit was involved in updating the Council's Financial Regulations and collating the Internal Control framework. These documents were formally adopted by the Council during September 2006.
4	ICT Infrastructure Project	Internal Audit was involved with the Infrastructure Project on an ad-hoc basis. This included overseeing ICT disposals, document scanning, e-mail firewall approvals and ICT Security Policy.
5	Information & Knowledge Management	Internal Audit attended the Information Management Steering Group meetings and offered ad-hoc advice and guidance.
6	Risk Management	Internal Audit was responsible for facilitating the implementation of the Council's updated Risk Management Strategy. This included redesigning the process, documentation and attending Risk Management Steering Group meetings.

8.2.3 Planned Reviews Not Completed

Detailed below is a summary of the planned reviews not completed during 2006/07.

No.	Review	Comments
1	Agency & Casual Staff	A new process for procuring agency staff was introduced during the beginning of 2006/07. It was decided that an audit review would not add any value to the process. The Audit Board approved the removal of this audit assignment on 19 th February 2007.
2	IT Security (Software / Hardware / Back Up)	The ICT section are currently working on their policies and procedures, therefore it was decided not to complete the review. Following the 2007/08 audit planning process, high priority ICT audit reviews were identified. The Audit Board approved the removal of this audit assignment on 19 th February 2007.
3	Staff Leave (incl. Flexi & TOIL)	The Council's new flexible working arrangements were introduced at the beginning of 2006/07. It was decided that an audit review would not add any value to the process. The Audit Board approved the removal of this audit assignment on 19 th February 2007.

8.3 2006/07 Internal Audit Performance Indicators

Detailed below is a summary of Internal Audit's performance for 2006/07, against their adopted Performance Indicators targets.

No.	Performance Indicator	Details	2005/06 Actual	2006/07 Target	2006/07 Actual	Comments
1	Delivery of Audit Plan (Jobs Finished)	Number of jobs planned for the year actually finished	77%	85%	90%	90% of the planned audit coverage was completed for 2006/07
2	Delivery of Audit Plan (Resources)	Planned total time for month compared to actual time booked for month	87%	95%	100%	100% of planned resources have been available during 2006/07
3	Productive audit time	Actual time booked for the month that is classed as productive	69%	67%	68%	68% of internal audit time for 2006/07 was classed as productive
4	Assignments completed within budget	Number of finished jobs completed within budget	72%	85%	93%	Two audit assignments were completed outside budget
5	Response time to fraud/allegations	Amount of time taken to respond to an allegation	1 day	5 days	2 days	All allegations and investigations have been responded to within 5 days for 2006/07
6	Pre-audit meetings held for each audit	A pre-audit meeting held for each audit	100%	100%	100%	Pre-audit meetings have been held for all 2006/07 audit reviews
7	Post audit meetings held for each audit	A post audit meeting held for each audit	100%	100%	100%	Post audit meetings have been held for all 2006/07 audit reviews
8	Draft report turnaround	Time taken to issue the draft report, following the	1 day	5 days	4 days	All draft reports have been issued within 5 days for 2006/07

No.	Performance Indicator	Details	2005/06 Actual	2006/07 Target	2006/07 Actual	Comments
		post audit meeting				
9	Final report turnaround	Time taken to issue the final report, following receipt of the draft report action plan	14 days	10 days	6 days	All final reports have been issued within 10 days for 2006/07
10	Number of recommendations accepted	Number of recommendations reported that were accepted / implemented	98%	90%	99%	99% of recommendations have been accepted for 2006/07
11	Post Audit Questionnaires returned	Number of post audit questionnaires returned	92%	85%	100%	100% of post audit questionnaires have been returned 2006/07
12	Customer feedback rating	Number of customer surveys returned that scored the service as good	84%	90%	100%	100% positive feedback has been received from post audit questionnaires returned during 2006//07
13	Attendance	Sick days taken per member of staff	2 days	8 days	3 days	Staff sick days were within target for 2006/07

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

25th JUNE 2007

LOCAL CODE OF CORPORATE GOVERNANCE

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Head of Financial Services

1. Summary

- 1.1 To present the updated Local Code of Corporate Governance and Statement of Assurance for 2006/2007.

