



## **BROMSGROVE DISTRICT COUNCIL**

### **MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

**THURSDAY 14TH MARCH 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  

To invite Councillors to declare any Disclosable Pecuniary interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.
3. To confirm the accuracy of the minutes of the Audit, Standards and Governance Committee meeting held on 24 January 2019 (Pages 1 - 6)
4. Standards Regime - Monitoring Officers' Report (Pages 7 - 10)
5. Grant Thornton - External Audit - Progress Report and Sector Update (Pages 11 - 30)
6. Internal Audit - Progress Report (Pages 31 - 44)
7. Internal Audit - Audit Plan 2019/20 (Pages 45 - 56)
8. Financial Savings Monitoring Report (Pages 57 - 60)
9. Accounting policies (Pages 61 - 74)
10. Draft Annual Report 2018/19 (Pages 75 - 82)

11. Draft Role and responsibilities of Risk Champion - Verbal Update
12. Audit, Standards and Governance Committee Work Programme (Pages 83 - 84)

K. DICKS  
Chief Executive

Parkside  
Market Street  
BROMSGROVE  
Worcestershire  
B61 8DA

6th March 2019

## BROMSGROVE DISTRICT COUNCIL

### MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

24TH JANUARY 2019, AT 6.00 P.M.

PRESENT: Councillors S. R. Colella (Chairman), C. J. Bloore, Mr. R. J. Deeming (Substitute), S. R. Peters and M. Thompson

Observers: Councillor B. T. Cooper, Mr. C. Scurrell, Neil Preece and Richard D Percival

Officers: Mr. A. Bromage, Mrs. C. Felton, Mr C. Forrester, Ms F. Mughal and Ms. A. Scarce

30/18 **APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES**

Apologies for absence were received on behalf of Councillors H. Jones, R. Laight and M. Webb. Members were advised that Councillor R. J. Deeming was in attendance as substitute for Councillor H. Jones.

31/18 **DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS**

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

32/18 **MINUTES OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE MEETING HELD ON 11 OCTOBER 2018**

The minutes of the meeting of the Audit, Standards and Governance Committee held on 11<sup>th</sup> October, 2018 were submitted.

It was noted that Councillor B. Cooper was in attendance at this meeting. In respect of Minute No. 29/18 it was noted that the dates were recorded incorrectly and it should have stated 2019 and not 2018.

**RESOLVED** that subject to the amendments as detailed in the preamble above, the minutes of the meeting of the Audit, Standards and Governance Committee held on 11<sup>th</sup> October, 2018 be approved as a correct record

33/18 **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 points:

# Agenda Item 3

Audit, Standards and Governance Committee  
24th January 2019

- All Member complaints had been resolved locally and since the last meeting of the Committee there had been no further complaints.
- There had been no further training events held.
- The Member Development Steering Group continued to review the Member Induction programme in preparation for the new municipal year for both new and returning Members, together with carrying out a review of Members' use of IT equipment and its suitability.

Councillor M. Thompson sought clarification in respect of questions at full Council during the pre-election period. He questioned whether when a question was being put forward under the public questions item that if it was a candidate then this should be declared. The Head of Legal, Equalities and Democratic Services clarified that all questions were referred to her in the first instance in order to ensure they were both appropriate and relevant.

The Monitoring Officer suggested that the subject could be discussed at the next Constitution Working Group meeting, which the Senior Democratic Services Officer confirmed was due to be held on 11<sup>th</sup> February, 2019. Subsequently, an update would be provided at the next meeting of the Committee.

## **RESOLVED:**

- a) that the Standards Regime Monitoring Officer's report to be noted;
- b) that the Constitution Working Group be asked to consider the questions from the public/candidates item discussed in the pre-amble above and an update to be provided at the next Audit, Standards and Governance Committee meeting on 14<sup>th</sup> March, 2019.

34/18

## **GRANT THORNTON - COMMUNICATING WITH AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Grant Thornton presented the Committee with a report in respect of the communication with the Audit, Standards and Governance Committee.

In accordance with Auditing Standards, Grant Thornton was required to ensure that robust systems were in place together with proactive communications with those charged with Governance. In planning and performing their audit of the financial statements, Grant Thornton needed to understand how the Audit, Standards and Governance Committee, supported by the Council's management, met its responsibilities in the following areas:

- Fraud
- Law and Regulation
- Going concern
- Accounting for estimates; and
- Related parties.

Management responses to a series of questions were included in the report. It was reported that the responses had been consistent and there were no concerns identified.

With regards to whistleblowing, clarification was sought that the Council had appropriate procedures in place to deal with any whistleblowing and it was confirmed that the Council had a whistleblowing policy. Members were further informed that there was a process in place for Grant Thornton to deal with any enquires of whistleblowing if anyone wished to take that route.

Councillor Cooper informed the Committee that he had no concerns in respect of fraud within Bromsgrove District Council.

**RESOLVED** that the Communication with the Audit, Standards and Governance Committee report and management responses be noted.

35/18

## **GRANT THORNTON - EXTERNAL AUDIT PLAN**

Grant Thornton presented the external Audit Plan for 2018/19 setting out the work that had been undertaken in respect of the financial accounts for 2018/19.

This covered the six key areas of challenges and opportunities facing the Council and the work the auditors would be doing:

- Group Accounts
- Significant risks
- Materiality
- Value for Money arrangements
- Audit logistics; and
- Independence.

In addition to the presumed risks inherent in all audits three significant risks had been identified. These related to the Management over-ride of controls, valuation of the pension fund net liability and valuation of property, plant and equipment.

Following a brief discussion of the report and questions from Members Grant Thornton confirmed they would be using the new audit methodology and tool LEAP for the 2018/19 audit, they had been involved in the development of this new software, which would be introduced globally. This would enable the auditors to be more responsive to changes that may occur.

**RESOLVED** that the report of the Grant Thornton Audit Opinion Plan for 2018/19 be noted and agreed.

36/18 **GRANT THORNTON - HOUSING BENEFIT 2017/18 CERTIFICATION LETTER**

Members considered the Grant Thornton Certification Work Report 2017/18. Members' attention was drawn to the details of Housing Benefit Subsidy claim for the financial year 2017/18 related to subsidy claimed of £16m.

Grant Thornton advised that there had been a reduction in the number of errors made in comparison to the previous year.

There were two lots of additional testing arising from errors identified which related to the incorrect input of earnings. As a result of the errors identified, the claim was amended and the findings were reported to DWP.

**RESOLVED** that the Grant Thornton Certification Letter 2017/18 be noted.

37/18 **INTERNAL AUDIT MONITORING REPORT**

The Head of Internal Audit Shared Service presented the Internal Audit Progress report. It was noted that the report provided an update on the actions and work carried out and gave a view of the audits which had been completed since the last meeting. The Head of Internal Audit Shared Service highlighted that there were no areas of high priority within this report.

