



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

THURSDAY 24TH JANUARY 2019 AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

MEMBERS: Councillors S. R. Colella (Chairman), M. J. A. Webb (Vice-Chairman), C. Allen-Jones, C. J. Bloore, H. J. Jones, R. J. Laight, S. R. Peters, P.L. Thomas and M. Thompson

AGENDA

1. Apologies for Absence and Named Substitutes
2. Declarations of interest and Whipping Arrangements
3. To confirm the accuracy of the minutes of the Audit, Standards and Governance Committee meeting held on 11 October 2018 (Pages 1 - 6)
4. Standards Regime - Monitoring Officers' Report (Pages 7 - 10)
5. Grant Thornton - Communicating with Audit, Standards and Governance Committee (Pages 11 - 40)
6. Grant Thornton - External Audit Plan (Pages 41 - 58)
7. Grant Thornton - Housing Benefit 2017/18 Certification Letter (Pages 59 - 64)
8. Internal Audit Monitoring Report (Pages 65 - 82)
9. Financial Savings Monitoring Report June to September 2018 - To Follow
10. Overall Risk and Corporate Governance Report - To Follow
11. Risk Champion - Verbal Update (Councillor S. Colella)
12. Audit, Standards and Governance Committee Work Programme (Pages 83 - 84)

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA

17th January 2019

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

11TH OCTOBER 2018, AT 6.00 P.M.

PRESENT: Councillors S. R. Colella (Chairman), C. Allen-Jones, S. R. Peters,
P.L. Thomas and M. Thompson

Observers: Mr. C. Scurrall and Neil Preece

Officers: Mr. A. Bromage, Mrs. C. Felton, F Mughal and Ms. J. Pickering

19/18 **APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES**

Apologies for absence were received on behalf of Councillors H. Jones,
R. Laight, C. McDonald and M. Webb.

20/18 **DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS**

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

21/18 **TO CONFIRM THE ACCURACY OF THE MINUTES OF THE AUDIT,
STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 23
JULY 2018**

The minutes of the meeting of the Audit, Standards and Governance
Committee held on 23rd July, 2018 were submitted.

In relation to Minute No. 17/18, Councillor S. Peters confirmed that he
did not wish to be appointed as Risk Champion for the ensuing
municipal year. The Chairman stated that consideration in respect of
this would be discussed under Minute No.28/18.

RESOLVED that the minutes of the Audit, Standards and Governance
Committee meeting held on 23rd July, 2018 be approved as a correct
record.

22/18 **STANDARDS REGIME - MONITORING OFFICERS' REPORT**

The Head of Legal, Equalities and Democratic Services presented the
Monitoring Officer's report, and in doing so highlighted the following:

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Audit, Standards and Governance Committee
11th October 2018

- All historic complaints had been resolved locally and since the last meeting of the Committee there had been one complaint which was currently ongoing;
- There had been two sessions planned for the Data Protection training in September and October and 10 Members' in total had attended the training.

RESOLVED that the Standards Regime Monitoring Officer's report be noted.

23/18

GRANT THORNTON SECTOR UPDATE

Neil Preece from Grant Thornton presented the sector update report which outlined the key issues emerging in the public sector.

It was noted that the Social Housing Green Paper aimed to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing could be both a stable base that supported people when they needed it and also support social mobility. The paper proposed fundamental reform to ensure social homes provided an essential, safe, well managed service for all those who needed it.

Arising from Members' questions the following responses were made:

- Some of the elements in regards to the financial resilience index could be considered by the local authority future plans;
- The consultation document proposed scoring of six key indicators. The Committee was informed that the Council needed to look at other authorities which were similar to Bromsgrove when benchmarking;
- The consultation commenced from 24th August, 2018;
- Worcestershire County Council had submitted a bid to become a Business Rate Pilot for 2019/20. From April 2019, selected pilot areas would be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas;
- A six weeks consultation was carried out in regards to the Fair Funding Review. The government was looking for the new system to be simple and transparent to everyone.

It was agreed that a six monthly update report would be presented to the Committee for consideration. Furthermore, the Funding Review report would be presented at the next meeting of the Committee on 24th January, 2019.

RESOLVED that the Grant Thornton Sector Update report be noted.

24/18

FINANCIAL SAVINGS MONITORING REPORT FOR APRIL TO JUNE 2018

The Executive Director of Finance and Resources presented the Financial Savings Monitoring Report for April to June 2018, which outlined the delivery of the savings projected for the full year against the Medium Term Financial Plan (MTFP).

The key points were highlighted as follows:

- it was projected that the savings of £580k for 2018/19 were on track to be delivered during the financial year;
- Savings and additional income from 2018-19 budget were on target to be delivered;

The Committee was informed that the overall budget would be presented to Cabinet for consideration.

Arising from Members' questions the following responses were made:

- It was projected that in quarter 1 the Heads of Service proposed savings were to be identified if they could be delivered during future financial years;
- Fuel and Repairs and Maintenance savings were due to more efficient working lower fuel costs; members requested the level of details to this;
- Clarity was sought on whether the revenue savings could be used for replacement of bins to capital. It was confirmed that Capital could not be used for revenue.

Members were informed that proposals for Burcot Lane housing development would be presented to Overview and Scrutiny Board on 29th October and to Cabinet on 31st October, 2018.

RESOLVED that the Financial Savings Monitoring Report for April to June 2018 be noted.

25/18

ANNUAL AUDIT LETTER 2017/18

Members were presented with the Grant Thornton Annual Audit Letter for the 2017/18 financial year, which outlined the key findings arising from the work carried out at the Council for year ended 31st March, 2018.

It was reported that Grant Thornton gave an unqualified opinion on the Council's financial statements on 27th July, 2018. It also carried out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. The work on this claim was to be completed next week and would be finalised by 30th November, 2018. A report outlining the improvement would be submitted to the Audit, Standards and Governance Committee.

Councillor Cooper welcomed the report and thanked Grant Thornton and the Finance Team for their hard work.

In response to a Member's question, Grant Thornton stated that a risk assessment would be undertaken for those transactions that were identified as a higher risk. It was determined that the materiality for the audit of the Council accounts (including the group accounts) to be £842,000, which is 2% of the Council's gross revenue expenditure.

RESOLVED that the Audit Letter for the year ended 31st March 2018 be noted.

26/18

INTERNAL AUDIT - PROGRESS REPORT

The Head of Internal Audit Shared Services presented a report that informed the Committee of the outcomes of the performance for 2018/19 of Internal Audit and highlighted the key issues identified. It was reported that there was no additional risks to be reported to the Committee.

In order to continue to monitor progress of implementation, 'follow up' in respect of audit reports was logged. The table provided an indication of the action taken against those audits and whether further follow up was planned. Commentary was provided on those audits that had already been followed up and audits in the process of being followed up.

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

The Committee noted that progress continued to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31st August, 2018 a total of 63 days had been delivered against a target of 230 days for 2017/18. The performance indicators for the service were agreed by the Audit, Standards and Governance Committee on the 15th March, 2018 for 2018/19.

There was a clear action plan in place which outlined the 'High' and 'Medium' Priority Recommendations Summary for finalised audits. There was no 'high' risk that had been identified.

Arising from Members questions the following responses were made:

- Work was being planned around the closure of accounts. This would be considered in quarter 4 audit progress report. The findings of this scoping would be reported back to Committee;
- The audit work around the Equality and Diversity took longer than expected, this was to ensure that adequate training was commissioned and delivered. There was also a change in the

legislation which had an impact on the delay. The Executive Director of Finance and Resources advised Members that there had been discussions with the Management Team in respect of the length of time that it was taking for some of the audits completion and this was being addressed;

- The Disability Grant audit had not been included in the audit progress report. A follow up report would be submitted to the Committee to explain the cause of this.