2. Recommendation

- 2.1 The Audit Board is recommended to note and approve the updated Local Code of Corporate Governance and Statement of Assurance for 2006/2007.

3. Background

- 3.1 Corporate governance is "the system by which Local Authority's direct and control their functions and relate to their communities".
- 3.2 On the 18th May 2005, the Executive Cabinet approved the introduction of a Local Code of Corporate Governance. The document enables Bromsgrove District Council to evidence its commitment to the principles of good corporate governance, to operate in an open and accountable manner and demonstrate high standards of conduct and self governance. The three main principles of corporate governance are:
- Openness and inclusivity.
 - Integrity.
 - Accountability.
- 3.3 As part of the Accounts and Audit Regulations 2003 (as amended 2006) there is a requirement for the Authority, as part of its corporate responsibility for the financial management and accounting control systems, to review annually its internal control systems and make a statement on the adequacy of internal control.

- 3.4 As part of this review, the Authority produces a Statement of Assurance, which allows the Council to demonstrate its commitment to corporate governance. The statement summarises how the Council's business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.5 The Local Code of Corporate Governance underpins the Statement of Assurance and provides the supporting documentation to enable the statement to be produced.

4. Local Code of Corporate Governance

- 4.1 The Local Code of Corporate Governance is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework - *Corporate Governance in Local Government: a Keystone for Community Governance*.

The five key dimensions included in the CIPFA/SOLACE guidance are:

Community Focus - by demonstrating that the Council is working for and with the communities, exercising community leadership and promoting the "well being" of the area.

Service Delivery Arrangements - by having arrangements in place to deliver the right services to the right people in the right way and making sure we continue to improve.

Structures and Processes - by maintaining an appropriate political and managerial structure, as well as having up to date and effective processes that support decision making.

Risk Management and Internal Control - by having arrangements in place to identify, manage and minimise risk.

Standards of Conduct - by regulating the behaviour of members and officers and promoting the highest standards of conduct.

- 4.2 In June 2007, a review was completed of the governance arrangements the Authority has embedded, updated or introduced during 2006/2007. Following the review, a number of documents have been added to the Local Code of Corporate Governance:

- Money Laundering Policy.
- Internal Control Framework.
- Council Plan 2007-2010.
- Value for Money Strategy.
- Inclusive Equalities Scheme

An updated version of the Local Code of Corporate Governance has been attached in Appendix A.

5. Statement of Assurance

5.1 Following the governance review, the Statement of Assurance was prepared for 2006/2007. The main areas included in the statement are the:

- Authority's commitment to the principles of good governance.
- Current review mechanism for the Local Code of Corporate Governance.
- Areas that the Authority has shown improvement during 2006/2007.
- Areas that require further attention during future financial years.

5.2 A copy of the 2006/2007 Statement of Assurance has been attached in Appendix B.

6. Financial Implications

6.1 None outside existing budgets.

7. Legal Implications

7.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

8. Corporate Objectives

8.1 Council Objective 02: Improvement.

9. Risk Management

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

- Non-compliance with standards and regulations.
- Ineffective governance arrangements.

9.2 These risks are being managed as follows:

- Non-compliance with standards and regulations.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective governance arrangements.

Risk Register: Corporate

Key Objective Ref.: 2

Key Objective: Effective corporate leadership

9.3 Other local governance risks are managed on individual service risk registers.

10. Customer Implications

10.1 No customer implications.

11. Other Implications

11.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	Effective governance arrangements
Community Safety including Section 17 of the Crime and Disorder Act 1998	None
Policy	None
Environmental	None
Equalities and Diversity	None

12. Others Consulted on the Report

12.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

13. Appendices

13.1 Appendix A: Local Code of Corporate Governance.

13.2 Appendix B: 2006/07 Statement of Assurance.

Background Papers

13th June 2006 Audit Board agenda item 10: Local Code of Corporate Governance.

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Bromsgrove
District Council

www.bromsgrove.gov.uk

Local Code of Corporate Governance



1. Introduction

Corporate Governance “is the system by which organisations are directed and controlled” (Cadbury report 1992). The main document regarding corporate governance within Bromsgrove District Council are the Articles of Constitution and their associated procedures and frameworks, which was adopted during 2002 and updated in 2007.