In relation to Appendix 4 to the report the planned follow up items and associated actions were noted. Various works had been completed and would be reported to the Committee in due course. Overall the Audit Plan was on track.

**RESOLVED** that the Internal Audit Monitoring Report be noted.

38/18 **FINANCIAL SAVINGS MONITORING REPORT JUNE TO SEPTEMBER 2018**

The Committee was presented with the Financial Savings Monitoring report for April to September 2018, setting out the delivery of the savings projected for the full year against the Medium Term Financial Plan (MTFP). The Portfolio Holder for Finance and Resources highlighted that the Planning and Regeneration Service area was below target and this related to reduced income from planning applications, which had the potential to impact on other areas in the long term.

The statement indicated that it was projected that the savings of £580k for 2018/19 were on target to be delivered during the financial year.

**REPORTED** that the Financial Savings Monitoring Report for April to September 2018 be noted.

39/18

## **OVERALL RISK AND CORPORATE GOVERNANCE REPORT**

The Financial Services Manager presented the Corporate Governance and Risk Report to the Committee for consideration and the 'high' priority risks identified in the report.

There was one significant risk identified in respect of the Business Continuity Plans and the impact should it fail to operate effectively in an incident. There were no additional risks to be considered.

**RESOLVED** that the Corporate Governance and Risk Report be noted.

40/18

## **RISK CHAMPION - VERBAL UPDATE (COUNCILLOR S. COLELLA)**

The Chairman informed the Committee that following discussions with the Financial Services Manager and Head of Internal Audit Shared Service a scoping document would be produced setting out the role and responsibilities of the Risk Champion. This would be presented to the next meeting of the Committee for discussion and approval.

41/18

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME**

The Senior Democratic Services Officer (Bromsgrove) presented the Audit, Standards and Governance Committee Work Programme for 2018/19. Members agreed for the following items to be included:

- Update from the Constitution Review Working Group in respect of public questions at full Council meetings; and
- Draft Role and responsibilities of Risk Champion.

Grant Thornton advised that the following items should be removed as these had been discussed at this evening's meeting:

- Certificate Work Report
- Audit Plan; and
- Auditing Standards.

**RESOLVED** that the Audit, Standards and Governance work programme be amended subject to the pre-amble above.

The meeting closed at 6.30 p.m.

Chairman

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## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

**14<sup>th</sup> March 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 24th January 2019.
- 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

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

**14<sup>th</sup> March 2019**

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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 A verbal update will be provided at the meeting.

#### 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 not met since the last update. 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 April.
- 3.8 The Constitution Review Working Group continues to 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:

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

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

14<sup>th</sup> March 2019

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5. **APPENDICES**

None.

6. **BACKGROUND PAPERS**

Chapter 7 of the Localism Act 2011.

**AUTHOR OF REPORT**

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#### GRANT THORNTON – Sector report and audit progress update

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

#### 1. SUMMARY OF PROPOSALS

To present a sector update report from Grant Thornton relating to emerging public sector national issues and audit progress to date.

#### 2. RECOMMENDATIONS

2.1 That the Committee note the update.

#### 3. KEY ISSUES

3.1 This report attached at Appendix 1 details a number of key issues that are emerging in the public sector environment that Grant Thornton feel the Council should be aware of. These include:

##### 3.2 **Public sector audit appointments**

This report is the fourth published by the Public Sector Audit appointments (PSAA) and summarises the results of the auditor’s work at 495 principal local government and police bodies for 2017/18. It covers the timeliness and quality of financial reporting, auditors’ local value for money work and the extent to which auditors used their statutory reporting powers.

##### 3.3 **National Audit Office – Local auditor reporting in England 2018**

This report describes the roles of auditors and relevant bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017/18. It also considers how issues reported have changed since the Comptroller and Auditor General (C&AG) took up the new role in 2015 and highlights differences between local government and NHS sector.

##### 3.4 **National Audit Office – Local authority governance**

This report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and also determines whether authorities are financially sustainable.

**3.5 CIPFA – Financial Resilience Index plans revised**

CIPFA has proposed a financial resilience index to provide reassurance to councils who are financially stable and to highlight areas that may need further consideration in relation to financial modelling and funding.

Since the initial report, following a consultation with the sector, CIPFA has refined its plans and is poised to rate bodies on a “suite of indicators”.

**3.6 ICAEW Report: expectations gap**

This report highlights the difference between what auditors actually deliver and what stakeholders expect them to deliver. It suggests greater debate is needed and highlights a number of key areas where this difference in expectations is most stark.

**3.7 Financial Foresight**

This is a new tool provided by Grant Thornton which they are offering to councils.

This tool provides analytics and benchmarking information to inform decision making.

**3.8 Progress Report  
Financial Statements Audit**

A detailed audit plan has been issued, and an interim audit has taken place in January 2019. This interim audit covered areas such as the control environment, core financial systems understanding and early substantive testing.

**3.9 Value For Money**

There is one significant value for money risk highlighted at present, which is the financial sustainability of the council, and audit work is currently being undertaken on this.

**3.10 Other areas**

Regular meetings with finance staff are underway to ensure emerging issues can be identified early. The Housing Benefit subsidy Claim work has not started as yet.

**3.11 Legal Implications**

None as a direct result of this update

**3.12 Service/Operational Implications**

The impact of any changes would be managed by services delivered by the Council

**4. Customer / Equalities and Diversity Implications**

None, as a direct result of this report.

**5. RISK MANAGEMENT**

The Corporate Risk register includes risk associated with changes to national policy

**6. APPENDICES**

Appendix 1 – Sector Update and audit progress report

**7. BACKGROUND PAPERS**

Available from Financial Services

**AUTHOR OF REPORT**

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# Audit Progress Report and Sector Update

Bromsgrove District Council

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4 March 2019



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# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Standards and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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## PSAA Contract Monitoring

Bromsgrove District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Agenda Item 5

# Progress at February 2019

## Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 28 May with findings reported to you in our Audit Findings Report. We will present our report at the July Audit, Standards and Governance Committee meeting and issue our audit opinion by the 31 July deadline.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified one significant Value for Money Risk – financial sustainability – and are currently carry out our audit work on this.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We will agree our overall project plan for completing this work with officers.

### Meetings

We met with Finance Officers in February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	March 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit, Standards & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
<b>Interim Audit Findings</b> We will report to you if there are any findings from our interim audit work that need to be brought to your attention	March 2019	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit, Standards & Governance Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

## Council responsibilities

In our Audit Plan presented to the Audit, Standards & Governance Committee in January 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

# Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

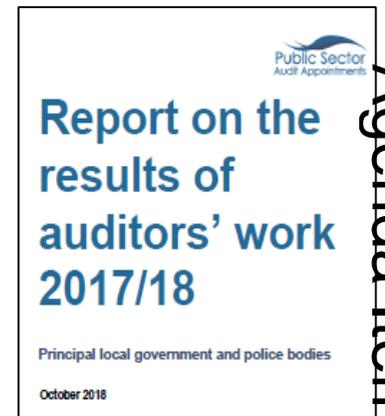
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

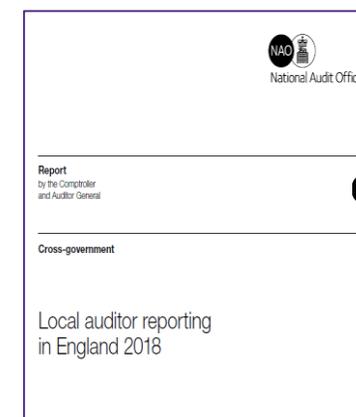
The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



## NAO Report

### Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



# CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

## CIPFA Consultation

### Challenge question:

Have members been briefed on the Council’s response to the Financial Resilience Index consultation?



# ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

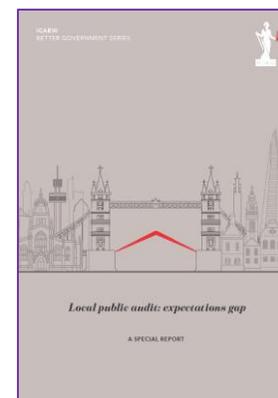
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?

# Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

Page 26 In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

## What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

## How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

# Local Government audits 2018/19 and beyond

## Grant Thornton's External Audit commitment

Audit 2018/19

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### Our team

**Richard Percival**  
Engagement Lead



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Audit Executive



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*"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".*

*Director of Finance, local audited body*

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

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*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council

## Our relationship with our clients—why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

Agenda Item 5

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### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 14<sup>th</sup> MARCH 2019

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#### **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 31<sup>st</sup> January 2019.

#### **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 01<sup>st</sup> April 2018 to 31<sup>st</sup> January 2019 against the performance indicators agreed for the service.

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

**Date: 14<sup>th</sup> MARCH 2019**

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AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (24<sup>th</sup> January 2019):

3.5 2018/19 AUDIT SUMMARY UPDATES:

**Treasury Management**

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

- The general transparency of treasury activities during the financial period in achieving best value;
- General IT controls in relation to the segregation of duties;
- Regular monitoring of cash flow and treasury activities to determine on-going cash requirements.

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

- Ledger Coding and & Reconciliation
- User Access
- Procedures for Borrowing/ Lending Between Authorities
- Benchmarking

There were 2 ‘medium’ and 2 ‘low’ priority recommendations reported.

Type of Audit: Full System

Assurance: Significant

Final Report Issued: 17<sup>th</sup> January 2019

Summary of Assurance Levels:

<b><u>Audit</u></b>	<b><u>Assurance Level</u></b>
<b><u>2018/19</u></b>	
Treasury Management	Significant

3.6 2018/19 AUDITS ONGOING AS AT 31<sup>st</sup> JANUARY 2019

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

- Health and Safety
- General Data Processing Regulations
- Universal Credit
- On Street and Off Street Parking
- Council Tax
- National Non Domestic Rates

Audits progressing through fieldwork stages included:

- Housing Benefits
- Creditors
- Debtors
- Main Ledger

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

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- Procurement
- Risk Management
- Transport (Fleet Management)
- Bromsgrove Energy Efficiency Fund (BEEF)

Audits progressing through planning stage included:

- Worcester Regulatory Services (Complaints)

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.

A rolling testing programme on Debtors and Creditors has been undertaken during quarter 2 and continued through quarter 3. Testing results so far do not indicate any new or emerging risks to be brought to the attention of Committee. The rolling testing programme results are being amalgamated as at the end of quarter 3 and formal audit reports issued with any findings during quarter 4.

#### **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 31<sup>st</sup> January 2019 a total of 161 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 15<sup>th</sup> 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

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 14<sup>th</sup> MARCH 2019

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- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative over view.
- Investigations

#### 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 has been removed. Additional days have been used in a couple of review areas e.g. Health and Safety and GDPR to ensure comprehensive reviews were 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 (as amended). 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,

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 14<sup>th</sup> MARCH 2019

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

#### **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

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#### APPENDIX 1

#### Delivery against Internal Audit Plan for 2018/19 1<sup>st</sup> April 2018 to 31<sup>st</sup> January 2019

Audit Area	2018/19 Total Planned Days	Forecasted days to the 31 <sup>st</sup> March 2019	Actual Days Used to the 31 <sup>st</sup> January 2019
Core Financial Systems (see note 1)	52	52	37
Corporate Audits (see note 4)	39	39	29
Other Systems Audits (see note 2)	103	103	70
<b>SUB TOTAL</b>	<b>194</b>	<b>194</b>	<b>136</b>
Audit Management Meetings	15	15	12
Corporate Meetings / Reading	5	5	5
Annual Plans, Reports and Committee Support	16	16	8
Other chargeable (see note 3)	0	0	0
<b>SUB TOTAL</b>	<b>36</b>	<b>36</b>	<b>25</b>
<b>TOTAL</b>	<b>230</b>	<b>230</b>	<b>161</b>

#### 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. The results will be reported during Q4.

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 IT 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: 14<sup>th</sup> MARCH 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.

	<b>KPI</b>	<b>Trend/Target requirement</b>	<b>2018/19 Position (as at 31<sup>st</sup> January 2019)</b>	<b>Frequency of Reporting</b>
<b>Operational</b>				
1	No. of audits achieved during the year	Per target	Target = Minimum 13  Delivered = 2 (covering 4 reviews) 6 @ clearance/draft report and 8 in progress	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	70%	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	*68%	When Audit Committee convene
<b>Monitoring &amp; Governance</b>				
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
<b>Customer Satisfaction</b>				
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	2	When Audit Committee convene

WASS conforms to the Public Sector Internal Audit Standards (as amended).

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

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\* Below target figure due to 4 new starters in April 2018 and a period of settling in and training. Coaching and mentoring is continuing, however, the overall productivity figure is beginning to show a positive trend increasing from a previously reported figure of 58% to 68%

## AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

**APPENDIX 3**

**Definition of Audit Opinion Levels of Assurance**

<b>Opinion</b>	<b>Definition</b>
<b>Full Assurance</b>	<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>
<b>Significant Assurance</b>	<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>
<b>Moderate Assurance</b>	<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>
<b>Limited Assurance</b>	<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>
<b>No Assurance</b>	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

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### Definition of Priority of Recommendations

<b>Priority</b>	<b>Definition</b>
<b>High</b>	<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>
<b>Medium</b>	<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>
<b>Low</b>	<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
<b>Audit: Treasury Management</b>					
<b>Assurance: Significant</b>					
1	Medium	<p><b><u>Ledger Coding and &amp; Reconciliation</u></b></p> <p>There have not been any formal periodic reconciliations of treasury management activities in the ledger for either Council during the 2018/19 financial period.</p> <p>It was noted during audit testing that many of the Redditch Borough Council Investment and Borrowing transactions are not being correctly coded on the ledger. Transactions are coded by the Town Hall Cashiers instead of the Finance team.</p>	<p>Failure to correctly account for financial transactions on the ledger, potentially resulting in reputational damage to the Councils.</p>	<p>There needs to be a formal reconciliation of treasury management activities against the ledger postings at agreed intervals to be determined by the Finance Team, to ensure all financial activities have been fully accounted for and coded correctly.</p> <p>To achieve consistency and accuracy the responsibility of coding treasury activities on the ledger is to be reconsidered with additional training being provided to staff if appropriate.</p>	<p>Finance to review whether the reconciliation function currently carried out by cashiers can be relocated to the reconciliation team in central finance. Treasury team to undertake reconciliations of transactions once posted on a monthly basis.</p> <p><b>Responsible Officer:</b> Financial Services Manager</p> <p><b>Implementation Date:</b> March 2019</p>
2	Medium	<p><b><u>User Access</u></b></p> <p>A user account for an Accountancy Trainee with access to the iDealTrade system was not removed at the time of leaving. In addition, the request to remove the user from the Council network was not submitted until almost 3 months after the employee left, and after being queried by the Internal Audit team.</p>	<p>Failure to control access to key systems resulting in potential breaches which could result in reputational or financial loss for the authority.</p>	<p>Ensure procedures for removing network access for previous employees are followed. Additional system access must also be removed in a timely manner, and monitored by senior officers in the Finance team. Current access requirements to be reviewed on a periodic basis.</p>	<p>User access to be reviewed each time a staff member leaves/joins/changes role in the department.</p> <p><b>Responsible Officer:</b> Financial Services Manager</p> <p><b>Implementation Date:</b> Jan 2019</p>
end					

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

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### **APPENDIX 4**

#### **Follow Up**

##### **Planned Follow Ups:**

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

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;
- 2018/19 report; one review being followed up in the coming months.

## AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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<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>2<sup>nd</sup> Follow Up</u>	<u>3<sup>rd</sup> 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	
<b>2016-17 Audits</b>							
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. <b>Follow Up February 2019.</b>	Follow up undertaken on the 25 <sup>th</sup> January 2019 confirmed all actions had been taken and the outstanding recommendation had been satisfactorily implemented. <b>No further follow up required.</b>	
<b>2017-18 Audits</b>							
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 28 <sup>th</sup> January 2019.	Follow up undertaken on the 28 <sup>th</sup> January 2019 confirmed policy reporting before Members remained outstanding but is due to be reported to Cabinet April 2019. <b>Follow up required May 2019.</b>	
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	Follow up January 2019 found the 4 medium priority recommendations were satisfied and the high priority recommendation was in		

## **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

				quotes and Garden Waste Invoices.	progress pending further transformation of the Business Support Team re. reconciliation and controlled stationery. <b>Follow up required in April 2019.</b>		
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.	Follow up February 2019 found 4 'high' and one 'medium' priority recommendations have been satisfactorily implemented with the final 'high' priority recommendation re. confidential waste to be completed on the 1 <sup>st</sup> April 2019 on the transfer of the responsibilities from PPL. <b>Follow up required in April 2019.</b>		
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	<b>To be followed up as part of the 2018/19 WRS audit.</b> (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	<b>To be followed up as part of the 2018/19 Benefits audit.</b> (January/February 2019)		
<b>2018-19 Audits</b>							
Welfare Benefits (3x reviews)	23 <sup>rd</sup> November 2018	Benefits	Moderate	Reported 4 Medium and 2 Low Priorities. Recommendations; Transparency of the Welfare Budgets, Accuracy of recording expenditure and reporting, Current expenditure of the Welfare Benefits, Record Keeping, System, Policies.	<b>To be followed up in May 2019</b>		
end							

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### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 14<sup>th</sup> MARCH 2019

#### **THE 2019/20 INTERNAL AUDIT PLAN REPORT OF THE HEAD OF 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 Bromsgrove District Council Internal Audit Draft Operational Plan for 2019/20
- the key performance indicators for the Worcestershire Internal Audit Shared Service for 2019/20

#### **2. RECOMMENDATIONS**

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

#### **3. KEY ISSUES**

##### **Financial Implications**

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

**BROMSGROVE DISTRICT COUNCIL****AUDIT, STANDARDS AND GOVERNANCE COMMITTEE****Date: 14<sup>th</sup> MARCH 2019****Legal Implications**

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

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

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

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

**Formulation of Annual Plan**

WIASS operates an Internal Audit Charter which sets out the standards to which it operates for this Council. The Internal Audit Plan for 2019/20, which is included at Appendix 1, is a risk based plan which takes into account the adequacy of the council's risk management, performance management, other assurance

**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE****Date: 14<sup>th</sup> MARCH 2019**

processes as well as organisational objectives and priorities. It has been based upon the risk priorities per the Corporate and Service risk registers. Large spend budget areas have also been considered, and, direct association has been made to the organisational objectives and priorities. The Internal Audit Plan for 2019/20 has been agreed with the s151 Officer, is being considered by the Senior Management Team and has been brought before Committee in draft form. It has been formulated with the aim to ensure Bromsgrove District Council meet its strategic purposes, delivers its promises and has directly linked the various aspects to identify the 'golden thread' in regards to the objectives and risk identification to Service delivery. It is brought before the Audit, Standards and Governance Committee in draft format as the involvement of the Committee 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.

We recognise there are other review functions providing other sources of assurance, both internally and externally, (e.g. ICT Public Service Network assurance testing) 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.

To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan is available to the external auditors for information.

By bringing a plan of work before the Audit, Standards and Governance Committee which had been formulated with the aim to ensure Bromsgrove District Council meets its strategic purposes it allows Members to have a positive input into the audit work programme for 2019/20 and make suggestions as to where they feel audit resources may be required under direction of the s151 Officer. Due to the continuing changing environment that exists in Local Government the plan must be seen as a framework for internal audit work for the forthcoming year. There is a need for improved flexibility in the plan due to a changing risk profile as well as emerging risks. To ensure flexibility there is the possibility that the plan will be updated during the year in order to address such challenges. If appropriate a review before Senior Management Team will take place to ensure the audit plan remains risk focussed and any required changes can be considered.

**BROMSGROVE DISTRICT COUNCIL****AUDIT, STANDARDS AND GOVERNANCE COMMITTEE****Date: 14<sup>th</sup> MARCH 2019**Resource Allocation

The Internal Audit Plan for 2019/20 has been based upon a resource allocation of 230 chargeable days, an allocation which has been agreed with the council's s151 Officer. A summary of the days as well as the detailed plan provision has been included at Appendix 1. A number of areas have been included in the plan but due to the resource available priorities have been applied in regard to the plan delivery. Although all areas have been considered an assessment has been made whether to include in the plan based on the overall risk and governance profile. Areas that are considered to have a 'high' priority will be targeted first in regard to the plan delivery. The Head of Internal Audit Shared Service is confident that, with this resource allocation, he can provide management, external audit and those charged with governance with the assurances and coverage that they require over the system of internal control, annual governance statement and statement of accounts. The 230 day allocation is based on transactional type system audits and remains the same number of days as being delivered during 2018/19.

Due to the changing internal environment, ongoing transformation and more linked up and shared service working between Bromsgrove and Redditch the plan continues to be organised in a smarter way in order to exploit the efficiencies that this type of working provides. Although the audit areas will have an allocation of audit days the reviews will continue to be more cross cutting than before and will encompass the different service perspectives that the Services need to deliver. All or part of the budgeted days will be used on a flexible basis depending on the risk exposure the end result being better corporate coverage and ownership of the audit outcomes.

Due to both external and internal audit findings the financial systems have been included as audit areas as it is considered certain risks remain in these areas. It is hoped that in time a 'watching brief' approach can be adopted when there is a confidence in embedded process, control and anti fraud measures thus leading to a reduction in the allocated days. Operational support days are included to give a little flexibility and contingency in the plan e.g. consultancy but are necessary to support the delivery of the plan as a whole.

The Internal Audit Plan for 2019/20 is set out at Appendix 1.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2019/20 will be closely monitored by the Head of Internal Audit Shared Service and will be reported to

## BROMSGROVE DISTRICT COUNCIL

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the Shared Service's Client Officer Group (which comprises the s151 officers from partner organisations), and, to the Audit, Standards and Governance Committee on a quarterly basis.

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

#### **Customer / Equalities and Diversity Implications**

There are no implications arising out of this report.

#### **4. RISK MANAGEMENT**

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

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

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

#### **5. APPENDICES**

Appendix 1 ~ Internal Audit Plan 2019/20

Appendix 2 ~ Key performance indicators 2019/20

#### **6. BACKGROUND PAPERS**

None

#### **7. KEY**

N/a

## BROMSGROVE DISTRICT COUNCIL

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

Date: 14<sup>th</sup> MARCH 2019

#### **AUTHOR OF REPORT**

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## BROMSGROVE DISTRICT COUNCIL

### **AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

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#### APPENDIX 1

#### SUMMARY OF DETAILED PLAN

Planned Days	2019/20
Financial	52
Corporate Work	51
Service Delivery and Operational	91
<b>Sub total</b>	<b>194</b>
Audit management meetings	15
Corporate meetings / reading	5
Annual plans, reports and Audit Committee support	16
<b>Sub total</b>	<b>36</b>
<b>TOTAL Audit Days</b>	<b>230</b>

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#### 2019/20 Internal Audit Plan

Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2019 / 2020 Plan	Outline Resource Required
<b>FINANCIAL</b>					
Debtors*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	6
Main Ledger/Budget Monitor/Bank Rec	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	8
Creditors*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	6
Treasury Management	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/>	6
Council Tax*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	8
Benefits* (Action plan monitoring)	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	10
NNDR*	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	8
<b>Sub TOTAL</b>					<b>52</b>
<b>CORPORATE</b>					
IT Audit* (Server patching and disaster recovery)	Fundamental to strategic purpose delivery	ICT 7 & ICT 8	Medium	<input checked="" type="checkbox"/>	8
Risk Management* (Critical Friend Support)	Fundamental to strategic purpose delivery	S151 request	Medium	<input checked="" type="checkbox"/>	6
Health and Safety* (Training Documentation including Operations and action plan monitoring)	Fundamental to strategic purpose delivery	Non compliance with Health and Safety requirements	Medium/ High	<input checked="" type="checkbox"/>	12

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Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2019 / 2020 Plan	Outline Resource Required
Compliments and Complaints	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	8
Procurement* (Training)	Fundamental to strategic purpose delivery	Potential area identified 2018/19	Medium	<input checked="" type="checkbox"/>	5
Shared Service Delivery*	Quality Services	N/a	Low/ Medium	<input checked="" type="checkbox"/>	0
Document Retention Policies - (Hardcopy)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/>	12
<b>Sub TOTAL</b>					<b>51</b>
<b>SERVICE DELIVERY</b>					
<b>Customer Access and Financial Support:</b>					
<b>Customer Services Centre</b>					
Access, management and security of centre	Fundamental to strategic purpose delivery	CUS14	Medium	<input checked="" type="checkbox"/>	0
Business Grants	Help me run a successful business	N/a	Medium	<input checked="" type="checkbox"/>	0
<b>Planning and Regeneration Service</b>					
Planning Application Processing	Keep my place safe and looking good	PLA 4	Low/ Medium	<input checked="" type="checkbox"/>	8
Building Regulation Service	Keep my place safe and looking good	N/a	Low/ Medium	<input checked="" type="checkbox"/>	0
<b>Community Service</b>					
Safeguarding	Keep my place safe and looking good	Com 3	Medium	<input checked="" type="checkbox"/>	10

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Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2019 / 2020 Plan	Outline Resource Required
<b>Environmental</b>					
Service delivery/scalability (new builds) (Critical Friend)	Keep my place safe and looking good	Env 24	Low/ Medium	<input checked="" type="checkbox"/>	12
Data management for Service Delivery	Fundamental to strategic purpose delivery	Env 14	Low	<input type="checkbox"/>	0
Health and Safety (see H&S corporate)	Fundamental to strategic purpose delivery	Env 10	Medium	<input type="checkbox"/>	0
Markets	Help me run a successful business	N/a	Low	<input checked="" type="checkbox"/>	5
<b>Worcester Regulatory Services</b>					
(TBC - currently liaising with Head of WRS)	Statutory and Regulatory Requirement	Head of Service request	Medium	<input checked="" type="checkbox"/>	14
<b>Sub TOTAL</b>					<b>49</b>
<b>Other Operational Work</b>					
Advisory, Consultancy & Contingency	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	10
Fraud & Investigations incl. NFI	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	10
Completion of prior year's audits	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	8
Report Follow Up (all areas)	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	10
Statement of Internal Control	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	4
<b>Sub TOTAL</b>					<b>42</b>
Audit Management Meetings	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	15

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Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2019 / 2020 Plan	Outline Resource Required
Corporate Meetings / Reading	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	5
Annual Plans, Reports & Committee Support	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	16
<b>Sub TOTAL</b>					<b>36</b>
<b>TOTAL CHARGEABLE</b>					<b>230</b>

**Explanatory Notes:**

\*As part of the increasing joint and shared service working between Bromsgrove District Council and Redditch Borough Council the audit budgets and areas will feature in both internal audit plans and be consolidated to deliver a single piece of work covering both Council's. Where practically possible the days will be split equally between the plans. Weighting will, however, be applied if it is considered the focus of the work will major on one Council.

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

## BROMSGROVE DISTRICT COUNCIL

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#### APPENDIX 2

#### Performance against Key Performance Indicators 2019-2020

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2019/20. 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	2019/20 Position (as at XXXXXXX)	Frequency of Reporting
Operational				
1	No. of audits achieved during the year	Per target	Target = Minimum 13  Delivered = XX	When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	XX	When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	XX	When Audit Committee convene
Monitoring & Governance				
4	No. of 'high' priority recommendations	Downward  (minimal)	XX	When Audit Committee convene
5	No. of moderate or below assurances	Downward  (minimal)	XX	When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded  (nil)	XX	When Audit Committee convene
Customer Satisfaction				
7	No. of customers who assess the service as 'excellent'	Upward  (increasing)	XX	When Audit Committee convene

WIASS conforms to the Public Sector Internal Audit Standards (as amended).

#### APRIL – DECEMBER FINANCIAL SAVINGS MONITORING REPORT 2018/19

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

#### **1. SUMMARY OF PROPOSALS**

To report to the Committee the monitoring of the savings for April – December 2018/19. This report presents the savings delivered projected for the full year against those identified in the medium term financial plan (MTFP)

#### **2. RECOMMENDATIONS**

- 2.1 That the Committee note the final financial position for savings as presented in the report and at Appendix 1.

#### **3. KEY ISSUES**

- 3.1 This report provides a statement to show the savings projected for 2018/19 as detailed in the MTFP and approved by Council in February 2018.
- 3.2 The statement shows that it is projected that the savings of £580k for 2018/19 are largely on track to be delivered during the financial year, with a risk around £2k of savings from additional cross boundary partnership working.
- 3.3 The External Auditors, Grant Thornton, have recommended that the delivery of savings be monitored more closely to ensure that the Council is meeting savings in the way that was expected when the budget was set. This monitoring was recommended to be undertaken by this Committee and Grant Thornton further advised that the savings monitoring should be against the Medium Term Financial Plan rather than the efficiency plan as the MTFP is the more recently approved budget projection for the Council. The savings statement attached reflects this approach.
- 3.4 As members may be aware during the budget process, heads of service propose savings that are to be delivered during future financial years. The budget allocation is

then reduced to reflect the proposed saving and officers meet on a monthly basis to ensure that all estimated reductions to budget are being delivered.

**3.5 Legal Implications**

None as a direct result of this report.

**3.6 Service/Operational Implications**

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

**4. Customer / Equalities and Diversity Implications**

None, as a direct result of this report.

**5. RISK MANAGEMENT**

Effective financial management is included in the Corporate Risk Register.

**6. APPENDICES**

Appendix 1 – Saving monitoring April – December 2018/19

**7. BACKGROUND PAPERS**

Available from Financial Services

**AUTHOR OF REPORT**

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**BROMSGROVE - SAVINGS & ADDITIONAL INCOME FROM 18-19 BUDGET ROUND**

**APPENDIX 1**

Department	Description of saving	2018-19 £'000	Comments	Quarter 3			
				On target Y/N	Additional (add to to in yr savings) £'000	below target Y/N	Pressure £'000
Business Transformation	Annual Revenue Budget Saving	-123	Saving from efficiencies and contract reviews	Y			
Community Services	acommodation charges	-12	Already included in support recharges	Y			
Community Services	telephone charges	-6	Savings from new contract	Y			
Community Services	staff savings from reduced mileage and reduced hours	-3	Savings from staff member reducing working hours	Y			
Community Services	removal of budget historical DFG monies	-7	Review of budget efficiencies	Y			
Community Services	acommodation charges	-12	Already included in support recharges	Y			
Community Services	various	-28	Review of budget efficiencies	Y			
Corporate Resources	Reduction in External Audit Costs	-16	Reduced as per new contract arrangements	Y			
Corporate Resources	Appeals in Asset of Community	-20	Savings to be offered, subject to any future appeals to be drawn down from balances	Y			
Customer Access & Financial Support	Reduction in Hrs	-5	Savings from staff member reducing working hours	Y			
Environmental Services	Utlilities	-36	More efficient lighting and boiler	Y			
Environmental Services	Maintenance	-9	Saving on Depot Maintenance	Y			
Environmental Services	Additional Garden Waste income	-54	Price increase to £45 in 18/19	Y			
Environmental Services	Fuel and Vehicle R&M	-117	Fuel and R&M due to more efficient working and lower fuel costs.	Y			
Environmental Services	Domestic Bin Replacements	-53	Revenue saving achieved by moving replacement of bins to capital.	Y			
Environmental Services	Trade Bin Replacements	-10	Revenue saving achieved by moving replacement of bins to capital.	Y			
Environmental Services	Garden Waste Bin Replacements	-3	Revenue saving achieved by moving replacement of bins to capital.	Y			

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Agenda Item 8

Department	Description of saving	2018-19 £'000	Comments	On target Y/N	Additional (add to to in yr savings) £'000	below target Y/N	Pressure £'000
Leisure & Cultural Services	Efficiency Saving	-5	Review of budget efficiencies	Y			
Leisure & Cultural Services	Savings on accomodation costs	-8	Review of budget efficiencies	Y			
Leisure & Cultural Services	NNDR on George House	-18	Savings following demolition of building	Y			
Leisure & Cultural Services	R & M for Parkside Building	-25	This saving relates to the repairs and maintenance of the building that are less than initially. This will be used to offset the income pressure against Parkside Hall which has been difficult to achieve but additional marketing will aim to mitigate the shortfall	Y			
Planning & Regeneration	Additional cross boundary partnership working	-2	Additional income generated following marketing of service.	N		Y	2
Planning & Regeneration	Reduction in car mileage costs	-8	Review of budget efficiencies	Y			
		<b>-580</b>			0		2

**2018-19 PROPOSED ACCOUNTING POLICIES**

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

**1. SUMMARY OF PROPOSALS**

This report presents the proposed accounting policies to be used for the closure of the 2018/19 accounts. These are prepared in line with CIPFA’s Code of Practice on Local Authority Accounting in the UK 2018/19 (the Code). Adopting the proposed policies will support timely production of the annual Statement of Accounts.

**2. RECOMMENDATIONS**

- 2.1. It is recommended that the Audit Standards and Governance Committee approves the Council’s proposed Accounting Policies to be adopted in completing the 2018/19 Statement of Accounts.

**3. KEY ISSUES**

- 3.1 In order to comply with International Accounting Standards, the Council needs to disclose the accounting policies it has applied to all material balances and transactions, in compiling its annual Statement of Accounts These relate to the accounting practices, as set down in the Code, which all local authorities follow.
- 3.2 It is considered good practice to obtain member approval for the accounting policies that are to be adopted and will assist with production of the draft accounts by 31 May 2019. The aim is to have the audited accounts complete by 31st July 2019.
- 3.3 The main changes to the accounting policies are:-
- The Going Concern assumption under general principles has been updated to clarify that the going concern principle is still relevant in the case of local government re-organisation.
  - ‘Accruals of Income and Expenditure’ has been retitled ‘Revenue and Expenditure Recognition’ and rewritten to reflect the requirements of IFRS 15 (Revenue from contracts with Customers), the key change being that income is

only recognised as received when all specific performance obligations have been satisfied.

- Financial Assets and Financial Liabilities have been amended to reflect the changes of IFRS 9 (Financial Instruments)

#### **Legal Implications**

- 3.4 The Code constitutes 'proper accounting practices' to be followed by a local authority under the terms of section 21 of the Local Government Act 2003

#### **Service/Operational Implications**

- 3.5 None, as a direct result of this report

#### **Customer / Equalities and Diversity Implications**

- 3.6 None, as a direct result of this report.

#### **4. RISK MANAGEMENT**

Effective financial management is included in the Corporate Risk Register.

#### **5. APPENDICES**

Appendix A -2018/19 Proposed Accounting Policies

#### **6. BACKGROUND PAPERS**

CIPFA recommended template for the Statement of Accounts

#### **AUTHOR OF REPORT**

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### Note 1 Accounting Policies

#### General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The statements are prepared on a general principle of a going concern and that the functions and services provided by the Council will continue to operate for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2017 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### Summary of Significant Accounting Policies

##### 1) Revenue and Expenditure Recognition

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.
- Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The council has set a de-Minimis level for accruals of creditors and debtors that are calculated manually in order to avoid additional time and cost in estimating and recording accruals.

This level is reviewed annually and is currently set at £5,000. If a payment or receipt is split across different cost centres, the limit is for the whole payment or receipt.

Exceptions to this de Minimis rule where accruals are made in full are:

- Qualifying expenditure upon which income from government grant or other third parties is dependent and associated grant income, where the grant funding would be lost if the accrual is not made.
- Invoices for substantially the same supply or service that are chargeable to the same service area are aggregated where their total is over £500.
- Accruals posted based on orders that have been goods receipted on the E-Financials system.
- For capital projects work in progress schedules will be obtained and accruals will be processed on this basis.

##### 2) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

## 3) **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## 4) **Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## 5) **Council Tax and Non-Domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### **Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## 6) **Employee Benefits Benefits Payable During Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

## Post Employment Benefits

Employees of the Authority are members of the below pension scheme:

- The Local Government Pensions Scheme, administered by Worcestershire County Council known as the Worcestershire Pension Fund (WPF)

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

## The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

- The liabilities of the WPF attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- The liabilities of the WPF attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on a basket of high quality corporate bonds, government gilts and other factors).
- The assets of WPF attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- **Service cost comprising:**
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - net interest on the net defined benefit liability i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments
- **Remeasurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the WPF – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## **Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **7) Events After the Reporting Period**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **8) Fair Value Measurement**

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [other financial instruments as applicable] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

## **9) Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount (balance carried forward) of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount included in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Accounting for debt restructuring or early settlement will be in accordance with the Code and relevant statute.

## Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques.

Financial assets are classified into the following categories:

- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit and loss.

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in The Code, and is determined at the time of initial recognition.

### • Financial Assets at Amortised Cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

For most of the loans that the Council has made, this means that the amount included in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has made interest free loans to home owners (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest rather than interest free, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### • Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

### • Financial Assets at Fair Value Through Profit and Loss

Financial assets measured at fair value through profit or loss are those that are not otherwise measured at amortised cost or fair value through other comprehensive income. This includes derivatives and financial assets acquired principally for the purpose of selling in the short term.

Legislation requires that any changes in the fair value of financial assets charged to the Surplus or Deficit on the Provision of Service is to be reversed out to through the Movement in Reserves Statement to the Unusable Reserves.

### • Impairment

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the Council recognises a loss allowance representing expected credit losses on the financial instrument.

The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12-month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

## 10) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **11) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **12) Interests in Companies and Other Entities**

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **13) Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## **14) Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

## 15) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **The Authority as Lessee Finance Leases**

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

### **The Authority as Lessor Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **16) Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Notes are only included where items are considered to be material by value or nature.

## **17) Overheads and Support Services**

In the Financial Statements overheads are reported under the Strategic Purpose where they are managed which is usually Enabling the Authority.

## **18) Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

# Agenda Item 9

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## **Impairment**

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 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.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised

## **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain Community Assets) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure Line in the Comprehensive Income and Expenditure Statement. Gains in fair value are only recognised up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of their carrying amount (before they were classified as held for sale) adjusted for depreciation, amortisation or revaluations and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **19) Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. 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 if the authority settles the obligation.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 20) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

## 21) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## 22) Shared Services

Bromsgrove District Council provides the hosting for a number of shared service arrangements with Redditch Borough Council and Wyre Forest District Council. A number of other shared services are hosted by Redditch Borough Council (including Worcestershire Regulatory Services which is a Jointly Controlled Operation), Worcester City Council and Wyre Forest District Council.

Each arrangement is accounted for within the records of Bromsgrove District Council with a monitoring report prepared for the partner authority on a monthly basis for consideration of the operational costs together with an annual statement of assets and liabilities extracted from the accounts of Bromsgrove District Council. There is a responsibility for each partner Council to account for their share of the arrangement within their statement of accounts.

When entering into shared services with Redditch Borough Council all capital assets that are purchased are financed by each authority separately and accounted for on their own Balance Sheet. Any assets purchased prior to the start of the shared service are not included in the shared service; the costs associated with this remain on the accounts of the Authority that purchased the asset only.

The Management team is shared across both authorities as well as other services. Cross-charging occurs where a resource is used by the other Authority where there is not a formal shared service in place.

Each Authority pays a fair share of services which are shared, in line with the Business Case; all direct expenditure is shared on this basis, with income staying with the home Authority. Where a cost is only in relation to one Authority, this falls outside the Business Case and the Authority that gains the benefit for this is fully charged.

## 23) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

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Bromsgrove District Council



Audit, Standards and  
Governance Committee

# ANNUAL REPORT

**2018 / 2019**



**Bromsgrove**  
District Council

[www.bromsgrove.gov.uk](http://www.bromsgrove.gov.uk)

## **FOREWORD**

I am pleased to present the Audit, Standards and Governance Committee's 2018/19 Annual Report. It records the continued progress the Council has made in providing a thorough, independent assessment of the wide range of controls and corporate governance.

This report reflects the wide work programme incorporated within this committee's work and clearly shows that the Council's business is compliant and transparent. The report demonstrates the value to the Council and the public in ensuring that improvements to the governance of the Council are being delivered.

The assessment of the 2018/19 report is described as "xxxx for VFM and xxxxxx". This is pleasing in that it maintains the excellent progress made over recent years and affirms a strong base position to take the Council forward over the coming years.

I would like to thank the 151 Officer, Monitoring Officer, Democratic Services and members of the committee for their continued support over the last year and for the continued progress being made. As chairman I believe that the Audit, Standards and Governance Committee provide a valuable contribution to the development of standards and protocols across the Council's governance in an effective and compliant way.

Chairman

Cllr Steve Colella

## MEMBERSHIP



Steve Colella (Chairman)



Mike Webb (Vice Chairman)



Chris Allen-Jones



Chris Bloore  
(From Jan 19)



Helen Jones



Rod Laight



Peter McDonald  
(From June 18 to Jan 19)



Stephen Peters



Phil Thomas



Michael Thompson

## **INTRODUCTION**

This report provides an overview of the Audit, Standards and Governance Committee's activities during the municipal year 2018/19.

The ultimate responsibility for Audit rests with the Portfolio Holder with responsibility for Finance and the Section 151 Officer. The Portfolio Holder is expected to attend each meeting in line with the Constitution.

During the year the Committee has considered reports on the following subjects:

- Monitoring Officers Report – which details complaints and training which has taken place during the period between meetings.
- Dispensation Reports
- Updates from the external auditors, Grant Thornton in respect of their work.
- Updates on the work of the Internal Audit Team.
- Section 11 Plan Monitoring.
- Quarterly Financial Savings Monitoring Update Reports.
- Corporate Risk Register
- The Risk Champion's Update Report.
- Statement of Accounts.
- Benefits and Compliance Annual Update report 2017/18

Further information about some of the key responsibilities of the Committee are outlined in detail within this report.

## **THE ROLE OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**

### **Scope and Responsibility**

The Audit, Standards and Governance Committee provides independent assurance to the Council in respect of:

- The effectiveness of the Council's governance arrangements
- The Annual Governance Statement
- The Review of the Annual Statement of Accounts
- Risk Management Framework and strategies
- The effectiveness of the Council's financial and non-financial performance
- Anti-Fraud arrangements
- Whistle-blowing strategies
- Internal and external audit activity
- Democratic governance

The Committee is also responsible for the Council's Standards Regime which covers both District and Parish Councils. Areas encompassed within the Standards Regime include:

- Promoting High Standards of Conduct by Councillors and co-opted members of Council bodies.
- Assisting Councillors and co-opted members to observe the Members' Code of Conduct.
- Advising and training Members and co-opted members in respect of the Code of Conduct.
- Formulating advice to members and officers in declarations of gifts and hospitality.
- Granting dispensations to Councillors and co-opted members from requirements relating to interests as set out in the Code of Conduct.
- Considering reports from the Monitoring Officer following investigation into a complaint about elected Members.

### **Meetings of the Board**

The Council's constitution requires the Audit, Standards and Governance Committee to hold quarterly meetings. During the municipal year 2018/19 meetings were held in July and October 2018 and January and March 2019. The Audit, Standards and Governance Committee work programme was reviewed at each meeting with items included as and when considered and agreed by the Committee.

## **STANDARDS REGIME**

There are two main areas which are considered regularly in terms of the Committee's responsibility for Standards.

### Monitoring Officer's Report

This covers Member Training, Member Complaints and Parish Council matters.

### Dispensation Report

At the start of the year the Committee granted a number of Members' dispensations to discuss matters in which they had an interest.

### Parish Council Involvement

The Parish Council representative is able to add any item on to the agenda as required and this is highlighted within the Monitoring Officer's Report.

### Investigations and enquiries

This year there has been one formal complaint (member to member District) and that the complaint had been resolved locally between the two group leaders. There have been no investigations about Members which required a Hearings Sub-Committee to be convened.

## **INTERNAL AUDIT REPORT**

During the year the Committee has continued to receive updates on the work of the Internal Audit team including details of the following completed audit reports:

- Internal Audit Annual Report and Draft Audit Opinion 2017/18
- Internal Audit External Assessment 2017/18 Progress Report
- Internal Audit Monitoring Report
- Internal Audit - Progress Report
- Internal Audit Charter
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan 2019/20

## **EXTERNAL AUDITORS**

During the year the Committee received reports from the current External Auditors, Grant Thornton on the following subjects:

- External Audit Finding Report
- External Audit Opinion 2017/18
- Audit Fee Letter 2018/19
- Sector Update
- Communicating with Audit, Standards and Governance Committee
- External Audit Plan
- Housing Benefit 2017/18 Certification Letter

The Progress Reports were considered at each meeting of the Committee and covered a range of issues including the following:

- Value for money
- Significant Risks
- The Changing Face of Corporate Reporting
- Financial Statements
- Housing Benefits

## **STATEMENT OF ACCOUNTS**

The Audit, Standards and Governance Committee, considered the Statement of Accounts at the meeting in July 2018.

This was the third year that the Committee had considered the Audit Findings and Statement of Accounts. It was noted that the Statement of Accounts was approved by 30<sup>th</sup> May 2018 and submitted to Grant Thornton. This met the new statutory date of 31<sup>st</sup> May for accounts to be submitted. The Statement of Accounts has to be audited and approved by 31<sup>st</sup> July 2018 which is two months early than in previous years to meet the revised statutory timeline.

It was recommended that Council approve the Statement of Account for 2017/18, including the Accounting Policies provided in the report. Included within the Statement of Accounts there were a number of core financial statements that provide a summary of the financial position of the Council.

The external auditors issued an unqualified judgement on the accuracy of the accounts for 2017/18. Grant Thornton was satisfied that, on the basis of materiality, the Council's accounts were accurate

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## **AUDIT, STANDARDS & GOVERNANCE COMMITTEE**

### **WORK PROGRAMME 2018/19**

#### **14 March 2019**

- Monitoring Officer's Report
- Audit, Standards and Governance Committee Annual Report
- External Audit – Progress Report and Sector Update
- Internal Audit – Progress Report
- Internal Audit – Audit Plan 2019/20
- Financial Savings Monitoring Report
- Accounting policies
- Draft Role and responsibilities of Risk Champion

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