Members requested that the information in respect of the follow ups required/not required to be highlighted in bold.

RESOLVED that the Internal Audit Progress Report be noted.

27/18

INTERNAL AUDIT CHARTER

The Head of Internal Audit Shared Services presented to the Committee the Internal Audit Charter. The purpose of the Internal Audit Charter was that Worcester Internal Audit Shared Services set out the standards to which it operated for the Council. It acted as a quality control measure defining and providing details in regard to the purpose, authority, and responsibility of the internal audit activity to those in governance.

A key element of the 2013 standards was having a fit for purpose Charter in place. As part of a recent external assessment it was recommended that certain areas could be enhanced in the Charter to achieve better clarity and transparency.

It was noted that the Charter was last reviewed in July 2017, and would continue to be updated to reflect changing requirements in respect of the Audit Service, Standards and external assessment.

The revised Charter would be presented to Committee annually for Members consideration.

RESOLVED that the revised Internal Audit Charter 2018 be approved.

28/18

APPOINTMENT OF RISK CHAMPION - VERBAL UPDATE

As Councillor S. Peters did not wish to be appointed to Risk Champion, the Chairman asked the Committee for nominations. As there were no other nominations, it was agreed that Councillor S. Colella be appointed to Risk Champion.

RESOLVED that Councillor S. Colella be appointed Risk Champion for the ensuing municipal year.

29/18

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

Members considered the Audit, Standards and Governance Committee's Work Programme for 2018/19.

It was noted that the next meeting was scheduled to take place on 24th January, 2019. Grant Thornton advised that the following items be removed:

- Annual Audit Letter;
- S11 Action Plan Update Report

In respect of the meeting scheduled on the 14th March, 2019, it was agreed the following items be removed:

- S11 Monitoring Report
- Housing Benefits Subsidy Account Report 2017/18

The Chairman requested that the Draft Report in respect of Negative Grant be presented at the next Committee meeting on 24th January, 2018 with the final report to be submitted on the 14th March, 2018 for approval.

Councillor C. Allen-Jones asked what impact it would have on the Council if the New Homes Bonus Scheme was not available for next year. The Executive Director of Finance and Resources stated that a report would be submitted to the Finance and Budget Working Group outlining the impact and the risk associated to this.

RESOLVED that the Audit, Standards and Governance Committee's Work Programme for 2018/19 be noted, subject to the minor amendments detailed above.

The meeting closed at 7.05 p.m.

Chairman

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

24th January 2019

MONITORING OFFICER'S REPORT

Relevant Portfolio Holder	Councillor Geoff Denaro (for Governance)
Portfolio Holder consulted	No
Relevant Head of Service	Claire Felton, Head of Legal, Equalities and Democratic Services and Monitoring Officer
Wards affected	All Wards
Ward Councillor consulted	N/A

1. SUMMARY OF PROPOSALS

- 1.1 This report sets out the position in relation to key standards regime matters which are of relevance to the Audit, Standards and Governance Committee since the last meeting of the Committee on 11th October 2018.
- 1.2 It is proposed that a report of this nature be presented to each meeting of the Committee to ensure that Members are kept updated with any relevant standards matters.
- 1.3 Any further updates arising after publication of this report, including any relevant standards issues raised by the Parish Councils' Representative(s), will be reported on orally by Officers/the Parish Representative(s) at the meeting.

2. RECOMMENDATION

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

3. KEY ISSUES

Financial Implications

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

Legal Implications

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

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

Service / Operational Implications

Member Complaints

- 3.3 All member complaints have now been resolved locally and there have been no complaints since the last meeting of the Committee.

Member training

- 3.4 There has been no further training events held since the update provided at the last meeting
- 3.5 Both the Member Development Steering Group and the Constitution Review Working Group continue to meet regularly.
- 3.6 The Member Development Steering Group continues to review the Member Induction programme in preparation for the new municipal year, together with carrying out a review of Members' use of IT equipment and its suitability.
- 3.7 The Constitution Review Working Group has met on one occasion since the last update and it continues to include the Scheme of Delegations as a standing item on its agendas. The Group is currently looking at the "call In" process and is carrying out a review of the Licensing Code of Practice. The next scheduled meeting of the Group is due to take place in early February.
- 3.8 The Constitution Review Working Group has been working very effectively in enabling constructive changes to the constitution to be made and in keeping all Members informed.

Customer / Equalities and Diversity Implications

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

4. RISK MANAGEMENT

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

24th January 2019

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

5. APPENDICES

None.

6. BACKGROUND PAPERS

Chapter 7 of the Localism Act 2011.

AUTHOR OF REPORT

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 24th JANUARY 2019

GRANT THORNTON – COMMUNICATION WITH THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE RE 2018/19 AUDITING STANDARDS

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

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Auditing Standards report for 2018/19 from the Councils External Auditors Grant Thornton.

2. RECOMMENDATIONS

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

3. KEY ISSUES

Financial Implications

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

Legal Implications

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

Service / Operational Implications

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

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 24th JANUARY 2019

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

Customer / Equalities and Diversity Implications

3.4 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Grant Thornton Auditing Standards Report 2018/19

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

AUTHOR OF REPORT

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Auditing Standards – Communication with the Audit, Standards and
Governance Committee
Bromsgrove District Council

Audit year 2018/19

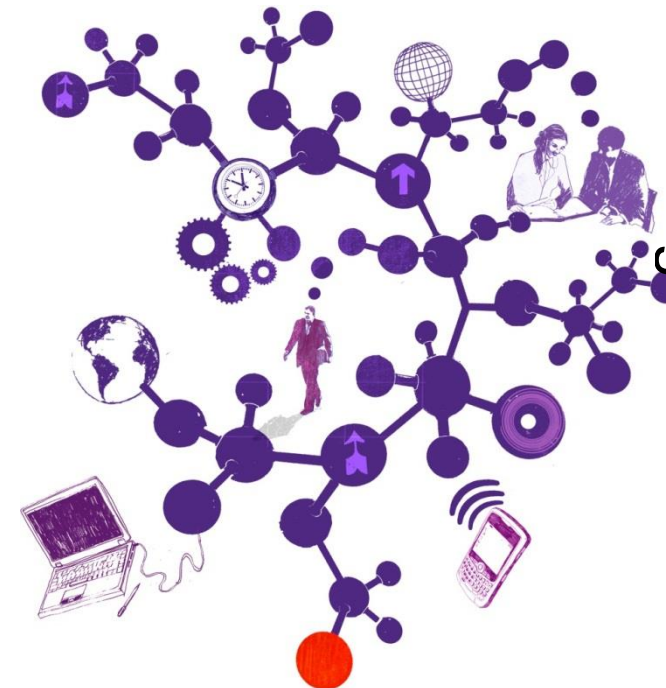
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Agenda Item 5

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

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Introduction

The purpose of this report is to ensure there is effective two way communication between the Council's Audit, Standards and Governance Committee, who are "Those Charged with Governance" and the external auditor.

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

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

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

This report summaries the respective responsibilities of the Audit, Standards and Governance Committee, officers and external audit in each of these area, as set out by International Standards on Auditing (UK and Ireland) (ISAs). Our primary responsibility is to consider the risk of material misstatement.