This code sets out and describes the Council’s commitment to corporate governance, and identifies the arrangements to ensure its ongoing effective implementation and application in all aspects of the Council’s work.

In order to achieve effective corporate governance, the Council has adopted the guidance contained in the Guidance and Framework documents published by CIPFA/SOLACE early in 2001, entitled “Corporate Governance in Local Government”, henceforth referred to as the CIPFA/SOLACE Framework.

Bromsgrove District Council is committed to the principles of good corporate governance and confirms its ongoing commitment and intentions through the development, adoption and continued maintenance of a “Local Code of Corporate Governance”.

This document, Bromsgrove’s “Local Code of Corporate Governance”, therefore sets out and describes the Council’s commitment to corporate governance, and identifies the arrangements that have been made, and will be made, to ensure its ongoing effective implementation and application in all aspects of the Council’s work.

2. What is Corporate Governance?

Corporate governance is “the system by which Local Authority’s direct and control their functions and relate to their communities”.

Bromsgrove District Council recognises that effective local government relies upon establishing and maintaining the public’s confidence in the elected councillors and staff and that the setting of high standards of self governance provides a clear and demonstrable lead to both our existing and potential partners, and therefore provides the basis of effective community governance.

3. What is a Local Code and why is it needed?

Bromsgrove District Council is committed to the principles of good corporate governance and recognises the importance of operating in an open and accountable manner and demonstrating high standards of conduct and self governance.

By publishing a Local Code we are able to show how the principles of good corporate governance will be applied by Bromsgrove District Council and we can demonstrate our commitment to these principles, namely:

- **openness and inclusivity.**
- **integrity.**
- **accountability.**

Fundamental to these principles is the concept of **leadership** and **effective and up to date** systems and processes.

This “Local Code of Corporate Governance” covers the five key aspects of our business, specifically:

Community Focus - by demonstrating that the Council is working for and with the communities, exercising community leadership and promoting the “well being” of the area.

Service Delivery Arrangements - by having arrangements in place to deliver the right services to the right people in the right way and making sure we continue to improve.

Structures and Processes - by maintaining an appropriate political and managerial structure, as well as having up to date and effective processes that support decision making.

Risk Management and Internal Control - by having arrangements in place to identify, manage and minimise risk.

Standards of Conduct - by regulating the behaviour of members and officers and promoting the highest standards of conduct.

4. How will the Council know it has “good corporate governance”?

To satisfy ourselves that our approach is both adequate and effective, we will:

- Set out a series of local procedures and practices which create a framework for good corporate governance in line with best practice.
- Identify and agree the policies and procedures that are essential to demonstrating compliance with this Code.
- Establish systems, processes and documentation to provide evidence that these are effective and up to date.
- Nominate both a Member and an Officer “Corporate Governance Champion” to promote and support effective corporate governance arrangements.

As further evidence of our corporate commitment to good governance we will issue an annual statement of assurance. This statement will set out the arrangements that we have put in place to improve governance and also highlight those areas requiring further work.

This statement can then be used to gauge our year on year improvement in implementing a governance framework and our compliance with our Local Code. This statement will be published within our annual Best Value Performance Plan.

5. Conclusion

Bromsgrove District Council is fully committed to the principles of corporate governance and through the measures outlined within this “Local Code of Corporate Governance” will ensure that adequate arrangements are made for its continued implementation, monitoring and review.

Signed:

K. Dicks

**Chief Executive and Officer
Champion**

Signed:

R. Hollingworth

**Leader of the Council and Member
Champion**

REQUIREMENTS OF THE LOCAL CODE

Dimension 1: Community Focus

When carrying out our general and specific duties and responsibilities, including our ability to exert a wider influence, we undertake to:

- Work for and with our community.
- Exercise leadership in our local community, where appropriate.
- Act in an ‘ambassadorial’ role to promote the well-being of the area through the maintenance of effective arrangements:
 - or explicit **accountability** to our stakeholders for our performance and our **effectiveness** in delivering services and the sustainable use of resources.
 - to demonstrate **integrity** in our dealings in building *effective* relationships and partnerships with other public, voluntary and private agencies.
 - to demonstrate **openness** in all our dealings.
 - to demonstrate **inclusivity** by communicating and engaging with all sections of our community to encourage active participation.
 - to develop and articulate a clear and **up to date** vision and corporate strategy in response to community needs.

We will demonstrate these arrangements by the following:

Requirement	Achieved
Publish an annual report presenting an objective, understandable account of our: <ul style="list-style-type: none"> • activities & achievements. • financial position and performance. This report will include statements: <ul style="list-style-type: none"> • explaining our responsibility for the financial statements. • confirming that we comply with relevant standards and codes of corporate governance. • on the effectiveness of our system for risk management and internal control. 	Annual Accounting and Financial Statements and Financial Report Best Value Performance Plan Budget Book Corporate Plan Council Plan 2007-2010 Council Tax Leaflet Risk Management Strategy Treasury Management Strategy
Publish an annual performance plan presenting an objective, balanced and understandable account and assessment of: <ul style="list-style-type: none"> • our current performance in service delivery. • our plans to maintain and improve service delivery. • 	Best Value Performance Plan Community Plan Corporate Plan Council Plan 2007-2010 Improvement Plan Local Development Framework

<p>Introduce arrangements for the independent review of the financial and operational reporting processes.</p>	<p>Audit / Scrutiny / Performance Management Boards Executive Cabinet External Audit Letter External Inspectorate Reports Internal Audit Function Overview and Scrutiny Procedure Rules Standards Committee</p>
<p>Introduce arrangements to encourage individuals and groups from all sections of the community to engage with, contribute to and participate in the Council's work.</p> <p>Additionally, implement an appropriate monitoring process to ensure that the arrangements work in practice.</p>	<p>Best Value Performance Plan Community Plan Corporate Plan Council Internet and Intranet Sites Council Plan 2007-2010 Customer Feedback Policy and Procedure Customer Panel Inclusive Equalities Scheme Local Development Framework Local Strategic Partnerships Section Business Plans Waste Minimisation Plan</p>
<p>A commitment to openness in all of our dealings, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.</p> <p>By our actions and communications deliver an account against this commitment.</p>	<p>Articles of Constitution Council Results Corporate Plan Council Plan 2007-2010 Improvement Plan Publication of Council Minutes Scheme of Delegation Communications Strategy</p>
<p>Clear channels of communication with all sections of our community and other stakeholders, and have proper monitoring arrangements to ensure that these channels operate effectively.</p>	<p>Articles of Constitution Communications Working Group Communications Strategy Community Plan Council Plan Council Internet and Intranet Sites Customer Feedback Policy and Procedure Customer First Strategy Customer Panel Inclusive Equalities Scheme Local Strategic Partnerships Press and Media Section Publication of Council Reports Attendance at PACT meetings</p>

	2 Neighbourhood Management pilots Chats with the Chief
The vision for our local communities, strategic plans, priorities and targets, are developed through robust mechanisms with the local community and other key stakeholders, and that they are clearly articulated and disseminated.	Council Results Community Strategy Council Plan Housing Strategy 2006 - 2011 Improvement Plan Inclusive Equalities Scheme Local Development Framework Performance Plans Section Business Plans Treasury Management Strategy Value For Money Strategy

Dimension 2: Service Delivery Arrangements

We will seek continuous improvement in our service delivery. We will endeavour to implement agreed policies and make decisions as quickly as possible. We will do this by implementing and maintaining arrangements which:

- discharge our **accountability** for service delivery at a local level.
- ensure **effectiveness** through setting targets and measuring performance.
- demonstrate **integrity** in dealings with service users and in developing partnerships to ensure the 'right' provision of services locally.
- demonstrate **openness** and **inclusivity** through consulting with our key stakeholders, including service users.
- are kept **up to date** and can be adapted to accommodate change and user needs.