Each section of the report includes a series of question that management have responded to. We would like to ask the Audit, Standards and Governance Committee to consider these responses and confirm that it is satisfied with the arrangements.

Fraud Risk Assessment

The ISAs define fraud as:

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

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

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

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

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

Fraud Risk Assessment cont...

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

- How management assess the risk of material misstatement in the financial statements due to fraud.
- Officers' response to assessed fraud risk, including any identified specific risks.
- Investigations into data matches identified through the National Fraud Initiative and subsequent outcomes.
- How officers communicate the process for assessing and responding to fraud risk to the Audit, Standards and Governance Committee.
- How officers communicates its views on ethical behaviour to the Audit, Standards and Governance Committee.
- How the Audit, Standards and Governance Committee exercises oversight of officers' fraud risk assessment and response processes and the internal controls to mitigate these risks.
- What knowledge the Audit, Standards and Governance Committee has of actual, alleged or suspected fraud.

Table 1 sets out how Officers have responded to our financial risk assessment.

Table 1 Fraud Risk Assessment

Question	Management response
<p>1. What is officers' assessment of the risk of material misstatement in the financial statements due to fraud? Is this consistent with the feedback from your risk management processes?</p> <p>Page 19</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Officers also attend technical updates. Financial monitoring reports also highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts.</p> <p>Management considers there is a low risk of material misstatement in the financial statements due to fraud.</p>

Table 1 Fraud Risk Assessment cont...

Question	Management response
<p>2 Are you aware of any instances of fraud, either within the Council as a whole or within specific departments since 1 April 2018? If so how does the Audit, Standards and Governance Committee respond to these?</p> <p>Page 20</p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> ▪ Council Tax ▪ Benefit Fraud ▪ Single person discount <p>The Audit, Standards and Governance Committee receives any adhoc fraud reports. There are no material instances of fraud that have been identified during the year.</p> <p>There are no material instances of fraud that have been identified during the year.</p> <p>The Audit, Standards and Governance Committee would consider the fraud and the actions put forward by officers to ensure fraud is mitigated in the future.</p>

Table 1 Fraud Risk Assessment cont...

Question	Management response
<p>3 Do you suspect fraud may be occurring, either within the Council or within specific departments?</p> <ul style="list-style-type: none"> ▪ Have you identified any specific fraud risks? ▪ Do you have any concerns there are areas that are at risk of fraud? ▪ Are there particular locations within the Council where fraud is more likely to occur? 	<p>Evidence published within the Annual Fraud Indicator report suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Authority.</p> <p>Locations handling income, particularly in the form of cash, are more likely to be at risk of fraud. However management does not consider these to be significant risks.</p>
<p>4 Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> ▪ The process for reviewing the system of internal control; ▪ Internal controls, including segregation of duties, exist and work effectively? <p>If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets?)</p>	<p>Yes – Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as constitution.</p> <p>The role of Internal Audit, provides assurance that the Council's internal controls are in place. An annual report is produced and is available prior to the annual accounts being signed and approved.</p> <p>The regular monitoring of budgets and the allocation of financial professional support to budget holders provides control and mitigation against such overrides.</p>

Table 1 Fraud Risk Assessment cont...

Questions	Management response
<p>5 How do you encourage, and communicate to, employees about your views on business practices and ethical behaviour? How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ▪ What concerns are staff expected to report about fraud? 	<p>There is a Fraud Strategy and Whistleblowing procedure in place which explain the procedures to follow. These policies have been reviewed and will be presented to Members during early 2019/20.</p> <p>Employees are aware of the anti-fraud and corruption strategy, details are available on the website.</p>
<p>6 From a fraud and corruption perspective, what are considered to be high-risk posts:</p> <ul style="list-style-type: none"> ▪ How are the risks relating to these posts identified, assessed and managed? 	<p>There are not any significantly high-risk posts identified.</p>
<p>7 Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ▪ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>2017/18 financial statements disclosure of related party transactions does not identify potential fraud risk. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>8 What arrangements are in place to report fraud issues to the Audit, Standards and Governance Committee?</p> <p>How does the Audit, Standards and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Internal Audit provide the Audit, Standards and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken. Any adhoc investigations are reported to the Audit, Standards and Governance Committee.</p> <p>The Corporate risk register is reviewed by the Committee and the Member risk champion reports to the Committee at each meeting on updates from managers in relation to departmental registers.</p>

Table 1 Fraud Risk Assessment cont...

Question	Management response
9 Are you aware of any whistleblowing reports under the Bribery Act since 1 April 2018? If so, how does the Audit, Standards and Governance Committee respond to these?	We are not aware of any whistleblowing reports. If there was such a report then members would consider the appropriate course of action.

Law and Regulation

Auditing standards require us to consider the impact that law, regulation and litigation may have on the Council's financial statements. The factors that may result in particular risks of material misstatement due to fraud or error are:

- The operational regulatory framework – this covers the legislation that governs the operations of the Council.
- The financial report framework – according to the requirement of International Financial Reporting Standards, the Code of Accounting for Local Authorities in England and relevant Directions.
- Taxation considerations – for example compliance with Value Added Tax and Income Tax regulations.
- Government policies that otherwise impact on the Council's business.
- Other external factors; and
- Litigation and claims against the Council.

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

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

Table 2 : Law and Regulation

Question	Management response
<p>1 How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.</p> <p>The reporting arrangements include sections for both financial and legal implications to ensure managers have considered compliance with laws and regulations. In addition staff have professional training and conduct in place to support compliance.</p>
<p>2 How is the Audit, Standards and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to the Audit, Standards and Governance Committee.</p>
<p>3 Have there been any instances of non-compliance with law and regulation since 1 April 2018 with any non-going impact on the 2018/19 financial statements?</p>	<p>No.</p>
<p>4 Is there any actual or potential litigation or claims that would affect the 2018/19 financial statements?</p>	<p>None.</p>
<p>5 What arrangements does the Council have in place to identify, evaluate and account for litigation and claims?</p>	<p>The legal and finance team liaise on a regular basis to identify and evaluate any potential claims.</p>
<p>6 Have there been any reports from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance?</p>	<p>No.</p>

Going Concern

Going concern is a fundamental principle in the preparation of the financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Following are key questions on the going concern assumptions which we would like the Audit, Standards and Governance Committee to consider.

Table 3 : Going Concern

Question	Management response
1 Has a report been received from management forming a view on going concern?	Approved MTFP has a balanced budget for 2018/19 leading management to be confident that the council is a going concern
2 Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The MTFP is the culmination of the years reports and savings programme. As such, it is reflective of the approvals which have been made throughout the year.
3 Are the implication of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
4 Have there been any significant issues raised with the Audit, Standards and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)	External audit have highlighted that some of the savings have not been identified in a high level of detail as yet, however they are being developed at present.
5 Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Table 3 : Going Concern cont...

Question	Management response
<p>6 Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>.Yes</p>
<p>7 Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>Yes – the Council conducts quarterly monitoring and quarterly updates of the savings programme, which at present is delivering greater savings than were initially planned.</p>
<p>8 Does management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>No</p>
<p>9 Are arrangements in place to report the going concern assessment to the Audit, Standards and Governance Committee?</p> <p>How has the Audit, Standards and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?</p>	<p>Yes - as part of the year end accounts presentation.</p> <p>Audit, Standards and Governance has reviewed the work conducted by external audit on the year end accounts and savings programme as well as the professional opinion of the S151 Officer, and as such is satisfied that it is appropriate to adopt the going concern basis.</p>

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Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

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

We need to be aware of all estimates that the Council are using as part of their accounts preparation; these are detailed in appendix 1.