We will demonstrate these arrangements by the following:

Requirement	Achieved
Set standards and targets for performance in service delivery on a sustainable basis and with reference to equality policies.	Council Results Customer First Strategy Health & Safety Awareness Training Improvement Plan Inclusive Equalities Scheme Internal Control Framework IT Security Policy Performance Plans Section Business Plans Training Directory

<p>Introduce sound systems for providing management information for performance measurement purposes.</p>	<p>Integrated Finance and Performance Reports Internal Audit Function Performance Management Performance Plans Purchasing Order Processing (POP) Project Cash Receipting Project</p>
<p>Monitor and report performance against agreed standards and targets and develop comprehensive and understandable performance plans.</p>	<p>Best Value Performance Plan External Audit Letter Improvement Plan Integrated Finance and Performance Reports Performance Plans Section Business Plans</p>
<p>Introduce arrangements to allocate resources according to priorities.</p>	<p>Asset Management Plan Budget Process Capital Programme Capital Strategy 2007 – 2010 Council Plan 2007-2010 Integrated Finance and Performance Reports Treasury Management Strategy Value For Money Strategy</p>
<p>Foster effective relationships and partnerships with other public, private and voluntary sector agencies, and consider outsourcing where it is efficient and effective to do so, in delivering services to meet the needs of the local community.</p> <p>Introduce processes to ensure that they operate effectively in practice.</p>	<p>Council Plan External Audit Function External Inspectorate Reports Housing Strategy 2006 - 2011 Inclusive Equalities Scheme Local Development Framework Local Strategic Partnerships Performance Plans Waste Minimisation Plan</p>
<p>Respond positively to external audit and statutory inspectors' recommendations and put in place arrangements for the effective implementation of agreed actions.</p>	<p>Annual Audit Letter External Inspectorate Reports Internal Audit Reports</p>

Dimension 3: Structures and Processes

We need to establish effective political and managerial structures and processes to govern decision making and the exercise of authority within the Council. We will therefore maintain arrangements to:

- define the roles and responsibilities of members and officers to ensure **accountability**, clarity and ordering of our business.
- ensure that there is proper scrutiny and review of all aspects of performance and **effectiveness**.
- demonstrate **integrity** by ensuring a proper balance of power and authority.
- document clearly such structures and processes and to ensure that they are communicated and understood to demonstrate **openness** and **inclusivity**.
- ensure such structures and processes are kept *up to date* and adapted to accommodate change.

We will demonstrate these arrangements by the following:

Requirement	Achieved
Introduce clearly documented protocols governing relationships between members and officers.	Articles of Constitution Members Codes of Conduct Officer – Member Protocol Officer Employment Procedure Rules
The roles and responsibilities of members and officers are clearly defined.	Articles of Constitution Job Descriptions Scheme of Delegation
Ensure that members meet regularly on a formal basis to set the strategic direction for the authority and to monitor service delivery.	Articles of Constitution Executive Cabinet Meetings Calendar Performance Management Standards Committee
Introduce a scheme of delegated powers, which includes those powers that are specifically reserved for the collective decision of the authority or specific members.	Articles of Constitution Scheme of Delegation
Introduce clear, documented and understood processes for policy development, implementation, review, decision-making, monitoring, control and reporting; and formal procedural and financial regulations to govern the conduct of the Council's business.	Medium Term Financial Plan Council Procedure Rules Financial Regulations Integrated Finance and Performance Reports Internal Control Framework IT Security Policy

	<p>Money Laundering Policy Performance Management Performance Plans Purchasing Order Processing (POP) Project Cash Receipting Project Scheme of Delegation Spatial Project Treasury Management Strategy Value For Money Strategy</p>
<p>Introduce an effective member scrutiny process to ensure accountability of decision makers, support the development of policies and initiatives and contribute to continuous improvement in service delivery.</p>	<p>Council Procedure Rules Executive Cabinet Overview and Scrutiny Procedure Rules Standards Committee</p>
<p>Ensure that members are properly trained for their roles and have access to all relevant information, advice and resources as necessary to enable them to carry out their roles effectively.</p>	<p>Articles of Constitution Members Codes of Conduct Member Development Programme</p>
<p>Ensure that the role of any executive member(s) is defined in writing to include responsibility for providing effective strategic leadership to the authority and for ensuring that the authority successfully discharges its overall responsibilities for the activities of the organisation as a whole.</p>	<p>Articles of Constitution Scheme of Delegation</p>
<p>Ensure that the roles and responsibilities of all members, together with the terms of their remuneration and its review are clearly defined in writing.</p>	<p>Articles of Constitution Members Codes of Conduct Scheme of Members Allowances</p>
<p>The Chief Executive will be responsible for all aspects of operational management.</p>	<p>Articles of Constitution Conditions of Employment / Service Functions of the Head of Paid Service Scheme of Delegation</p>
<p>A senior officer will be responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.</p>	<p>Annual Accounting Statement Articles of Constitution Functions of the Chief Financial Officer Scheme of Delegation Financial Regulations</p>

<p>A senior officer will be responsible for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with.</p>	<p>Articles of Constitution Functions of the Monitoring Officer Scheme of Delegation</p>
<p>Ensure that roles and responsibilities of all our senior officers, together with the terms of their remuneration and its review, are defined clearly and in writing.</p>	<p>Appraisal Process Codes of Conduct Conditions of Employment / Service Employee Handbook Equalities Policy Job Descriptions Officer Employment Procedure Rules Statutory Officer responsibilities</p>
<p>Adopt clear protocols and codes of conduct to ensure that the implications for supporting community political leadership are acknowledged and resolved.</p>	<p>Articles of Constitution Codes of Conduct Employee Handbook Members Codes of Conduct Officer – Member Protocol</p>

Dimension 4: Risk Management & Internal Control

We need to establish and maintain a systematic strategy, framework and processes for managing risk. These arrangements will:

- include making public statements to our stakeholders on our risk management strategy, framework and processes to demonstrate our **accountability**.
- include mechanisms for monitoring and reviewing **effectiveness** against agreed standards and targets and the operation of controls in practice.
- demonstrate **integrity** by being based on robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks.
- display **openness** and **inclusivity** by involving all those associated with planning and delivering services, including our partners.
- include mechanisms to ensure that the risk management and control process is monitored for continuing compliance to ensure that changes in circumstances are accommodated and that it remains **up to date**.

We will demonstrate these arrangements by the following:

Requirement	Achieved
Develop and maintain robust systems for identifying and evaluating all significant risks which involve the proactive participation of all those associated with planning and delivering services.	Council Results Member Reports Performance Plans Risk Management Strategy Scheme of Delegation
Introduce effective risk management systems, including systems of internal control and an internal audit function, to ensure compliance with all applicable statutes, regulations and relevant statements of best practice This will ensure that public funds are properly safeguarded and are used economically, efficiently and effectively, and in accordance with the statutory and other authorities that govern their use.	Asset Management Plan Comprehensive Performance Assessment Internal Audit Charter Internal Audit Plan Internal Control Framework Money Laundering Policy Performance Management Risk Management Strategy Value For Money Strategy
Services are delivered by trained and experienced people.	Appraisal Process Job Descriptions Training Directory
Introduce effective arrangements for an objective review of risk management and internal control, including internal audit.	External Audit Function Internal Audit Function Internal Control Framework Performance Management

Maintain an objective professional relationship with our external auditors and statutory inspectors.	External Audit Letter Internal Audit Manual
Publish on a timely basis, within the annual report, an objective, balanced and understandable statement and assessment of the authority's risk management and internal control mechanisms and their effectiveness in practice.	Best Value Performance Plan Annual Accounting and Financial Statements and Financial Report

Dimension 5: Standards of Conduct

The openness, integrity and accountability of individuals within the Council form the cornerstone of effective corporate governance. The Council's reputation depends on the standards of behaviour of everyone in it, whether members, employees or agents.

Therefore, members and officers will:

- exercise leadership by conducting themselves as role models for others within the authority to follow.
- define the standards of personal behaviour that are expected from members and staff and all those involved in service delivery, and put in place arrangements to ensure:
 - **accountability**, through establishing systems for investigating breaches and disciplinary problems and taking actions where appropriate, including arrangements for redress.
 - **effectiveness** in practice through monitoring their compliance.
 - ensure that objectivity and impartiality are maintained in all relationships to demonstrate **integrity**.
 - ensure that such standards are documented and clearly understood to display **openness** and **inclusivity** and are reviewed on a regular basis to ensure that they are **kept up to date**.