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

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

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Table 4: Accounting Estimates

Question	Management response
1 Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant account estimates that require significant judgement?	No.
2 Are management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes, officers have reviewed the estimates and believe they are reasonable.
3 How is the Audit, Standards and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	The professional judgement of the s151 Officer is accepted by the Committee.

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Related Parties

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

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

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

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

Table 5: Related Parties

Question	Management response
<p>1 Who are the Council's related parties?</p> <p style="text-align: center;">Page 32</p>	<p>The Council discloses its related parties under the following headings:</p> <ol style="list-style-type: none"> 1. Government – Central Government has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities. 2. Pension Fund – this party is subject to common control by Central Government. 3. Precepts & Levies – these parties are subject to common control by Central Government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy. 4. Assisted Organisations – the provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied. 5. Members and Officers – certain Members and Officers may have controlling influence or related interests with other of the Council's related party organisations, such that they may be in a position to significantly influence the policies of the Council.

Table 5: Related Parties cont...

Question	Management response
<p>2 What are the controls in place to identify, account for, and disclose, related party transactions and relationship?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 33</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> ▪ Maintenance of a register of interests for Members, and a register for pecuniary interests in contracts for Officers and Senior Mangers requiring disclosure of related party transactions. ▪ Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. ▪ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. ▪ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation. ▪ Review of year end debtor and creditor positions in relation to the related parties identified. ▪ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant and equipment valuations Page 34	The Council has a contract with Place Partnership Ltd to manage its asset base, including undertaking annual valuations. The Valuer is a RICS/CIB Member) and reviews are made inline with RICS guidance on the basis of 5 year valuations with interim reviews.	Technical Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation	Yes, the Place Partnership valuer	Valuations are made in line with RICS guidance – reliance on expert.	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> ▪Buildings 50 years ▪Equipment/vehicles 5 years ▪Plant 12 years ▪Infrastructure 40 years 	Consistent asset lives applied to each asset category.	Yes, the Place Partnership valuer	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction material used. This life would be recorded in accordance with the local qualified RICS or CIB Member.	No

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & Amortisation Page 35	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> ▪ Assets acquired in the first half of a financial year and depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year. ▪ Assets that are not fully constructed are not depreciated until they are brought into use. 	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable	Assets are assessed at each year end as to whether there is any indication that an asset may be impaired.	Place Partnership Valuer	Valuations are made in line with RICS guidance – reliance on expert.	No

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments cont..	amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.				
Non adjusting events – events after the BS date.	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of Services notify the s151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A

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Agenda Item 5

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professions.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	An aged debt listing is provided routinely and finance calculate the provision.	No	Consistent proportion used across aged debt as per the Code.	No

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Agenda Item 5

Appendix 1 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities Page 38	<p>Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	<p>Charged in the year that the Council becomes aware of the obligation.</p>	<p>No</p>	<p>Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.</p>	<p>No</p>

Appendix 1 Accounting Estimates

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

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Agenda Item 6

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS & GOVERNANCE COMMITTEE 24th JANUARY 2019

GRANT THORNTON AUDIT PLAN 2018/19

Relevant Portfolio Holder	Cllr Brian Cooper
Portfolio Holder Consulted	N/A
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Grant Thornton Audit Plan 2018/19. A copy of this document is attached to this report as Appendix A..

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and agree the 2018/19 Audit Opinion Plan**

3. KEY ISSUES

Financial Implications

- 3.1 The fee associated with the External Audit Opinion and audit of accounting statements and consideration of the Councils arrangements for securing economy, effectiveness and efficiency is £37k this is a reduction from the previous year charge of £57k.

Legal Implications

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

Service / Operational Implications

- 3.3 Attached at Appendix A is the 2018/19 Audit Plan . The Plan sets out work that the Grant Thornton propose to undertake in relation to the Audit of the financial accounts for 2018/19 and any risks that have will require additional review and consideration.
- 3.4 The Audit will include an understanding of the organisational operations together with issues that may impact on the Council in the future. This assessment results in the External Audit consideration of the risks associated with the accounts and the Appendix details the level of risk allocated to the services we provide.

Agenda Item 6

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS & GOVERNANCE COMMITTEE 24th JANUARY 2019

- 3.5 The work by the Grant Thornton will enable a robust opinion to be made across all the internal control and accounting arrangements that the Council has in place.
- 3.6 The Auditors will also make an assessment of the Councils arrangements to secure value for money to include systems and processes to manage financial risks and improving efficiency. This will include an assessment of the recommendations in relation to the reporting of financial information and monitoring to members and the delivery of savings and additional income.

Customer / Equalities and Diversity Implications

- 3.7 None as a direct result of this report

4. RISK MANAGEMENT

- 4.1 The Financial Services risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards. Risk management arrangements in place across the organisation ensure that risks are addressed and mitigated.

5. APPENDICES

Appendix 1 – Annual Audit Plan 2018/19

AUTHOR OF REPORT

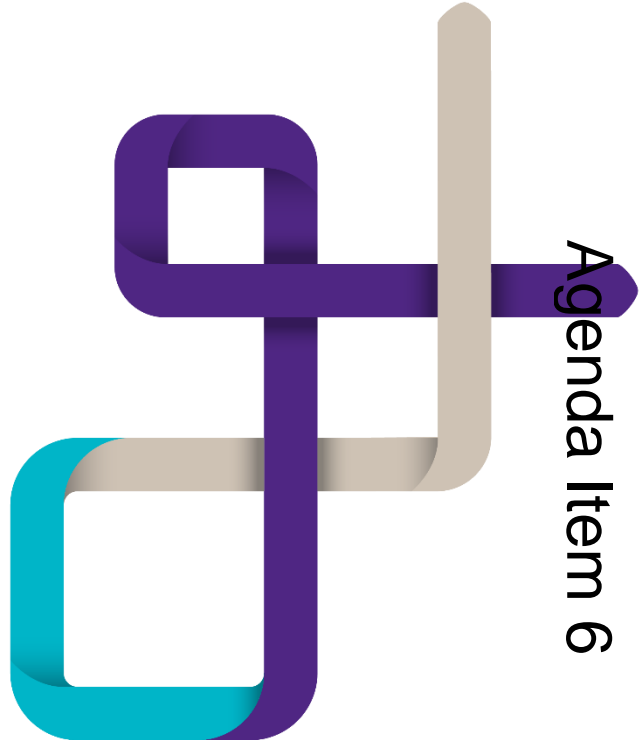
Name: Jayne Pickering – Exec Director Finance and Resources
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External Audit Plan

Year ending 31 March 2019

Bromsgrove District Council
24 January 2019

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Contents



Your key Grant Thornton
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Section

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2. Key matters impacting our audit approach
3. Audit approach
4. Group audit scope and risk assessment
5. Significant risks identified
6. Other matters
7. Materiality
8. Value for Money arrangements
9. Audit logistics, team & fees
10. Early Close
11. Independence & non-audit services

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bromsgrove District Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bromsgrove District Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards

on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Standards and Governance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Standards and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Bromsgrove Arts Development Trust .
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. • The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements. • The valuation of the Council's property, plant and equipment. <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	We have determined planning materiality to be £0.85m (PY £0.84m), which equates to 2% of your prior year gross expenditure. We have set a separate lower materiality level for the disclosure note on senior manager's remuneration of £100k. We will report uncorrected omissions or misstatements other than those which are 'clearly trivial', i.e. less than £42k (PY £42k).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:</p> <ul style="list-style-type: none"> • Financial sustainability.
Audit logistics	Our interim visit will take place in January to March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £37,484 (PY: £53,180) for the Authority, subject to the Authority meeting our requirements set out on page 14.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

PSAA

Agenda Item 6

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

Officers are currently updating the Medium Term Financial Plan (MTFP). Initial indications are that there will be a shortfall of £400,000 in 2019/20 which will need to be bridged through income generation or fees and charges.

Looking further ahead, Officers anticipate 2020/21 being even more challenging.

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Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not expect these to have a significant impact on the Authority, but will ask officers for their own assessment which we will then review.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

Corporate Peer Challenge

In October Cabinet received a report setting out an Action Plan addressing the “Key” and “Further” recommendations. Most actions are due within the next few months (by early 2019). Progress is being monitored by the Management Team, with six monthly reports to Cabinet.

The Management Restructure still needs to happen, but the main barriers to this now appear to have been removed.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money Conclusion.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We will monitor progress against the Corporate Peer Challenge and Management Restructure through our regular meetings with Officers and VFM Conclusion work.

Audit approach

Use of audit, data interrogation and analytics software

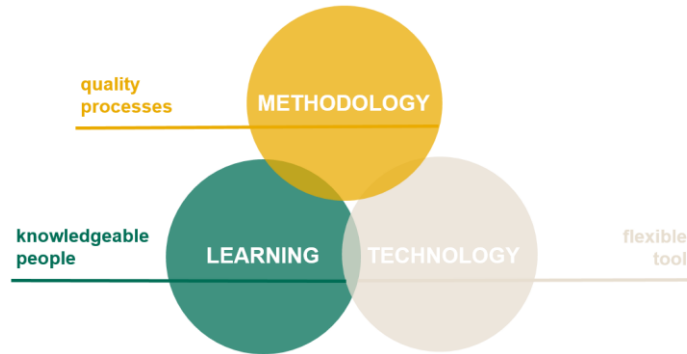
LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- cloud-based industry-leading audit tool developed partnership with Microsoft

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IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Bromsgrove Arts Development Trust (Artrix)	No	Analytical procedures at group level	Valuation of Artrix building	Reliance on an expert in relation to the Artrix valuation. Confirmation from Bromsgrove Arts Development Trustees in relation to income and expenditure transactions.

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- Audit scope**
- Audit of the financial information of the component using component materiality
 - Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
 - Review of component’s financial information
 - Specified audit procedures relating to significant risks of material misstatement of the group financial statements
 - Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group and Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk Bromsgrove District Council.</p>
Management over-ride of controls	Group and Authority	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Authority	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State;
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

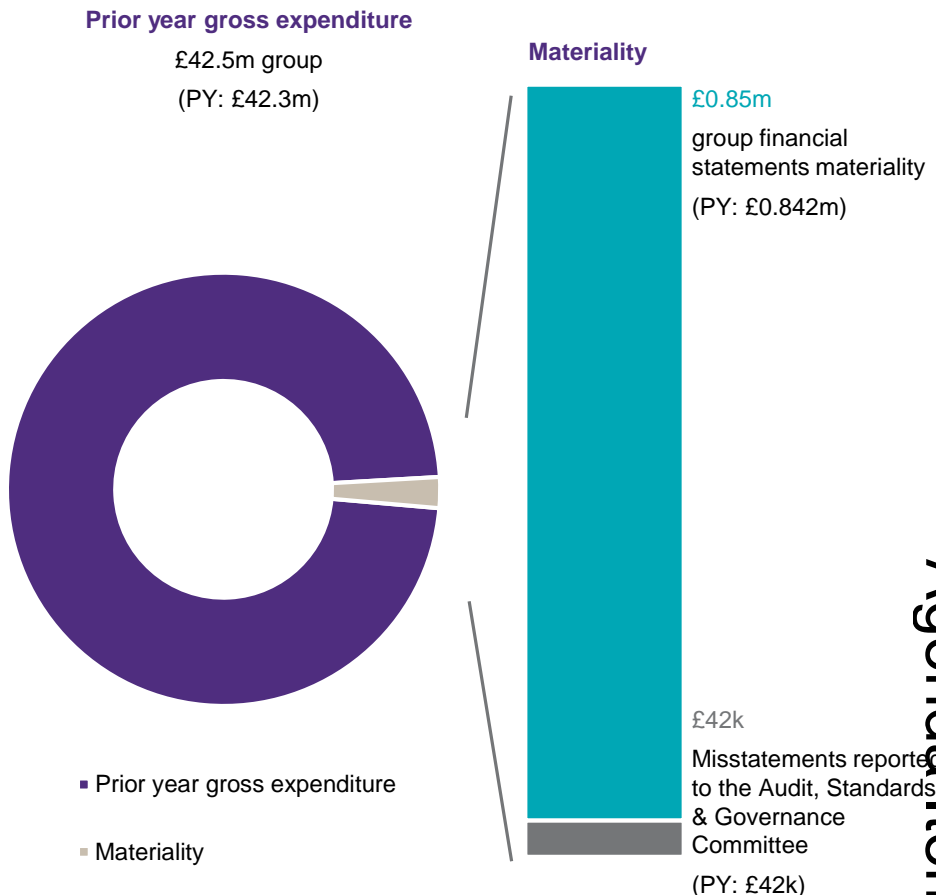
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.85m (PY £0.84m) for the group and £0.86m (PY £0.84m) for the Authority, which equates to 2% of your prior year gross expenditure. We therefore propose to apply group materiality as it is the lower of the two. We design our procedures to detect errors in specific accounts at a lower level of precision. We have determined this to be £100k for the disclosure note on senior manager's remuneration, in view of the sensitivity of this note to the readers of the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit, Standards & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £42k (PY £42k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Standards & Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

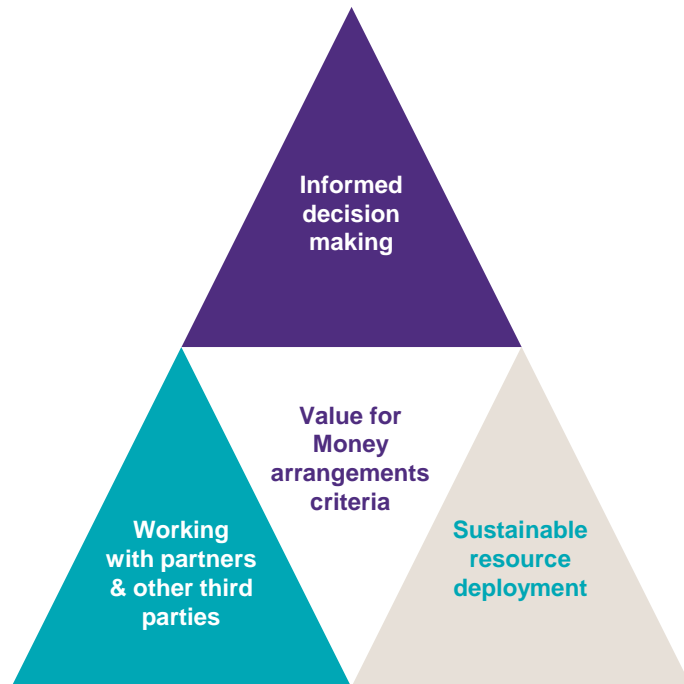
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



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Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial sustainability

How robust is the MTFP and how well developed are savings plans?

We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions.

We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test.

We will assess the progress being made to put the Council on a long term financially viable footing.

We will monitor progress on the management restructure.

Agenda Item 6

Audit logistics, team & fees



Richard Percival, Engagement Lead

Richard's role will be to lead our relationship with you and take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Neil Preece, Audit Manager

Neil's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



Denise Mills, Audit Incharge

Denise's role will be to have day to day responsibility for the running of the audit and first point of contact.

Audit fees

The planned audit fees are £37,484 (PY: £53,180) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £12,500 of fees are planned for the Housing Benefit Claim certification which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In 2018, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

In 2017/18 Officers produced the financial statements in advance of the deadline and we were able to conclude the audit by the end of July as planned. That represented a significant improvement on the timescale achieved in the previous year. However, our audit identified a higher number of amendments than we would expect. A number of the working papers initially supplied did not provide the requisite assurance, or could not be agreed to the financial statements. While officers responded very positively to our questions the Council needs to ensure that next year sufficient time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline again.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of 2018/19 Housing Benefit subsidy claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £37,484 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This work will be completed after we issue our opinion on the financial statements.
Non-audit related			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.



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AUDIT STANDARDS & GOVERNANCE COMMITTEE 24th JANUARY 2019

GRANT THORNTON – CERTIFICATION WORK REPORT 2017/18

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

1. SUMMARY OF PROPOSALS

- 1.1 To present Members with the Grant Certification Letter for 2017/18 from the Councils External Auditors Grant Thornton.

2. RECOMMENDATIONS

- 2.1 **The Committee is asked to note the grant certification letter 2017/18**

3. KEY ISSUES

Financial Implications

- 3.1 The total fee was £8k in relation to the audit and the additional work undertaken. This was a reduction from the previous year of £12k.

Legal Implications

- 3.2 Grant Thornton have a statutory responsibility to certify the claims submitted by the Council.

Service / Operational Implications

- 3.3 External Auditors have a duty to carry out all work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. This includes certification of grant claims.

- 3.4 The auditors have certified the Housing Benefit Claim for 2017/18 relating to over £16m of expenditure. There were a number of issues that required further testing. It is worth noting that there is no level of materiality when auditing the housing benefit claim and therefore the errors can be minor in value but require further testing. The auditors have reported in their letter that they have seen improvements in the workbook production and a reduction in the number of errors made following training and support that has been given to the teams.

AUDIT STANDARDS & GOVERNANCE COMMITTEE 24th JANUARY 2019

Customer / Equalities and Diversity Implications

3.5 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Grant Thornton Certification Letter 2017/18

6. BACKGROUND PAPERS

Individual internal audit reports.

AUTHOR OF REPORT

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Tel: 01527-881207



Grant Thornton

An instinct for growth™

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7 January 2019

Dear Jayne

Certification work for Bromsgrove District Council for year ended 31 March 2018

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £16 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work which we wish to highlight for your attention.

There were two lots of additional testing arising from errors found in the previous year. One related to the incorrect input of earnings. Our testing of an additional 40 cases identified eight errors in addition to one error in our initial sample of 20 cases. The other element of additional testing related to classification of overpayments of housing benefit. Our testing of 40 cases did not identify any errors.

The extrapolated financial impact on the claim, which we have reported to the DWP, was relatively insignificant to the total subsidy receivable.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £8,260. We are not proposing to vary the fee from this.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£ 16,016,562	Yes	£0	Yes	The amendment did not affect the amount of benefit paid or subsidy claimed.

Findings from certification of housing benefits subsidy claim

Workbook completion

PSAA provides workbooks to all audit suppliers to complete in order to ensure consistency and high quality in documentation. Many councils now complete these workbooks using Quality Assessment Officers or Supervisors who have not initially been involved in assessing claims. Auditors then re-perform some of the work which officers have completed. This reduces the cost of the work compared to auditors doing it all, and also gives officers better information on any training needs or quality issues regarding the initial claim assessments.

Last year we reported “we found errors in the completion in the workbook, which led us to increase our re-performance level, eventually to 100%. In total we identified nine cases which officers had assessed as “Pass” when completing the workbooks, but which we assessed as “Fail”. We have provided further support and guidance to officers with the aim of further enhancing the quality of workbook completion next year.”

We are pleased to report that, this year, we agreed with all of the judgements and conclusions made by officers, and did not need to extend our testing.

Incorrect input of earnings

Last year we reported “Testing of an additional random sample of 40 cases identified a further 12 cases where the earnings were either not evidenced or were input onto the system incorrectly”. This year our additional sample of 40 cases identified eight cases which were incorrectly entered, plus one in our original sample of 20 cases. This should remain an area of focus for continued improvement in data entry.

Amount of testing and errors found

The table below shows the number of cases tested and the number of errors found in recent years.

Year	Cases tested	Errors found	% error rate
2014-15	180	11	6
2015-16	160	12	8
2016-17	209	16	8
2017-18	100	9	9

The errors found this year relate solely to the incorrect input of earnings.

Appendix B: Fees for 2017/18 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£8,760	£8,260	£8,260	£0	N/A
Total	£8,760	£8,260	£8,260	£0	

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

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

Relevant Portfolio Holder	Councillor Brian Cooper
Portfolio Holder Consulted	Yes
Relevant Head of Service	Chris Forrester, Financial Services Manager
Ward(s) Affected	All Wards
Ward Councillor(s) Consulted	No
Key Decision / Non-Key Decision	Non-Key Decision

1. SUMMARY OF PROPOSALS

1.1 To present:

- the monitoring report of internal audit work and performance for 2018/19 to the 31st December 2018.

2. RECOMMENDATIONS

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

3. KEY ISSUES

Financial Implications

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

Legal Implications

3.2 The Council is required under Regulation 5 of the Accounts and Audit Regulations 2015 to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

Service / Operational Implications

3.3 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement.

3.4 This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2018 to 31st December 2018 against the performance indicators agreed for the service.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (11th October 2018):

3.5 2018/19 AUDIT SUMMARY UPDATES AS AT 31st DECEMBER 2018:

Welfare Support

The Welfare Support audit was a combination of three separate reviews identified in the audit plan:

- Essential Living Fund
- Discretionary Housing Payments
- Council Tax Hardship Fund

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

- The support provided by the Financial Independence Team to the customer which provides a seamless journey for the customer.
- The award is decided based on the customer's needs.

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

- Transparency of the Welfare Budgets
- Accuracy of recorded expenditure and reporting
- Current Expenditure of the Welfare Benefits
- Record Keeping

There were 4 'medium' and 2 'low' priority recommendations reported.

Type of Audit: Full System

Assurance: Moderate

Final Report Issued: 23rd November 2018

Summary of Assurance Levels:

<u>Audit</u>	<u>Assurance Level</u>
<u>2018/19</u>	
Welfare Support (incorporating Essential Living Fund, Discretionary Housing Payments and Council Tax Hardship Fund reviews)	Moderate

3.6 2018/19 AUDITS ONGOING AS AT 31st DECEMBER 2018

The following audits were at draft report awaiting management clearance stage:

- Health and Safety
- General Data Processing Regulations
- Universal Credit
- Treasury Management

Audits progressing through fieldwork stages included:

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

- Car Parking
- Council Tax
- National Non Domestic Rates
- Housing Benefits
- Creditors
- Debtors

Audits progressing through planning stage included:

- Procurement
- Risk Management

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

3.7 AUDIT DAYS

Appendix 1 shows that progress continues to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31st December 2018 a total of 135 days had been delivered against a target of 230 days for 2018/19.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Audit, Standards and Governance Committee on the 15th March 2018 for 2018/19.

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

Appendix 4 provides the Committee with an analysis of audit report 'Follow Ups' that have been undertaken to monitor audit recommendation implementation progress by management.

3.8 OTHER KEY AUDIT WORK

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

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative overview.
- Investigations

3.9 **National Fraud Initiative**

There has been on going work undertaken in regard to the National Fraud Initiative. This year is the 2 yearly cycle of data extraction and uploading to enable matches to be reported. Worcestershire Internal Audit Shared Service (WIASS) has a coordinating role in regard to this investigative exercise in Bromsgrove District Council. The data requirements were uploaded during October and December with any queries dealt with accordingly.

3.10 **Monitoring**

To ensure the delivery of the 2018/19 plan there is close and continual monitoring of the plan delivery, forecasted requirements of resource – v – actual delivery, and where necessary, additional resource will be secured to assist with the overall Service demands. The Head of Internal Audit Shared Service remains confident his team will be able to provide the required coverage for the year over the authority's core financial systems, as well as over other systems which have been deemed to be 'high' and 'medium' risk. Due to changing circumstances and after consultation a small variation in the plan has been agreed on a risk priority basis with the s151 Officer e.g. shared services which was joint with Redditch Borough Council. Additional days have been used in a couple of review areas to ensure a comprehensive review was completed.

3.11 **Customer / Equalities and Diversity Implications**

There are no implications arising out of this report.

3.12 WIASS is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards. WIASS recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's operations. Where possible we will seek to place reliance on such work thus reducing the internal audit coverage as required.

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

4. **RISK MANAGEMENT**

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

- failure to complete the planned programme of audit work for the financial year; and,
- the continuous provision of an internal audit service is not maintained.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

5. APPENDICES

- Appendix 1 ~ Internal Audit Plan delivery 2018/19
- Appendix 2 ~ Key performance indicators 2018/19
- Appendix 3 ~ 'High' and 'Medium' priority recommendations summary for finalised reports
- Appendix 4 ~ Follow up summary

6. BACKGROUND PAPERS

Individual internal audit reports are held by Internal Audit.

7. KEY

N/a

AUTHOR OF REPORT

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

APPENDIX 1

Delivery against Internal Audit Plan for 2018/19 1st April 2018 to 31st December 2018

Audit Area	2018/19 Total Planned Days	Forecasted days to the 31 st March 2019	Actual Days Used to the 31 st December 2018
Core Financial Systems (see note 1)	71	71	26
Corporate Audits (see note 4)	5	5	25
Other Systems Audits (see note 2)	118	118	62
SUB TOTAL	194	194	113
Audit Management Meetings	15	15	11
Corporate Meetings / Reading	5	5	5
Annual Plans, Reports and Committee Support	8	8	6
Other chargeable (see note 3)	0	0	0
SUB TOTAL	36	36	22
TOTAL	230	230	135

Notes:

Audit days used are rounded to the nearest whole.

Note 1: Core Financial Systems are audited predominantly in quarters 3 and 4 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts but not interfere with year end, however, a rolling programme has also been trialled this financial year.

Note 2: A number of the budgets in this section are 'on demand' (e.g. consultancy, investigations) so the requirements can fluctuate throughout the quarters.

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

Note 4: Extra days have been required in regard to 2 review areas, GDPR and Health and Safety as additional work was required after the review had commenced.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 24th JANUARY 2019

APPENDIX 2

Performance against Key Performance Indicators 2018-2019

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2018/19. Other key performance indicators link to overall governance requirements of Bromsgrove District Council e.g. KPI 4. The position will be reported on a cumulative basis throughout the year.

	KPI	Trend/Target requirement	2018/19 Position (as at 31st December 2018)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 13 Delivered = 1 (covering 3 reviews) 4 @ draft report and 6 in progress	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	58%	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	*68%	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward (minimal)	Nil to report	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	1	When Audit Committee convene
6	'Follow Up' results (2017/18 reviews onwards)	Management action plan implementation date exceeded (nil)	1	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	1	When Audit Committee convene

WIASS conforms to the Public Sector Internal Audit Standards 2013.

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Date: 24th JANUARY 2019

* Below target figure due to 4 new starters in April 2018 and a period of settling in and training. Training is continuing, however, the overall productivity figure is beginning to increase again; previously reported figure was 58%.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX 3

Definition of Audit Opinion Levels of Assurance

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

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Definition of Priority of Recommendations

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX 3

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

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit: Welfare Support					
Assurance: Moderate					
1	Medium	<p>Transparency of the Welfare Budgets</p> <p>The expenditure measure on the Civica system which staff can see to advise them as to how much has been spent against the budget is not working and shows an incorrect Discretionary Housing Payment budget, therefore provides a misleading position.</p> <p>Staff are not aware of the budgets for the various welfare benefits.</p> <p>The budgets are monitored at least monthly by the Assistant Financial Support Services Manager (Welfare). Communication would be sent to staff if there was an issue with the budgets not being spent or a risk of over spending.</p> <p>Budget information needs updating on the system to include Local Authority amount.</p>	<p>A lack of transparency of the budgets could potentially lead to funds running out before the financial year or a surplus of funds. This, in turn, could lead to criticism that the Council is not doing all it can to assist members of the public in need or deliver on its strategic promises.</p>	<p>Review the Civica system to ensure the information reflects the correct figures and current percentage spent.</p> <p>Ensure the Financial Independence Team (FIT) are kept updated on the expenditure against the budgets.</p>	<p>Responsible Manager:</p> <p>Assistant Financial Support Services Manager (Welfare)</p> <p>Actions:</p> <p>Will look into systems to correct figures and report issues were necessary to service provider for fixing.</p> <p>Report regular expenditure to teams short term via meetings</p> <p>Adapt measures to reflect useful data (As part of bigger changes with point 3) this will be looked at by Financial Services Manager</p> <p>Implementation date:</p> <p>31st March 2019</p>
2	Medium	<p>Accuracy of recorded expenditure and reporting</p> <p>The expenditure and number of applications shown on the Civica reports do not match those on the performance measures on the dashboard spreadsheet.</p>	<p>Risk of poor managerial decision making and reputational damage if performance is not transparent and correctly and fully reported.</p>	<p>Establish accurate and reliable reporting on the dashboard.</p> <p>Produce procedures that would provide resilience and allow other staff to produce</p>	<p>Responsible Manager:</p> <p>Assistant Financial Support Services Manager (Welfare)</p> <p>Actions:</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>There are no procedures held within the team to follow when preparing the figures for consistency and to share knowledge in team when the Assistant Financial Support Services Manager (Welfare) is not available.</p> <p>The reports obtained from the Civica system for Discretionary Hardship Payment and Council Tax hardship do not provide clear information for reporting.</p> <p>The process for reporting the data has to be carried out manually and is time consuming.</p> <p>The notes on the performance measures on the Orb have not been updated since December 2017 therefore members and management will not have a full understanding of impact and trends to know if the service is performing satisfactorily.</p>		<p>the performance measures ensuring consistency and accuracy in the information being reported.</p> <p>Review the performance measures and ensure the measures are fit for purpose and add value.</p> <p>Review the manual processing of the performance measures and investigate if further automation is possible to reduce the amount of manual work thus streamlining the process.</p>	<p>Adapt measures currently collected to reflect useful data, Also look at data collected from the system without manipulation (in order to involve automation)</p> <p>Additional reports are produced quarterly for the Head of Customer and Financial Support. Also for members committees which contained more detailed information regarding how the service is performing.</p> <p>These reports were details of expenditure against budgets</p> <p>Reasons for the difference in expenditure to reporting is due to the time when claim is processed which could mean a claim is back dated and would be added/recovered at a later date.</p> <p>Procedure to produce report for Hardship in same format as Discretionary Hardship Payment.</p> <p>Discretionary Hardship Payment report has now been resolved and information can easily be obtained.</p> <p>Notes on measures to be updated where there has been a change trend/performance</p> <p>Implementation date: 31st March 2019</p>
3	Medium	<p>Current expenditure of the welfare benefits</p> <p>The amount of applications as shown on the Orb for Discretionary Housing Payment has decreased this financial year compared to last</p>	<p>Un-spent Discretionary Housing Payment will need to be returned and the amount of the award for the following year will be</p>	<p>Identify the reason for the reduction in applications for the Discretionary Housing Payment award and where the current referrals are coming from.</p>	<p>Responsible Manager: Assistant Financial Support Services Manager (Welfare)</p> <p>Actions:</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		<p>year.</p> <p>There was no evidence that refusals of claims for Discretionary Housing Payment or Council Tax Hardship fund are being monitored.</p>	<p>reduced, potentially leading to some customers in hardship not being able to claim this benefit in the future once the budget is spent.</p>	<p>Keep the Financial Independence Team along with other key personnel within the homelessness service updated on the expenditure against budget on a monthly basis.</p> <p>Provide training to front line staff so that they advise customers to claim and discuss any cases where Discretionary Housing Payment has been refused.</p> <p>Implement a control to ensure the discretionary hardship payment funds are used appropriately and that the budget is utilised fully to assist in delivering the Corporate priorities.</p>	<p>Working with Housing Options to help with Discretionary Housing Payment take up following changes to Homeless scheme. This has been identified that Housing had been using their own money instead of Discretionary Housing Payment to help with Deposits on private rents.</p> <p>Housing are contacting their partner to ensure this awareness is shared.</p> <p>Financial Independence Team</p> <p>Officers have this year undertaken talks in community to show what is available.</p> <p>Training being undertaken with the Financial Support Advisors on Discretionary Housing Payment completion</p> <p>General Staff Training upcoming.</p> <p>Set up monthly meetings with Housing to discuss Discretionary Housing Payment expenditure against budget and agree actions.</p> <p>Implementation date:</p> <p>30th April 2019</p>
4	Medium	<p>Record Keeping</p> <p>The sample check identified a number of cases where it was not clear why the customer was awarded the welfare benefit.</p> <p>It was unclear from the file notes the amount of the award made for Discretionary Housing Payment and Council Tax Hardship cases as the</p>	<p>Risk of reputational damage if challenged.</p> <p>Inadequate record keeping could lead to inappropriate or inconsistent award.</p>	<p>Establish clear guidance as to what needs to be included in file note when making a decision on the award and the decision on the amount of the award and where this information is to be recorded on Civica.</p> <p>Establish a quality review process to sample monitor the awards to ensure they</p>	<p>Responsible Manager:</p> <p>Assistant Financial Support Services Manager. (Systems).</p> <p>Actions:</p> <p>Set staff clear guidelines to follow and will then monitor through Quality Checking officers.</p>

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Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
		payments shown on the Civica report did not reconcile as most included other payments. There is no control in place to monitor the awards for consistency and transparency.		are awarded appropriately, transparently and that information is found in a timely manner.	Implementation date: 28 February 2019
end					

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX 4

Follow Up

Planned Follow Ups:

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

For some audits undertaken each year follow-ups may not be necessary as these may be undertaken as part of the full audit. Other audits may not be time critical therefore will be prioritised as part of the overall work load so to minimise resource impact on the service area.

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

Follow Up Assurance:

In summary:

- 2016/17 reports; one ongoing with progress taking place but exceeding the target delivery
- 2017/18 reports; five reviews being followed up in the coming months.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

<u>Audit</u>	<u>Date Final Audit Report Issued</u>	<u>Service Area</u>	<u>Assurance</u>	<u>Number of High, Medium and Low priority Recommendations</u>	<u>Date to be 1st Followed up or outcome</u>	<u>2nd Follow Up</u>	<u>3rd Follow Up</u>
					High and Medium Priorities 6mths after final report issued as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed	
2016-17 Audits							
Dash Board & Performance Measures	3rd May 2017	Business Transformation	Limited	An audit took place in May 2017 and made 3 high and 1 medium priority recommendations relating to resilience, timeliness of reporting, integrity of information and information held.	A follow up in May 2018 found that 2 high priority recommendations in relation to resilience and timeliness and the 1 medium priority recommendation in relation to additional information had been implemented. The high priority recommendation in relation to integrity of information was in progress. Follow Up February 2019.		
2017-18 Audits							
Disabled Facilities Grants	28th September 2017	Community Services	Moderate	The report found 1 high priority and 2 medium priority recommendations in relation to Records retention and security, Registration of Land Charges and Private Sector Home Repairs Assistance policy. Only 1 medium priority recommendation related directly to Bromsgrove District Council.	The follow up in February 2018 found that the one medium priority recommendation was in progress and the policy update would be reported to Cabinet in June 2018. No evidence that this took place therefore further follow up to take place. Follow up planned 28th January 2019.		

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Environmental Waste	27th November 2017	Environmental Services	Moderate	The report found 1 high and 4 medium priority recommendations in relation to Bulky Waste Receipt Books, Business Waste Charges, Fees and Charges, Bulky Waste quotes and Garden Waste Invoices.	Follow up January 2019 found the 4 medium priority recommendations were satisfied and the high priority recommendation was in progress pending further transformation of the Business Support Team re. reconciliation and controlled stationery. To be followed up in April 2019.		
Records Management	5th January 2017	Corporate	Limited	Reported 5 high and 1 medium priority recommendations; implementation of the information security policy, inventory of IT equipment, retention and disposal schedule, confidential waste collection, storage of documents on the Orb and GCSx email accounts.	Being followed up as part of the 2018/19 GDPR audit.		
Worcestershire Regulatory Services	19th July 2018	Worcestershire Regulatory Services	Moderate	Reported 4 medium priority and 2 low priority recommendations; Risk assessment, Subsistence Fees, Outstanding Invoices, Inspections	To be followed up as part of the 2018/19 WRS audit. (March 2019)		
Benefits	30th July 2018	Revenues & Benefits	Significant	Reported 3 medium and 2 low priority recommendations; Overpayment, Write-Offs, Performance Information, Overpayment Classification and User Access Reviews	To be followed up as part of the 2018/19 Benefits audit. (January 2019)		
end							

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AUDIT, STANDARDS & GOVERNANCE COMMITTEE

WORK PROGRAMME 2018/19

24 January 2019

- Monitoring Officer's Report
- Housing Benefit 2017/18 Certification Letter
- External Audit Plan 2018/19
- Communicating with Audit, Standards and Governance Committee
- Internal Audit – Progress Report
- Financial Savings Monitoring Report June to September 2018
- Overall Risk and Corporate Governance Report
- Risk Champion's Verbal Update
- Work Programme

14 March 2019

- Monitoring Officer's Report
- Annual Report
- External Audit – Progress / Action Plan Update Report
- External Audit – Certification Work Report 2017/18
- External Audit – Audit Plan March 2019/20
- External Audit – Auditing Standards 2019/20
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan 2019/20
- Final Negative Grant Report
- Financial Savings
- Risk Champion's Update Report
- Work Programme

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