We will demonstrate these arrangements by the following:

Requirement	Achieved
Develop and adopt formal codes of conduct defining the standards of personal behaviour to which individual members, officers and agents of the authority are required to subscribe. Introduce appropriate systems and processes to ensure that they are complied with.	Anti Fraud and Corruption Strategy Articles of Constitution Customer First Strategy Employee Handbook Gifts and Hospitality Code IT Members Code IT Security Policy

	<p>Statement of Licensing Policy Members Codes of Conduct Members Training Program Money Laundering Policy Officer – Member Protocol Planning Code of Practice Training Directory</p>
<p>Introduce arrangements to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.</p> <p>Introduce appropriate processes to ensure that they continue to operate in practice.</p>	<p>Anti Fraud and Corruption Strategy Articles of Constitution Benefit Fraud Prosecution Policy Contracts Procedure Rules Customer Feedback Policy and Procedures Customer First Strategy Gifts and Hospitality Code IT Members Code Statement of Licensing Policy Members Codes of Conduct Money Laundering Policy Officer – Member Protocol Planning Code of Practice Revenues Verification & Fraud Strategy</p>
<p>Procedures and operations are designed in conformity with appropriate ethical standards, and we will monitor their continuing compliance in practice.</p>	<p>Articles of Constitution Inclusive Equalities Scheme Members Codes of Conduct Officer – Member Protocol IT Security Policy</p>
<p>Introduce arrangements for whistle blowing to which staff and those contracting with the Council have access.</p>	<p>Confidential Reporting Code Employee Handbook</p>

BROMSGROVE DISTRICT COUNCIL

Local Code of Corporate Governance

Statement of Assurance 2006/07

Bromsgrove District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the authority's affairs and the stewardship of the resources at its disposal.

To this end, the Authority has adopted a code of corporate governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE *Framework Corporate Governance in Local Government: a Keystone for Community Governance*. A copy of the code is on our website at www.bromsgrove.gov.uk or can be obtained from The Council House, Burcot Lane, Bromsgrove, Worcestershire, B60 1AA.

Bromsgrove District Council continues to put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council's Corporate Management Team is responsible for:

- Overseeing the implementation of the code and monitoring the way it operates;
- Reviewing the way the code operates; and
- Reporting annually to the Audit Board on compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, the Head of Financial Services has been given the responsibility to review independently and report to the Audit Board annually, to provide assurance on the adequacy and effectiveness of the Code and the extent of compliance with it.

On the basis of the annual review of Bromsgrove District Council's corporate governance arrangements, the main areas that have shown improvement are:

- 2005/06 accounts being closed within the statutory timeframe and receiving an unqualified opinion;
- Approval of Financial Regulations and Internal Control Framework;
- Approval of the revised Risk Management Strategy and process;
- Revised Customer Feedback Policy;
- Approval of a revised Capital Strategy 2007 – 2010;
- Introduction of an Inclusive Equalities Scheme and achievement of Level 2 of the Local Government Equality Standard (LGES);
- Approval of a Value For Money Strategy;
- Development of an improved Asset Management Plan;
- Approval and publication of the Council Plan 2007 – 2010; and
- Launch of the Council's updated Internet and Intranet websites.

We are satisfied that, except for the matters listed below, corporate governance arrangements are adequate and are operating effectively.

The main areas requiring further attention in order to secure full compliance with the Local Code of Corporate Governance are identified as follows:

- Review and implement the Council's Communications Strategy;
- Embed a risk management culture;
- Continued implementation of the Modern Councillor Programme;
- Embed effective asset management within the Council;
- Implement Purchasing Order Processing system;
- Implement the updated cash receipting system;
- Adopt a revised Community Plan;
- Review and update the Customer First Strategy;
- Adopt a revised version of the Improvement Plan; and
- Implement the IT Security Policy.

We propose over the coming year to take steps to address the above matters to further enhance our corporate governance arrangements.

We are satisfied that these steps will address the need for improvements that were identified in our annual review and we will review their implementation and operation as part of our ongoing review arrangements.

Signed:

K. Dicks

**Chief Executive and Officer
Champion**

Date:

Signed:

R. Hollingworth

**Leader of the Council and Member
Champion**

Date: