



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

THURSDAY 5TH MARCH 2020 AT 6.00 P.M.

PARKSIDE

MEMBERS: Councillors L. C. R. Mallett (Chairman), P. J. Whittaker (Vice-Chairman), S. J. Baxter, A. J. B. Beaumont, S. G. Hession, J. E. King, A. D. Kriss, C. J. Spencer, K. J. Van Der Plank and Cypher (Parish Councils' Representative)

Parish Councillors: Councillor C. Scurrall

AGENDA

1. Apologies for Absence and Named Substitutes
2. Declarations of interest and Whipping Arrangements
3. To confirm the accuracy of the minutes of the Audit, Standards and Governance Committee meeting held on 23rd January 2020 (Pages 1 - 10)
4. Standards Regime - Monitoring Officers' Report (Pages 11 - 14)
5. Annual Report (Report to follow).
6. Grant Thornton Audit Plan 2019/20 (Pages 15 - 34)
7. Grant Thornton - Sector Report and Audit Progress Update (Pages 35 - 52)
8. Grant Thornton - Informing the Risk Assessment (Pages 53 - 86)
9. Internal Audit - Progress Report (Pages 87 - 126)
10. Internal Audit - Draft Audit Plan (Pages 127 - 136)
11. Business Continuity (Presentation)
12. Risk Champion - Verbal Update Report (Councillor K. Van Der Plank)

13. Audit, Standards and Governance Committee Work Programme (Pages 137 - 138)

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA

26th February 2020

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

23RD JANUARY 2020, AT 6.00 P.M.

PRESENT: Councillors L. C. R. Mallett (Chairman), P. J. Whittaker (Vice-Chairman), J. E. King, C. J. Spencer and K. J. Van Der Plank

Officers: Ms. J. Pickering, Mr. A. Bromage, Mr. M. Bradley, Mrs. P. Ross and Mrs. J. Gresham

30/19 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors A. J. B. Beaumont, S. J. Baxter and Parish Councillor J. Cypher.

31/19 **DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS**

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

32/19 **MINUTES**

The minutes of the meeting of the Audit, Standards and Governance Committee held on 10th October 2019 were submitted.

RESOLVED that the minutes of the Audit, Standards and Governance Committee meeting held on 10th October 2019 be approved as a correct record.

33/19 **MONITORING OFFICER'S REPORT**

The Executive Director, Finance and Resources presented the report and in doing so drew Members' attention to paragraph 3.3 in the report, detailing that there had been three parish council complaints, two of which had been resolved, with the third complaint currently ongoing.

Both the Member Development Steering Group and the Constitution Review Working Group continued to meet regularly.

The Member Development Steering Group continued to carry out the review of Members' use of IT equipment and its suitability and had looked at the new Member Induction Programme and any improvements that

could be made, which included the provision of appropriate training sessions.

The Constitution Review Working Group continued to review behaviours at meetings, supplementary questions and regularly reviewed the scheme of delegations. Recently the group had discussed the timings for submission of both questions and notices of motion.

RESOLVED that the Monitoring Officer's Report be noted.

34/19

EXTERNAL AUDIT - PROGRESS REPORT

Mr. Neil Preece, Engagement Manager, Grant Thornton presented the sector update report which related to emerging public sector national issues and the audit progress to date.

Members' attention was drawn to page 24 of the main agenda pack, which detailed the Financial Statements Audit. Mr. Preece reported that this was in its early days but was going well. It was also reported that there were challenges that Grant Thornton and officers had faced in completing the audit by the earlier deadline of 31 July. Mr. Preece explained that in order to ensure that their staff and Council officers were not placed under excessive pressure to complete the audit by 31 July; they had agreed with the Council's Chief Executive and the Director of Finance that for 2020 they would report their work and aim to give their opinion on the Statement of Accounts at a later date, which would be agreed by officers. He reassured Members that there were no consequences if the Statement of Accounts were submitted later however it would mean that officers would be able to respond in a more considered way.

The Executive Director, Finance and Resources informed the Committee that the new deadline would mean that the timeline for the Statement of Accounts would be as follows:

- Draft set of accounts – end of May 2020
- Published set of accounts subject to Audit – end of July 2020
- Sign off set of accounts – October 2020 (Audit, Standards and Governance Committee meeting)

Mr. Preece continued and drew Members' attention to page 25 of the main agenda pack – 'Events' and explained that officers would be invited to their Financial Reporting Workshop in February, which would help ensure that members of the Finance Team were updated with the latest

financial reporting requirements for local authority accounts. He also explained that Public Sector Audit Appointments Limited (PSAA) had issued some changes that would impact on the cost and timing of audits in the future, Grant Thornton were currently reviewing the impact of these changes and this would be discussed with the Council's s151 officer, including any proposed variations to the Scale Fee set by PSAA Limited.

Members raised several questions on the proposed fee changes and possible increases given the changes in future audits. Mr. Preece explained that they were currently examining the new scope of audits and any fee changes. The Executive Director, Finance and Resources informed the Committee that the PSAA had awarded contracts for audit for a five year period. The Council's new contract with Grant Thornton had seen a significant decrease over the years, there had been an £8,000 decrease in fees from 3 years previously.

Cllr K. J Van Der Plank asked whether Members were able to attend the workshops that had been arranged for officers by Grant Thornton. Mr. Preece explained that the workshops were very technical as they were aimed at accounting and finance officers and may not be the most useful for Members. The Executive Director, Finance and Resources informed Members that she was happy to scope more suitable training for Members.

Members thanked Mr. Preece for providing a comprehensive report.

RESOLVED that the Grant Thornton – Sector report and audit progress update, as detailed at Appendix 1 to the report, be noted.

35/19

EXTERNAL AUDIT - HOUSING BENEFIT REPORT

Members were presented with the Grant Thornton Certification Work Report 2018/19, Housing Benefit claim for 2018/19, which related to over £14.9m of expenditure.

Mr. Preece informed Members that this work had to be delivered under a scope of work prescribed by the Department of Work and Pensions (DWP). It was a significant and complex piece of work. There were a number of additional testing that needed to be undertaken. Members were reassured by Mr. Preece that unfortunately the nature of the testing was at a materiality level, which meant that errors that equated to only £2 were picked up and had to be reported on. However, he was pleased to report, that, as last year, they agreed with all of the judgements and conclusions made by officers and did not need to extend their testing.

The Chairman questioned how Bromsgrove District Council's figures compared to other Councils. Mr. Preece confirmed that most of the errors were down to data entry mistakes rather than significant errors within the system. The Executive Director, Finance and Resources further stated that things had improved as there was now a Quality Team in place working with audit, so quality assurances carried out had improved.

RESOLVED that the Grant Thornton – Certification Work Report 2018/19 and Certification Letter 2018/19, as detailed at Appendix 1 to the report, be noted.

36/19

INTERNAL AUDIT - PROGRESS REPORT

The Head of Internal Audit Shared Services presented a monitoring report that informed the Committee of internal audit work for 2019/20.

Members were informed of the 'Summary of Assurance Levels', as detailed on page 44 of the main agenda pack, with attention to the two audits with a 'limited' assurance level, Markets and Document Retention. It was confirmed that the Head of Internal Audit Shared Services would provide copies of the full reports for both 'limited' assurance reviews undertaken to Committee Members. It was further agreed that the full reports for any future 'limited' assurance level audits, would be provided to Committee Members.

Members' attention was drawn to pages 52 to 60 and 69 to 71 of the main agenda pack which detailed the audit findings for the two audits with a 'limited' assurance level. Members were referred to the 'Management Response and Action Plan' for both audits and further informed that a robust action plan had been established regarding the Bromsgrove Town Centre Market and Document Retention.

The Executive Director, Finance and Resources commented that both areas had been discussed at CMT (Corporate Management Team) and clear actions were being taken.

Following a lengthy debate, the Executive Director, Finance and Resources and the Head of Internal Audit Shared Services, responded and provided clarification to Members on the following items:-

- Controls of retention schedule – follow up report to be presented to the Committee in March 2020.

- Risk Management and Procurement audits – These were on hold whilst the team considered the current work being undertaken in these areas.

The Chairman requested that audit reports presented to future meetings of the Audit, Standards and Governance Committee be amended in order to show phasing of each audit and whether the audit was proceeding satisfactorily and as scheduled. It was also requested that future audit reports be printed in colour in order that Committee Members can easily identify the high risk areas.

RESOLVED that the Internal Audit Progress Report be noted.

37/19

HEALTH AND SAFETY AUDIT (VERBAL UPDATE REGARDING THE ATTACHED DOCUMENTS)

The Chairman welcomed the Senior Health and Safety Advisor, to the meeting to discuss the findings of the Final Internal Audit Report, Health and Safety (H & S) 2018/19 in more detail as requested at the previous meeting of the Committee. The following was noted from the verbal update:

- The audit had taken place prior to the Senior Health and Safety Advisor commencing his employment with Bromsgrove District and Redditch Borough Councils. He had looked at the H & S audit and had reached the same view as the auditors. He continued to liaise with internal audit. Many of the issues highlighted have now been addressed.
- H&S Statements and Manuals have been updated and approved and shared with the Trade Unions.
- The Senior Health and Safety Advisor has undertaken training for Council staff. Two training courses have been delivered regarding Risk Management with further training ongoing.
- The Senior Health and Safety Advisor does not believe there is a need to commit to IOSH Managing Safely as a mandatory course, as there are alternative routes that could be taken.
- Contractors must assess their own risks and communicate these to the Council prior to works commencing.

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23rd January 2020

- The Council has worked closely with a Fire Risk Assessor from RIDGE to review evacuation procedures, such as regarding preventing re-entry into a building.

Members asked further questions with regard to the frequency of policy renewal and fire evacuations. The Senior Health and Safety Advisor reassured Members that there would now be a cycle of policy renewal annually and that fire risks were carried out every 6 months (this included actual evacuations).

It was further noted that H&S was given a high priority within the Council and that training and risk assessments had now been undertaken.

There was a detailed discussion regarding business continuity should there be a catastrophic event. The Executive Director, Finance and Resources informed the Committee that there was a robust plan in place which was implemented when a fire broke out in the Bromsgrove District Council server room. Officers agreed to circulate the detailed report, on this incident, that was produced by the Head of Transformation & Organisational Development.

The Chairman thanked the Senior Health and Safety Advisor for his informative update.

38/19

INTERNAL AUDIT PLAN 2020 - 2021

The Head of Internal Audit Shared Services presented a report that informed the Committee on the Internal Audit Draft Operational Plan for 2020-2021.

Members were informed that the draft plan had been shared with the Corporate Management Team. Committee Members were being asked to consider the draft plan and that this was an opportunity for Members to see and comment on the audits to be included in the plan. The Head of Internal Audit Shared Services commented that as the Council moved forward into 2020/21, there could be some changes to the draft plan; however, the final plan would be presented for Members consideration at the Audit, Standards and Governance Committee meeting in March 2020.

The Head of Internal Audit Shared Services asked the Committee to note that the report had been written at the end of August and that he would provide a verbal update where required. This would provide a dynamic approach to planning and enable officers to look at emerging risks.

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Members questioned how it was decided that an audit would be undertaken in any particular year. The Head of Internal Audit Shared Services confirmed that the risk register was considered and if there was an increased or significant risk in a certain service area then an audit would be included. 'Limited' areas were targeted and other areas not looked at in the current years plan would also be included. There were concerns from Members that this approach could limit the lens of how risk was approached and perhaps officers needed to take a broader approach, with Members suggesting that the auditors look at the risks surrounding planning and to discuss these with officers.

The Head of Internal Audit Shared Services further informed the Committee that there were certain areas that auditors had to cover and that auditors also had to work to a specific scope.

At the request of the Chairman, the Head of Internal Audit Shared Services agreed to provide information on the following to the next meeting of the Committee:-

- Total audit days (under/over) for the previous year's plan.
- Limited Assurance Audits, as presented to CMT. What are the priorities for the team?

RESOLVED that the Internal Audit Plan 2020-2021 Report be noted.

39/19

FINANCIAL SAVINGS MONITORING REPORT JUNE TO SEPTEMBER 2019

The Executive Director, Finance and Resources presented the Financial Savings Monitoring Report for April to September 2019/20. In doing so she highlighted the savings identified of £332k which had been delivered in the financial year, as detailed at Appendix 1 to the report. £166K of these identified savings were in relation to estimated vacancies. In addition to these savings, officers were required to find further savings throughout the financial year 2019/20. At quarter 2 additional savings (above those already identified) were realised of £558k.

It was noted that the Council's External Auditors, Grant Thornton had recommended that these savings be monitored more closely.

A discussion followed whereby Members questioned the way in which savings were reported and that there was no way of reflecting any extra income that had been generated e.g. through commercial waste services.

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This meant that all revenue generated showed as savings rather than income. Officers agreed to include more detailed information on savings and the impact on staff with regard to vacancies savings in future reports.

In response to questions from Members with regard to vacancies savings and staff being put under additional pressure; the Executive Director, Finance and Resources informed the Committee that there was currently a freeze on recruitment; however, any business critical vacancies would be filled.

Members also questioned other savings that had been made, for example the new print contract and reduction in car mileage claimed. The Executive Director, Finance and Resources confirmed that an holistic approach was taken when the new print supplier was procured in order to compliment other initiatives that the Council was undertaking i.e. recycling and waste were considered as part of the tender process when procuring a new print supplier.

RESOLVED that the final financial position for savings for April to September 2019/20, as detailed at Appendix 1 to the report, be noted.

40/19

RISK CHAMPION - VERBAL UPDATE REPORT (COUNCILLOR K. VAN DER PLANK)

Councillor Van der Plank provided the Committee with a verbal update, as her role of Risk Champion.

It was noted that Councillor Van der Plank had visited Environmental Services to discuss risks at an Operational and Strategic level and was planning to visit each service area.

The Chairman thanked Councillor Van der Plank for her detailed update.

Members enquired about the risk of Brexit and officers confirmed that a Members' briefing had previously been distributed to all Committee Members from the Executive Director & Deputy Chief Executive, Leisure, Culture, Environment and Community Services regarding Brexit and associated risks.

The Democratic Services Officer agreed to re-distribute the Brexit briefing note from the Deputy Chief Executive & Executive Director to Committee Members.

41/19

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE WORK PROGRAMME

Members considered the Audit, Standards and Governance Committee's Work Programme for 2019/20.

RESOLVED that the Audit, Standards and Governance Committee's Work Programme for 2019/20, be updated to include the items discussed and agreed during the course of the meeting.

The meeting closed at 7.35 p.m.

Chairman

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

5th March 2020

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 in October 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

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5th March 2020

be investigated, together with arrangements under which decisions on such allegations can be made. The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 were laid before Parliament on 8th June 2012 and also came into force on 1st July 2012.

Service / Operational Implications

Member Complaints

- 3.3 All of the Parish complaints have been resolved locally .There have been a number of complaints at District level in respect of the use of social media. These are being managed locally and it is anticipated that the Independent Person will attend committee to make recommendations in respect of training for all councillors.

Member training

- 3.4 A repeat of the Code of Conduct training, carried out earlier in the municipal year took place on 29th January 2020, attendance was disappointing and the event was also opened up to Redditch Members in order to make the most of the expertise of the outside trainer who provided this training .
- 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 has completed its review of Members' use of IT equipment and its suitability resulting in a number of new options of equipment being offered to Members once their current equipment becomes obsolete.
- 3.7 The Constitution Review Working Group continues its work and a number of reports on changes to the Constitution have been presented to Council in recent months. Changes have included revised timings for submission of both questions and notices of motion in order for these to be included within the main published agenda pack.
- 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

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Localism Act 2011 are available on the Council's website and from the Monitoring Officer on request.

4. RISK MANAGEMENT

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

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

5. APPENDICES

None.

6. BACKGROUND PAPERS

Chapter 7 of the Localism Act 2011.

AUTHOR OF REPORT

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BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS & GOVERNANCE COMMITTEE 5th MARCH 2020

GRANT THORNTON AUDIT PLAN 2019/20

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

1. SUMMARY OF PROPOSALS

- 1.1 To present to members the Grant Thornton Audit Plan 2019/20. A copy of this document is attached to this report as Appendix A..

2. RECOMMENDATIONS

- 2.1 **Members are asked to note and agree the 2019/20 Audit Opinion Plan**

3. KEY ISSUES

Financial Implications

- 3.1 The fee associated with the External Audit Opinion and audit of accounting statements and consideration of the Councils arrangements for securing economy, effectiveness and efficiency is £45k.

Legal Implications

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

Service / Operational Implications

- 3.3 Attached at Appendix A is the 2019/20 Audit Plan . The Plan sets out work that the Grant Thornton propose to undertake in relation to the Audit of the financial accounts for 2019/20 and any risks that have will require additional review and consideration.
- 3.4 The Audit will include an understanding of the organisational operations together with issues that may impact on the Council in the future. This assessment results in the External Audit consideration of the risks associated with the accounts and the Appendix details the level of risk allocated to the services we provide.

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

Customer / Equalities and Diversity Implications

- 3.7 None as a direct result of this report

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Annual Audit Plan 2019/20

AUTHOR OF REPORT

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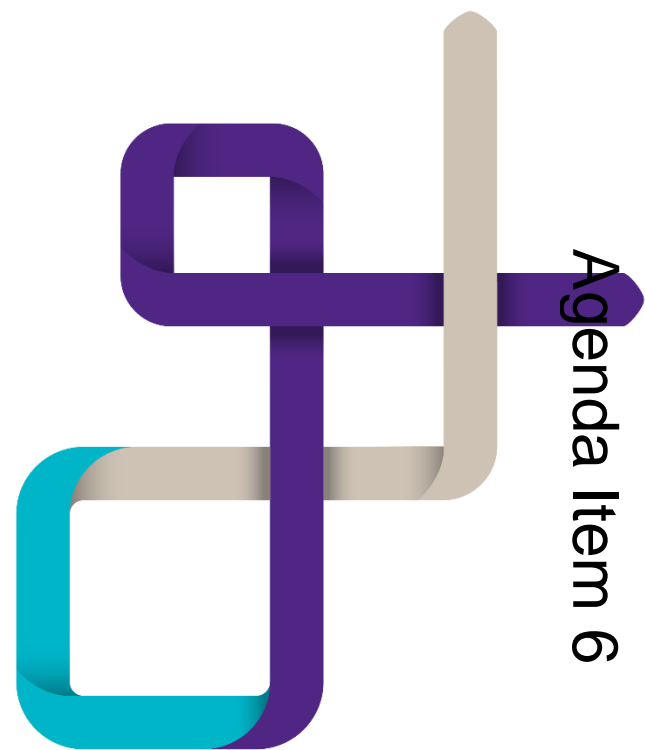


External Audit Plan

Year ending 31 March 2020

Bromsgrove District Council
5 March 2020

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Your key Grant Thornton team members are:

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

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1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

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

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

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

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Bromsgrove Arts Development Trust.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities; • Valuation of land and buildings; and • Valuation of net pension fund liability <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	We have determined planning materiality to be £0.904m (PY £0.85m) for the group and £0.9m (PY £0.86m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality of 2% of the earnings disclosed in the remuneration note. An audit testing strategy commensurate with this materiality will be applied. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £45k (PY £42k).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:</p> <ul style="list-style-type: none"> • Financial sustainability
Audit logistics	<p>Our interim visit will take place in January to March and our final visit will take place in June to October. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £44,734 (PY: £45,484) for the Authority, subject to the Authority meeting our requirements set out on page 11.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Bromsgrove District Council has a financial gap of £2m over the next four years with £0.5m to be found for 2021/22. While the Council does have sufficient reserves to cover these deficits, it is crucial that the Council is put on a sustainable footing.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty despite the UK leaving the EU on 31 January 2020. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Date of audit opinion

In previous years we have reported that our audit of the Authority's financial statements has consumed considerably more time than we had anticipated. This has manifested itself in additional fees. In 2019/20 we have taken the decision that, in order to ensure the wellbeing of our staff, not all of the audits where we are the external auditor will receive an audit opinion by 31 July. This applies to Bromsgrove District Council.

Our response

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

We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

We have discussed and agreed this with the Director of Finance.

We will agree with Officers a realistic and achievable timetable for the completion of our audit so that we can issue our audit opinion.

The Council will still need to publish draft accounts by the end of May, and re-publish them by the end of July, with an explanation if the opinion is delayed.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Bromsgrove Arts Development Trust (Artrix)	No	Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements.	Valuation of Artrix building	Reliance on an expert in relation to the Artrix valuation. Confirmation from Bromsgrove Arts Development Trustees in relation to income and expenditure transactions.

4. Significant risks identified

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

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

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Authority	<p>The Authority and group revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they have been input correctly into the Authority's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in October 2020.

5. Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

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Other material balances and transactions

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

Going concern

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

6. Materiality

The concept of materiality

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

Materiality for planning purposes

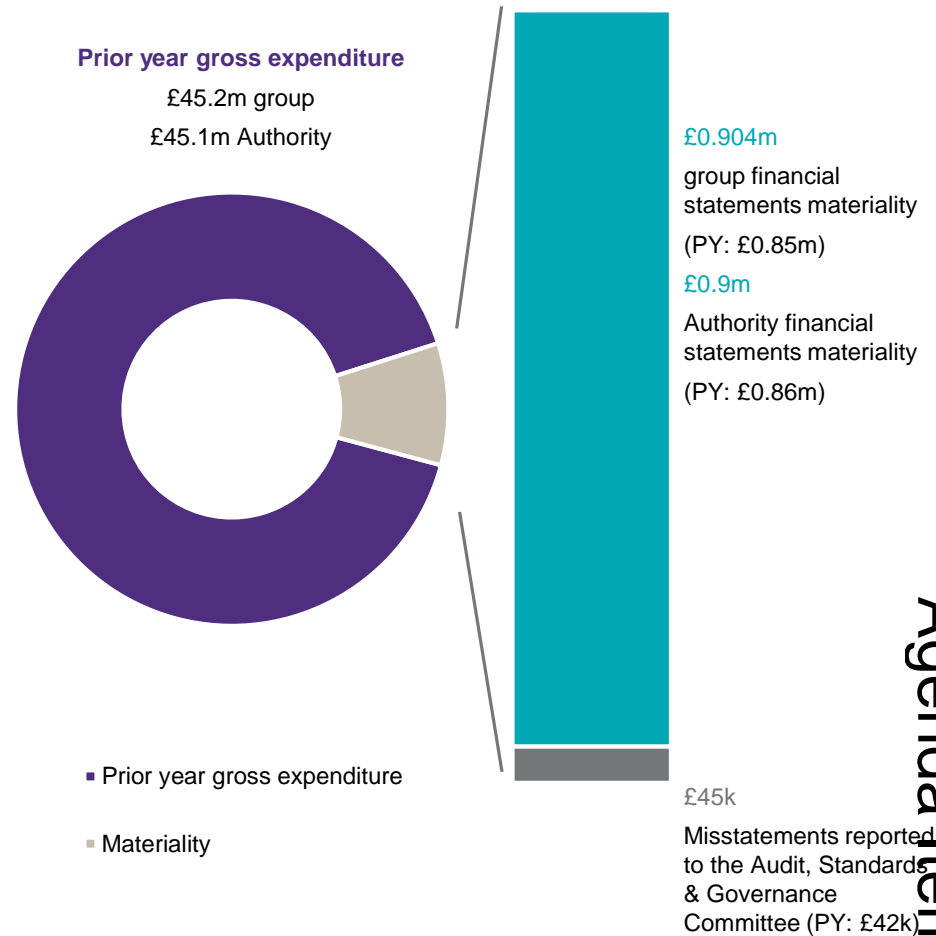
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.904m (PY £0.85m) for the group and £0.9m (PY £0.86m) for the Authority, which equates to 2% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality of 2% of the earnings disclosed in the remuneration note (PY £7k).

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

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

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Standards & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k (PY £42k).

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



7. Value for Money arrangements

Background to our VFM approach

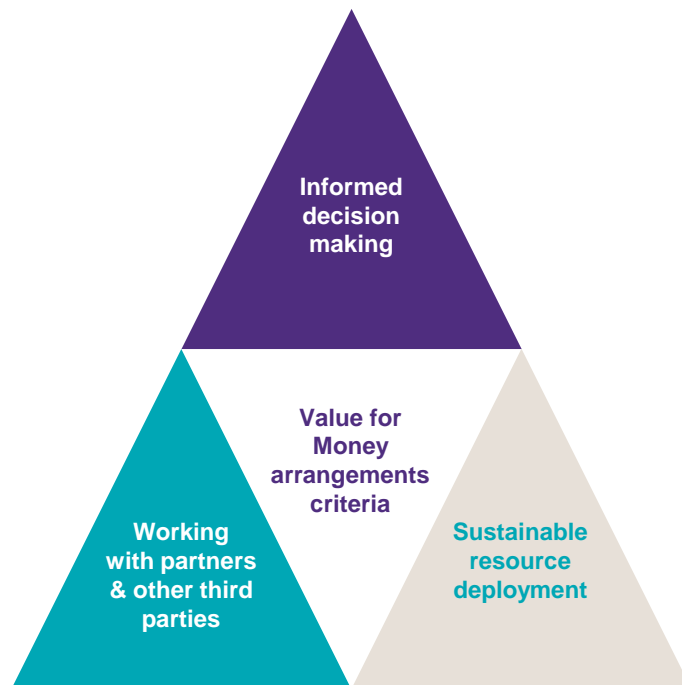
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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Significant VFM risks

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



Financial sustainability

How robust is the Medium Term Financial Plan (MTFP) and how well developed are savings plans?

In October 2019, Cabinet received a report setting out the MTFP framework. The report highlighted that the Council had a £3m gap over the next 3 years with £0.7m to be found for 2020/21 in order to avoid using reserves to support revenue expenditure. While the Council does have sufficient reserves to cover these deficits, difficult decisions on priority and non priority areas are needed in order to avoid using reserves.

We will review the MTFP which Cabinet approved in February 2020 and select a sample of savings or income generation schemes to test in order to obtain assurance that they are robust and realistic.

We will monitor the progress made to identify non priority areas and to begin to disinvest in those areas.

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8. Audit logistics & team



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Richard Percival, Engagement Lead

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



Neil Preece, Audit Manager

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



Denise Mills, Audit Incharge

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

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Audit of Bromsgrove District Council	£53,180	£45,484	£44,734

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	37,484	
Increased challenge and depth of work	2,000	The Financial Reporting Council (FRC) has raised the threshold of what it assesses as a good quality audit. Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC.
Extensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	2,000	As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Complex accounting issues and new accounting standards	1,500	This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Qualitative issues re working papers	TBA	In the past two years we have incurred significant additional work in resolving the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts. Should this continue in 2019/20, we will discuss the impact of this on our fee with the Director of Finance.
Revised scale fee (to be approved by PSAA)	44,734	

10. Independence & non-audit services

Auditor independence

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

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

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

Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
Audit related:			
Certification of 2019/20 Housing Benefit subsidy claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the proposed total fee for the audit of £44,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This work will be completed after we issue our opinion on the financial statements. Note – the fee is subject to variation depending on the amount of additional testing required.
Non-audit related:			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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GRANT THORNTON – Sector report and audit progress update

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

1. SUMMARY OF PROPOSALS

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

2. RECOMMENDATIONS

2.1 The Committee is asked to note updates as included in Appendix 1.

3. KEY ISSUES

Financial Implications

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

Legal Implications

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

Service / Operational Implications

3.3 The report attached at Appendix 1 updates Members on the progress on work undertaken by Grant Thornton since the last Committee meeting. In addition the appendix includes updates and links to National Issues and Grant Thornton Publications in relation to issues that are relevant to Local Government at the current time.

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

Customer / Equalities and Diversity Implications

3.5 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 - Grant Thornton Report

6. BACKGROUND PAPERS

None

7. KEY

N/A

AUTHOR OF REPORT

Name: Chris Forrester

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Tel: 01527 54252

Audit Progress Report and Sector Update

Bromsgrove District Council
Year ending 31 March 2020
Page 37
5 March 2020



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Introduction



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This paper provides the Audit, Standards & 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.

Members of the Audit, Standards & 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.

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.

Progress at February 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in December 2019, and we began our interim audit in February 2020. Our interim fieldwork 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; and
- Early substantive testing.

Our detailed audit plan setting out our proposed approach to the audit of the Council's 2019/20 financial statements is included as a separate item on the Committee's agenda.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 October 2020.

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 are included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 October 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 10 for more details.

Progress at February 2020 (Cont.)

Other areas

Meetings

We met with Finance Officers in February 2020 as part of our regular 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 met with your Chief Executive in November 2019 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 2020, which will help 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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit, Standards & Governance Committee in our audit plan.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2018/19.</p>	April 2019	Complete
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit, Standards & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete – separate item on Committee's agenda
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the October Audit, Standards & Committee.</p>	October 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	October 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	November 2020	Not yet due

Sector Update

Councils continue to try 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 local government sector 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

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

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Full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- 4.1 Redefinition of audit and its purpose
 - Creation of a corporate auditing profession, governed by principles
 - Introduction of suspicion into the qualities of auditing
 - Extension of the concept of auditing to areas beyond financial statements
 - Mechanisms to encourage greater engagement of shareholders with audit and auditors
 - Change in language of the opinion given by auditors
 - Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
 - Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
 - Greater clarity around the roles of the audit committee
 - A package of measures around fraud detection and prevention
 - Improved auditor communication and transparency
 - Obligations to acknowledge external signals of concern
 - Extension of audit to new areas including Alternative Performance Measures
 - Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

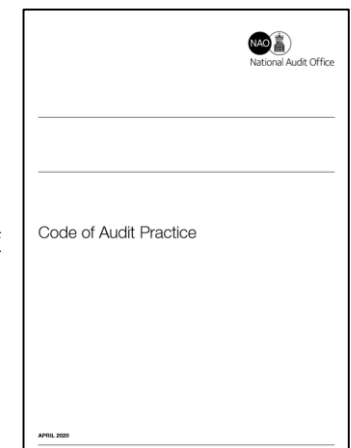
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 Leases

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to 'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 5th MARCH 2020

GRANT THORNTON – INFORMING THE RISK ASSESSMENT 2019/20

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

1. **SUMMARY OF PROPOSALS**

- 1.1 To present Members with the Informing the Risk Assessment (Auditing Standards) report for 2019/20 from the Councils External Auditors Grant Thornton.

2. **RECOMMENDATIONS**

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

3. **KEY ISSUES**

Financial Implications

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

Legal Implications

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

Service / Operational Implications

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

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

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE 5th MARCH 2020

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

Customer / Equalities and Diversity Implications

3.4 There are no implications arising out of this report.

4. RISK MANAGEMENT

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

5. APPENDICES

Appendix 1 – Grant Thornton Informing the Risk Assessment (Auditing Standards) report for 2019/20

6. BACKGROUND PAPERS

Individual internal audit reports.

7. KEY

N/a

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Informing the audit risk assessment for Bromsgrove District Council 2019/20

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Agenda Item 8

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



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit, Standards and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit, Standards and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit, Standards and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit, Standards and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit, Standards and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit, Standards and Governance Committee and supports the Audit, Standards and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit, Standards and Governance Committee's oversight following areas:

8 General Enquiries of Management

- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit, Standards and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	They key issues that will impact the financial statements for 2019/20 can be split between external and internal. The external impact will be determining the accounting requirements for IFRS 16 and the increased audit scrutiny with regards to fixed assets. Internally, the implementation of the new ERP system is absorbing significant resources within the council so identifying the resources needed to ensure both are successfully completed has been a key priority of the council for the past few months, with additional staff being hired to mitigate this risk.
2. Have you considered the appropriateness of the accounting policies adopted by the Bromsgrove District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed every year as part of the accounts closedown process. There are no proposed discretionary changes this year as there have been no fundamental changes in Council activities.
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	No

Agenda Item 8

Agenda Item 8



General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	A full review will be conducted as part of the closedown process with officers across the Council and insurance asked to feedback to determine if there have been any potential impacts on non current assets. To date there have been none notified.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Bromsgrove District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	During the year the Council has used Browne Jacobson LLP, Kings Chambers, St Philips Chambers and Anthony Collins Solicitors. There are no open matters.
9. Have any of the Bromsgrove District Council service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Black Radley have been hired by the Council to support its implementation of a commercial culture and bring challenge where appropriate to decision making.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Standards and Governance Committee and management. Management, with the oversight of the Audit, Standards and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Standards and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit, Standards and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit, Standards and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Standards and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.



Fraud risk assessment

Question	Management response
<p>1. Has Bromsgrove District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Bromsgrove District Council's risk management processes link to financial reporting?</p>	<p>The Council has assessed the risk of material misstatement. Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Officers also attend technical updates. Financial monitoring reports also highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts</p> <p>Management considers there is a low risk of material misstatement in the financial statements due to fraud and none has been detected to date.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> -Council Tax -Benefit Fraud -Single person discount
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Bromsgrove District Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Audit, Standards and Governance Committee receives any adhoc fraud reports.</p> <p>There are no material instances of fraud that have been identified during the year.</p> <p>The Audit, Standards and Governance Committee would consider the fraud and the actions put forward by officers to ensure fraud is mitigated in the future.</p>



Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Bromsgrove District Council where fraud is more likely to occur?</p>	<p>Evidence published within the Annual Fraud Indicator report suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Council.</p> <p>Locations handling income, particularly in the form of cash, are more likely to be at risk of fraud. However, management does not consider these to be significant risks.</p>
<p>5. What processes does Bromsgrove District Council have in place to identify and respond to risks of fraud?</p>	<p>Financial monitoring reports highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts.</p>
<p>6. How would you assess the overall control environment for Bromsgrove District Council including:</p> <ul style="list-style-type: none"> • the process for reviewing the effectiveness the system of internal control; • internal controls, including segregation of duties; • exist and work effectively? <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as constitution.</p> <p>The role of Internal Audit provides assurance that the Council's internal controls are in place. An annual report is produced and is available prior to the annual accounts being signed and approved.</p> <p>The regular monitoring of budgets and the allocation of financial professional support to budget holders provide control and mitigation against such overrides.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	Due to the control environment in place, there are no areas which are particularly at risk of misreporting.
8. How does Bromsgrove District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	<p>There is a Fraud Strategy and Whistleblowing procedure in place which explain the procedures to follow.</p> <p>These policies have been reviewed and are in place for 2019/20.</p> <p>Employees are aware of the anti-fraud and corruption strategy, details are available on the website.</p> <p>Staff are encouraged to report anything that they perceive as being "out of the ordinary", and no issues have been raised to date.</p>
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	There are not any significantly high-risk posts identified.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	<p>2018/19 financial statements disclosure of related party transactions does not identify potential fraud risk.</p> <p>Members and officers are required to make full disclosure of any relationships that impact on their roles.</p> <p>Members are required to declare any relevant interests at Council and Committee meetings.</p>



Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Standards and Governance Committee?</p> <p>How does the Audit, Standards and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit provide the Audit, Standards and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</p> <p>Any adhoc investigations are reported to the Audit, Standards and Governance Committee.</p> <p>The Corporate risk register is reviewed by the Committee and the Member risk champion reports to the Committee at each meeting on updates from managers in relation to departmental registers.</p> <p>To date, no issues or concerns have been raised.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We are not aware of any whistleblowing reports.</p> <p>If there was such a report then members would consider the appropriate course of action.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>We are not aware of any whistleblowing reports.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Standards and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit, Standards and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.



Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Bromsgrove District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Bromsgrove District Council's regulatory environment that may have a significant impact on Bromsgrove District Council's financial statements?</p>	<p>The Monitoring Officer will advise the Council's Management team and Councillors as appropriate.</p> <p>The reporting arrangements include sections for both financial and legal implications to ensure managers have considered compliance with laws and regulations. In addition staff have professional training and conduct in place to support compliance.</p> <p>We are not aware of any changes to Bromsgrove District Council's regulatory environment that may have a significant impact on the Bromsgrove District Council's financial statements.</p>
<p>2. How is the Audit, Standards and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to the Audit, Standards and Governance Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No.</p>



Impact of laws and regulations

Question	Management response
5. What arrangements does Bromsgrove District Council have in place to identify, evaluate and account for litigation or claims?	The legal and finance team liaise on a regular basis to identify and evaluate any potential claims.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.



Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Bromsgrove District Council? What was the outcome of that assessment?</p>	<p>The Council has a four year plan in place for the budget, which forecasts sufficient resources are available to fund all planned expenditure as well as having sufficient reserves to fund any significant unplanned expenditure. The MTFP required a detailed review of all the councils activities, so it can be confident that it is accurate. As such, the Council is confident that it is a going concern.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Bromsgrove District Council's Business Plan and the financial information provided to Bromsgrove District Council throughout the year?</p>	<p>The MTFP is the culmination of the years reports and savings programme. As such, it is reflective of the approvals which have been made throughout the year.</p>



Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, appropriate statutory and policy changes are referenced where appropriate and the implications factored in.
4. Have there been any significant issues raised with the Audit, Standards and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	External audit have highlighted that some of the savings have not been identified in a high level of detail as yet, however they are being developed at present.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No, robust processes are in place and are reviewed regularly to ensure that this is not the case.

Going concern considerations

Question	Management response
6. Does Bromsgrove District Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Bromsgrove District Council's objectives? If not, what action is being taken to obtain those skills?	Yes.
7. Does Bromsgrove District Council have procedures in place to assess their ability to continue as a going concern?	Yes – the Council conducts quarterly monitoring and quarterly updates of the savings programme, which at present is delivering greater savings than were initially planned.
8. Is management aware of the existence of events or conditions that may cast doubt on Bromsgrove District Council's ability to continue as a going concern?	No.

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Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit, Standards and Governance Committee?</p> <p>How has the Audit, Standards and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes -as part of the year end accounts presentation.</p> <p>Audit, Standards and Governance has reviewed the work conducted by external audit on the year end accounts and savings programme as well as the professional opinion of the S151 Officer, and as such is satisfied that it is appropriate to adopt the going concern basis.</p>



Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Bromsgrove District Council perspective but material from a related party viewpoint then Bromsgrove District Council must disclose it.

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

Relating Parties

Question	Management response
<p>1. What controls does Bromsgrove District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> ▪ Maintenance of a register of interests for Members, and a register for pecuniary interests in contracts for Officers and Senior Mangers requiring disclosure of related party transactions. ▪ Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. ▪ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. ▪ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation. ▪ Review of year end debtor and creditor positions in relation to the related parties identified. ▪ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.



Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that Bromsgrove District Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

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

We would ask the Audit, Standards and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

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

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations Page 78	The Council has a contract with Bruton Knowles to manage its asset base, including undertaking annual valuations. The Valuer is a RICS/CIB Member) and reviews are made inline with RICS guidance on the basis of 5 year valuations with interim reviews.	Technical Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation	Yes, Bruton Knowles	Valuations are made in line with RICS guidance –reliance on expert.	No



Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE Page 79	The following asset categories have general asset lives: <ul style="list-style-type: none"> • Buildings 50 years • Equipment/vehicles 7 years • Plant 15 years • Infrastructure 50 years 	Consistent asset lives applied to each asset category.	Yes, Bruton Knowles	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction material used. This life would be recorded in accordance with the local qualified RICS or CIB Member.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> • Assets acquired in the first half of a financial year and depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year. • Assets that are not fully constructed are not depreciated until they are brought into use. 	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments Page 81	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.	Assets are assessed at each yearend as to whether there is any indication that an asset may be impaired.	Bruton Knowles	Valuations are made in line with RICS guidance –reliance on expert.	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professions.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No



Appendix A Accounting Estimates (Continued)

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



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of Services notify the s151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A

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Appendix A Accounting Estimates (Continued)

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

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 5th March 2020

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

Relevant Portfolio Holder	Councillor Geoff Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	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 for 2019/20.

2. RECOMMENDATIONS

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

3. KEY ISSUES

Financial Implications

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

Legal Implications

- 3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2018 to “maintain in accordance with proper practices an adequate and effective system of internal audit of its accounting records and of its system of internal control”.

Service / Operational Implications

- 3.3 The involvement of Members in progress monitoring is considered to be an important facet of good corporate governance, contributing to the internal control assurance given in the Council’s Annual Governance Statement.
- 3.4 This section of the report provides commentary on Internal Audit’s performance for the period 01st April 2019 to 31st January 2020 against the performance indicators agreed for the service.

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Date: 5th March 2020

3.5 Summary Dashboard:

Total reviews planned for 2019/20:	13 minimum	
Reviews finalised to date for 2019/20:	7	
Assurance of 'moderate' or below:	5	
Reviews currently awaiting final sign off:	3	
Reviews ongoing:	7	
Reviews to be commenced (Q4):	0	
Number of 'High' Priority recommendations reported to date:		8
Satisfied 'High' priority recommendations to date:		4
Productivity:	65% (against targeted 74%)	
Overall plan delivery to date:	64% (against target >90%)	

2019/20 AUDIT REPORTS ISSUED/COMPLETED SINCE THE LAST PROGRESS REPORT (23rd JANUARY 2020):

3.6 In summary they are:

- Council Tax
- SLM Contract Management
- Planning Application Process and s106 (2x assurances)

Reports finalised	3
'High' priority recommendations reported	Nil
'Medium' priority recommendations reported	5
'Low' priority recommendation reported	1
'Moderate' or above assurances	4
'Limited' or below assurances	Nil

Full reports are contained at Appendix 3.

All 'limited' assurance reviews go before CMT for full consideration.

3.7 2019/20 AUDITS ONGOING AS AT 31st January 2020

Audits progressing through clearance or draft report awaiting management sign off stage include:

- Safeguarding (Draft Report Stage)
- Debtors (Draft Report Stage)
- Creditors (Draft Report Stage)
- NNDR (Draft Report Stage)
- Health & Safety (Clearance)

Audits progressing through testing stage included:

- Main Ledger
- Benefits
- Worcestershire Regulatory Services
- IT
- Business Continuity

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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 was undertaken during quarters 1 to 3 inclusive. 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 were amalgamated as at the end of quarter 3 and formal audit reports issued during quarter 4.

3.8 AUDIT DAYS

Appendix 1 shows that progress continues to be made towards delivering the Internal Audit Plan and achieving the targets set for the year. As at 31st January 2020 a total of 148 days had been delivered against a target of 230 days for 2019/20.

Appendix 2 shows the performance indicators for the service. These indicators were agreed by the Audit, Standards and Governance Committee on the 30th July 2019 for 2019/20.

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.

3.9 OTHER KEY AUDIT WORK

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

- Governance for example assisting with the Annual Government Statement
- Risk management
- Transformation review providing support as a critical review
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers' attention to specific audit or risk issues
- Audit advice and commentary
- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative over view.
- Investigations

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3.10 **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 2018 with any queries dealt with accordingly. Potential matches have been returned to the Authority for investigation. A further upload of Council Tax single person data and Elections was completed in January 2020. WIASS have a watching brief in regards to these uploads.

3.11 **Monitoring**

To ensure the delivery of the 2019/20 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. refuse service scalability which was joint with Redditch Borough Council, procurement and risk management will be rolled to 2020. Additional days have been used in a couple of review areas e.g. GDPR and Markets to ensure comprehensive reviews were completed.

3.12 **Quality Assurance Improvement Plan**

3.13 WIASS delivers the audit programme in conformance with the International Standards for the Professional Practice of Internal Auditing (ISPPA) as published by the Institute of Internal Auditors. Further improvement has been identified through the self assessment process which was carried out in April 2019 and a quality assurance improvement plan (QAIP) has been formulated and is reported at Appendix 5.

3.14 **Customer / Equalities and Diversity Implications**

There are no implications arising out of this report.

3.15 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.

3.16 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:

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- 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 delivery 2019/20
Appendix	2 ~ Plan position and key performance indicators 2019/20
Appendix	3 ~ Finalised audit reports including definitions
Appendix	4 ~ Follow up summary
Appendix	5 ~ Quality Assurance Improvement Plan

6. BACKGROUND PAPERS

Individual internal audit reports are held by Internal Audit.

7. KEY

N/a

AUTHOR OF REPORT

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APPENDIX 1

Delivery against Internal Audit Plan for 2019/20 1st April 2019 to 31st January 2020

Audit Area	2019/20 Total Planned Days	Forecasted days to the 31 st March 2020	Actual Days Used to the 31 st January 2020
Core Financial Systems (see note 1)	52	52	48
Corporate Audits	50	44*	16
Other Systems Audits (see note 2)	92	86*	57
SUB TOTAL	194	182	121
Audit Management Meetings	15	15	14
Corporate Meetings / Reading	5	5	5
Annual Plans, Reports and Committee Support	16	16	8
Other chargeable (see note 3)			
SUB TOTAL	36	36	27
TOTAL	230	218	148

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. A rolling programme has also been introduced for Debtors and Creditors to maximise coverage and sample size. 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 demand 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.

* Where the forecasted days are less than the planned days for the year this reflects the adjustments that have been made to the plan during the year.

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APPENDIX 2

Audit Plan Position as at the 31st January 2020

Audit Area	Planned days 2019/20	Proposed Review	Current Position and indicative delivery date	Assurance
Accountancy & Finance Systems				
Debtors	6	Light Touch	Draft Report 10/02/2020	Q4 (Significant)
Main Ledger/Budget monitoring/bank rec	8	Light Touch	Testing	Q4
Creditors	6	Light Touch	Draft Report 10/02/2020	Q4 (Significant)
Treasury Management	6	Full	Final Report 18/10/2019	Q2 Moderate
Council Tax	8	Full	Final Report 6/2/2020	Q3 Significant
Benefits	10	Full	Testing	Q4
NNDR	8	Full	Draft Report 18/02/2020	Q3 (Significant)
SUB TOTAL	52			
Corporate				
IT	8	Full	Testing	Q4
Risk Management	6	Full	Rolled to 2020/21	
Health and Safety	12	Hybrid follow up	Clearance	Q4
Compliments and Complaints	8	Full	Final Report 06/12/ 2019	Q1 Moderate
Procurement	5	Full	Rolled to 2020/21	
Document Retention	6	Full	Final Report 5/11/2019	Q1 Limited
Business Continuity	5	Full	Testing	Q4
SUB TOTAL	50			
System / Management Arrangements				
Planning Process (Application & S106s)	8	Full	Final Report 4/2/2020	Q2 Significant (Apps) Moderate (106)
Safeguarding	7	Full	Draft Report 27/11/2019	Q2 (Moderate)
Refuse Service Scalability	6	Limited Scope	Rolled to 2020/21	
Markets	5	Full	Final Report 6/09/2019	Q1 Limited
SLM Contract Management	10	Full	Final Report 7/01/2020	Q2 Moderate
Worcester Regulatory Services	14	Limited Scope	Testing	Q4
Advisory and Consultancy	10	Pull Down Budget	Q1 – Q4	N/a
Fraud and Investigations inc. NFI	10	Pull Down Budget	Q1 – Q4	N/a
Completion of prior years work	8	Pull Down Budget	Q1 – Q4	N/a
Report follow up	10	Pull Down Budget	Q1 – Q4	N/a
Statement of Internal Control	4	Pull Down Budget	Q1 – Q4	N/a
SUB TOTAL	92			








AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 5th March 2020

General				
Audit Management Meetings	15	Pull Down Budget	Q1 – Q4	N/a
Corporate Meetings/Reading	5	Pull Down Budget	Q1 – Q4	N/a
Reports, Annual Plans and Committee Support	16	Pull Down Budget	Q1 – Q4	N/a
SUB TOTAL	36			
PLAN TOTAL	230			

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 31 st January 2020)		Frequency of Reporting
Operational					
1	No. of audits achieved during the year	Per target	Target = Minimum 13 Delivered = 7 plus 4 @ draft report stage		When Audit Committee convene
2	Percentage of Plan delivered	>90% of agreed annual plan	64%		When Audit Committee convene
3	Service productivity	Positive direction year on year (Annual target 74%)	*65%		When Audit Committee convene
Monitoring & Governance					
4	No. of 'high' priority recommendations	Downward (minimal)	8 (2018/19 = 16)		When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	5 (2018/19 = 10)		When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded (nil)	Nil to report		When Audit Committee convene
Customer Satisfaction					
7	No. of customers who assess the service as 'excellent'	Upward (increasing)	3 issued 2 returns: 2 'excellent'		When Audit Committee convene

Worcestershire Internal Audit Shared Service



Bromsgrove
District Council
www.bromsgrove.gov.uk

Final Internal Audit Report

Council Tax 2019/20

06/02/2019

Distribution:

To: Financial Support Services Manager
Assistant Financial Support Manager
Executive Director of Finance and Resources

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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1. Introduction

- 1.1. The audit of the Council Tax system was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Redditch Borough Council and Bromsgrove District Council for 2019/20 awaiting final approved at the Audit, Governance and Standards Committee and the Audit, Standards and Governance Committee on 29th July 2019 and 18th July 2019 respectively. The audit was a risk based systems audit of the Council Tax system as operated by Redditch Borough Council and Bromsgrove District Council.
- 1.2. BDC: Key Priorities 2017-20: Financial Stability

Strategic Purposes: "Help me to be financially independent"

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

RBC: Strategic Purposes: "Help me to be financially independent"

Actions: Support residents to reduce levels of individual debt.

1.3. The following entries on the corporate risk register for Redditch Borough Council and Bromsgrove District Council are relevant to this review:

- Lack of robust financial accounting and monitoring arrangements
- IT systems and infrastructure has a major failure

The following entries on the service risk register are relevant to this review:

- CUS 20: RBC Data Protection
- CUS 21: BDC Data Protection
- CUS 23: RBC Failure to meet audit requirements
- CUS 25: RBC Failure to meet audit requirements

1.4. Without controls in place there is an element of fraud with regards to applications, exemptions, discounts, reliefs and property occupation.

1.5. The Audit was completed between November 2019 and January 2020.

2. Audit Scope and objective

2.1. This review has been undertaken to provide assurance around the process of collecting Council Tax income.

2.2. The scope covered:

- A review of the updated position in relation to the 2018/19 audit recommendations.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

- Procedures for processing Council Tax information, including the setting up of new customer accounts and timely and accurate billing is taking place.
- The application of discounts and exemptions on properties, and the respective billing amounts.
- The correct protocol is being followed with regards to first and any subsequent reminders and appropriate suppression is being managed, collection rates and recovery success are monitored and are within acceptable levels
- Write offs and associated procedures
- There is regular performance monitoring and reporting.

2.3. This review did not cover:

- Registration processes and the identification of new dwellings
- User Profiling
- The processing of payments and refunds.

3. Audit Opinion and Executive Summary

- 3.1. From the audit work carried out we have given an opinion of **significant assurance** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the “Definition of Audit Opinion Levels of Assurance” table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.
- 3.2. We have given an opinion of **significant assurance** in this area because refer to the fact that there is a generally sound system of internal control in place but that our testing has identified isolated weaknesses in the design of controls and / or inconsistent application of controls in a small number of areas.
- 3.3. The review found the following areas of the system were working well:
- Procedures for managing Council Tax in regards to the administration of billing, award of exemptions, discounts and disregards.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

- There has been thought around the process of recovery in regards to innovative and targeted use of technology e.g. SMS messaging to increase collection rates, in addition certain cases with long standing debts are utilising the higher levels of recovery available to the Authorities to aid recovery.
- Furthermore regular meetings are held by the Assistant Financial Support Manager and Recovery Team to provide a forum to review practices that are working, possible improvements and where resource can be best used to increase current year collection rates and past year recovery.

3.4. The review identified the following, however the Authority are aware and are progressing and therefore it is included for information only:

- It was identified during testing that the performance measures available via the dashboard could be re-engineered to improve on their purpose, relevance and usefulness. Discussions are taking place to this effect with the aim of having a new set of performance measure by the start of 2020/21 to provide management information with which the service can develop.

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

	Priority (see Appendix B)	Section 4 Recommendation number
Recovery of Prior Year Debts	Medium	1
Award of Discount and Exemptions and the use of Diary Notes	Low	2

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

4. Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity. The definitions for high, medium and low priority are set out in the “Definition of Priority of Recommendations” table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Clearance meeting discussion points
Issues brought forward from previous audit – NA					
New matters arising					
1	M	<p>Recovery of Prior Year Debts</p> <p>Testing of 60 random accounts with varying recovery stages showed that current year recovery was prompt, accurate and reasonable with the appropriate costs added where necessary. In addition positive methods had been attempted to improve collection of debts e.g. text messages at various stages and the requirement of direct debit to retain instalments. Meetings are also held between Management and Officers to ascertain the most efficient use of resources.</p> <p>Testing identified although prior year (not current) recovery was being undertaken and new attempts to recover aged debt were evidenced in the majority of cases reviewed, delays were found in recovery being moved to the next stage. Following the point the debt is returned from the bailiff the resource to pursue further recovery attempts or to establish write offs was limited leading to debt stagnation.</p>	<p>Loss of potential income to the authority due to limited recovery on aged debt.</p> <p>Adverse collection rates leading to reputational damage and financial hardship.</p>	<p>An options paper and clear policy is formulated as to how the Council will deal with aged debt and the way it is to be managed going forward to maximise income and take timely action.</p>	<p>Management Response:</p> <p>A review of resources for recovery of Council Tax and Non-Domestic rates will be completed within the first 6 months of 2020.</p> <p>As part of this review there will be a challenge to the existing Recovery Policy and Debt Collection strategies.</p> <p>This review will ensure that more thorough guidance is provided to teams in relation to actions for collection of debt, methods of enforcement and where applicable write off</p> <p>Implementation Date:</p> <p>30 September 2020</p>
2	L	<p>Award of Discount and Exemptions and the use of Diary Notes</p> <p>A random sample of 50 accounts with ongoing discounts/ exemptions at the time of the audit work for both authorities</p>	<p>Failure to ensure discounts and exemptions are managed in</p>	<p>To remind Revenues Officers of the importance of documenting actions</p>	<p>Management Response:</p> <p>Further instruction has been provided to officers detailing requirement for diary entries to be added to accounts and</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

		<p>identified some issues with the lack of assessor diary notes to clarify and justify decisions made.</p> <p>In addition evidence of exemptions/discounts/disregards that should be documented to support their awards were not always available at the time of review.</p>	<p>accordance with defined procedures and legislative requirements, resulting in potential financial loss for the Council, and potential reputational damage.</p> <p>Difficulty in reviewing/evidencing decisions made due to lack of clarification leading to a lack of accountability and reputational damage.</p>	<p>taken via the diary notes and to record supporting evidence if required on the workflow.</p>	<p>referencing of evidence to support decisions.</p> <p>Implementation Date:</p> <p>31 March 2020</p>
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5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms to the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and are able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented in order to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX A

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 to 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 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

APPENDIX B

Definition of Priority of Recommendations

Priority	Definition
H	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
M	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. 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.
L	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Worcestershire Internal Audit Shared Service



Bromsgrove
District Council
www.bromsgrove.gov.uk

Final Internal Audit Report

Leisure Contract Management 2019/20

7th January 2020

Distribution:

To: Interim Head of Service (Leisure & Culture)
Business Development Manager
Cc: Chief Executive
Deputy Chief Executive
Executive Director Finance and Resources and S151 Officer

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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1. Introduction

- 1.1 The audit of the leisure service contract management processes was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Bromsgrove District Council for 2019/20 as approved by the Audit, Standards and Governance Committee on 18th July 2019. The audit was a risk based systems audit of the leisure service contract management processes as operated by Bromsgrove District Council.
- 1.2 There were no entries on the corporate risk register relevant to this review.
- 1.3 The following service risk register entries were relevant to this review:-
 - L&C 1: Failing to achieving income targets / generating from key sources, fees from swimming, theatre, football, external bodies, sponsorship;
 - L&C 3: Ineffective management of projects and contractors.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

- 1.4 There is an inherent potential risk of fraud in relation to contractor provision of outsourced services, including the potential improper management of Council owned buildings and potentially poor accounting practices.
- 1.5 This audit was completed during November 2019.

2. Audit Scope and objective

- 2.1 The purpose of this audit is to give assurance on the controls in place for monitoring the performance of the contractor in the delivery of leisure services for the Council, and ensuring that a suitable level of performance is maintained.
- 2.2 The scope of the audit was as follows:
- Contractor performance requirements which have been defined within the contract for providing the Leisure services.
 - A review of the performance information provided e.g. financial reports and usage statistics.
 - Review of the procedures for analysing and reporting the performance information, to ensure transparency of contract performance, and to facilitate effective scrutiny by all relevant stakeholders.
 - Actions taken to address poor levels of performance, including the application of any financial penalties, performance interventions, etc.
- 2.3 The review covered controls in place between April 2019 and October 2019.
- 2.4 The review did not cover:
- Leisure Services for Redditch Borough Council.
 - An assessment of the performance of the contractor in adherence to the terms of the contract.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

3. Audit Opinion and Executive Summary

- 3.1 From the audit work carried out we have given an opinion of **moderate assurance** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the "Definition of Audit Opinion Levels of Assurance" table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.
- 3.2 We have given an opinion of **moderate assurance** in this area because there a number of expected controls are not in place and / or are not operating effectively; therefore assurance can only be given over the effectiveness of controls within some areas of the system.
- 3.3 The review found the following areas of the system were working well:
- Defining contractor performance requirements within the service contract.
 - The provision of statistical information regarding centre usage and memberships.
- 3.4 The review found the following areas of the system where controls could be strengthened:

	Priority (see Appendix B)	Section 4 Recommendation number
Performance Monitoring	Medium	1
Financial Performance Monitoring and Management	Medium	2
Performance Reporting	Medium	3
Contract Documentation	Low	4

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

4. Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance/ severity. The definitions for high, medium and low priority are set out in the "Definition of Priority of Recommendations" table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Management Response
New matters arising					
1	Medium	<p><u>Performance Monitoring</u></p> <p>There is no formal analysis of incidents that could result in penalty points being attributed to the contract that could result in financial recompense for the Council.</p> <p>The most recent quarterly performance report at the time of the audit work identifies approximately half of the terms of the penalty points system, but does not list the activities during the period that would result in penalty points being applied. These have been previously documented in previous performance reports.</p> <p>The process is dependent on the contractor identifying the performance issues themselves, unless there are known issues that could be raised by the Council.</p> <p>Under the terms of the contract, the performance management process should be subject to review on a three-yearly basis, to ensure on-going suitability of the arrangements. This is not yet due, but is being considered by management.</p> <p>It should be noted that the contract is still considered to be within a period of 'snagging' where outstanding issues raised prior to the contract commencement are still having an</p>	<p>Failure to effectively challenge the performance of the contractor in delivering the service, potentially resulting in a reduction in satisfactory performance of the contractor, which could lead to reputational damage for the Council.</p>	<p>To ensure all issues raised in the sub-sections of the quarterly performance reports are assessed within the penalty points review process, to ensure all issues have been suitably considered, and financial reimbursement has been levied against the contractor where deemed necessary.</p> <p>To review the current arrangements for monitoring performance, to consider if alternative measures would provide a better means for monitoring and challenging contractor performance.</p> <p>To review the process for assessing contractor performance to determine whether there could be a greater level of independence in assessing the performance of the contractor against the defined criteria. This may include reviewing reports from the contractor's systems for comparison against the performance information provided, to determine its accuracy.</p>	<p>Management Response:</p> <p>The Council with support from Project Management 'MACE' are currently in negotiations with the contractor to sign off the remaining snagging issues and latent defects.</p> <p>Once above issues have been resolved, the Contract management team will put in place a system* to monitor/compare the 4 quarterly performance reports against the penalty point system. The quarterly reports are submitted 10 days ahead of the meetings when the penalty points can be discussed and apportioned</p> <p>(Please note the process issue notice needs to allow the contractor reasonable time to rectify the issue dependent upon each individual notice)</p> <p>As well as the above Bromsgrove District Council will also ensure ad-hoc spot checks and inspections are carried out at the site. Any issues will be reported back and included on the agenda for the next quarter report (unless the issue is considered urgent and needs an agreed resolution beforehand.)</p> <p>A building inspection which will include the plant room will be booked annually</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response
		ongoing effect on the ability to perform the contract fully, e.g. ongoing works on the leisure centre car park which impacts on income.			<p>by the Bromsgrove District Council Facilities Team.</p> <p>The contractor has an obligation to gain Quest status – this covers performance/standards related issues and is a tool for continuous improvement – Bromsgrove District Council to receive a full copy of the Quest report from the contractor on an annual basis – an independent assessment could be done if required.</p> <p>Responsible Officer: Interim Head of Service (Leisure & Culture), Business Development Manager and Sports Development Officer</p> <p>Implementation Date: February 2020</p>
2	M	<p><u>Financial Performance Monitoring and Management</u></p> <p>The contractor has challenged the requirement to provide payment to the Council in accordance with the contract, due to a reduction in revenues as a result of unforeseen circumstances. To date, details of revenues for the financial period have not been provided by the contractor, albeit it has been stated within the Quarterly Performance Monitoring Report that details of operating income and expenditure would be provided as part of the standard reporting process. The Council is within its right to request this information.</p> <p>The contractor has identified a marketing plan for improving attendance and in turn the financial position, as well as opportunities for cost efficiencies. However these have not been</p>	<p>Failure the regularly monitor and challenge the financial position of the contractor, resulting in an inability for the contractor to make required payments to the Council in accordance with the contract, resulting in reduced income for the Council that could impact on the Council's ability to provide services and balance the accounts.</p>	<p>Ensure financial information is requested from the contractor on at least an annual basis to understand any challenges being faced.</p> <p>Ensure payments to Bromsgrove District Council are received in accordance with the contract, unless satisfactory evidence is provided for senior management to make a decision on the receipt of income.</p> <p>To ensure the contractor develops a business plan that will enable them to achieve a financial position to enable them to make the necessary payments to the Council.</p>	<p>Management Response:</p> <p>The contractors' accounts will be submitted in December. This will then be used as part of the pricing structure for the next financial year.</p> <p>The income team will be contacted ahead of quarterly meetings to check that there are no outstanding payments from the contractor.</p> <p>A marketing and retention plan and Business Plan to be updated annually and submitted to the Council at the beginning of each financial year. This</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response
		directly linked with financial targets to ensure the financial position is one that can support the contracted charges payable to the Council.			<p>should outline how the contractor is going to achieve the figures set out in their submission.</p> <p>Responsible Officer: Business Development Manager Support from Interim Head of Service and Sports Development Officer</p> <p>Implementation Date:</p> <p>Action plans will be set up to support the actions and timescales</p> <p>During December 19/Jan 20 we will update the income and debtors team so that the agreed income is monitored and submitted annually</p>
3	M	<p><u>Performance Reporting</u></p> <p>There is currently no formal process in place for reporting the performance of the Leisure Service contractor against pre-determined performance measures to Members on a periodic basis.</p>	<p>Lack of transparency and challenge of a significant contractor at a senior level, potentially resulting in reputational damage if the contractor fails to provide a service that meets the needs of the public.</p>	<p>To consider reporting on contractor performance to committee to identify issues which may affect the Council's ability to achieve its strategic objectives and promises.</p>	<p>Management Response:</p> <p>A performance reporting spreadsheet to outline each of the required areas set out in the Service Specification (Table 1 Page 4). This can be given to the operator to be completed and submitted one week prior to all quarterly review meetings or the relevant meeting for the frequency required.</p> <p>Bromsgrove District Council would request an annual report update at the end of each financial year or year end (April) and this will be forwarded to the Head of Service and Portfolio Holder for scrutiny and review.</p> <p>HOS and the Portfolio holder will be kept up to date with all relevant issues.</p> <p>Responsible Officer:</p> <p>Business Development Manager Support from Interim Head of Service</p>

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Ref.	Priority	Finding	Risk	Recommendation	Management Response
					and Sports Development Officer Implementation Date: January 2020
4	Low	<p><u>Contract Documentation</u></p> <p>The version of the contract held electronically on file by the Leisure team is an earlier draft of the final version signed by both parties. There are minimal differences, and none that directly affect the performance requirements of the contractor, but there is a risk that differences in wording may lead to confusion regarding the responsibilities of both parties.</p>	<p>Failure to correctly challenge the contractor's performance in accordance with the agreed terms of the contract, potentially resulting in a reduced level of service performance</p>	<p>There is a need to hold the final version without amendments on file, to ensure the final document is the one in use when managing and challenging the performance of the contractor, along with the required remedial arrangements that could result from poor performance.</p>	<p>Management Response:</p> <p>The documents have now been scanned into the system and are held in the contract management folder as Final Version.</p> <p>Implementation Date: Implemented</p>

5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms to the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and are able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented in order to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX A

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's 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 3 to 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 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

APPENDIX B

Definition of Priority of Recommendations

Priority	Definition
H	<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>
M	<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>
L	<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

Worcestershire Internal Audit Shared Service



Final Internal Audit Report

Planning Applications Including Section 106 agreements 2019/20

4th February 2020

Distribution:

- To: Head of Planning and Regeneration
Senior Accounting Technician
Area Planning Manager
Legal Services Team Leader - Property & Planning
Business Support Technician
- CC: Executive Director & Deputy Chief Executive
Chief Executive

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

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APPENDIX B.....	Error! Bookmark not defined.

1. Introduction

- 1.1 The audit of the Planning Application Including Section 106 agreements was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Redditch Borough Council for 2019/20 as approved at the Audit, Governance and Standards Committee on 29th July 2019. The audit was a risk based systems audit of the Planning Application Including Section 106 agreements as operated by Redditch Borough Council.
- 1.2 This area of the review incorporates all of the strategic purposes of for Redditch Borough Council.
- 1.3 There are no corporate or service risk entries relevant to this review.
- 1.4 This review was undertaken during the months of September, October and November 2019.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

2. Audit Scope and objective

2.1 This review has been undertaken to provide assurance that: -

- Planning applications are processed in line with the planning policy and in a timely manner.
- Monies in relation to S106 Planning Obligations are collected by the Council and used in line with the agreement within the specified timelines.
- There is a clear customer journey on the process of a planning applications being put through the system. (Appendix C)

2.2 The scope covered:

- Planning Application processes
- Section 106 – (Collection of monies, compliance)
- Uniform System – (Monitoring of applications, reporting)

2.3 This reviewed covered the period from 1st April 2019 to the 24th September 2019.

2.4 This review did not cover: -

- Decision made on Planning Applications
- The details of the S106 Agreement

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

3. Audit Opinion and Executive Summary

3.1 From the audit work carried out we have given an opinion of:

Significant Assurance over the control environment in relation to Planning Applications: and **Moderate Assurance** over the control environment in relation to S106 Planning Agreements.

3.2 The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the “Definition of Audit Opinion Levels of Assurance” table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.

3.3 We have given an opinion of **Significant Assurance** for Planning Applications and **Moderate Assurance** for Section 106 agreements because there is a sound system of control in place, but some of the expected controls are not in place and are not operating effectively therefore assurance can only be given over the effectiveness of controls within some areas of the system.

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

- Planning Application Processes.
- That the national planning policy framework is being adhered to correctly.
- Monitoring of planning applications
- The Uniform system has a sound control for monitoring applications.

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

	Priority (see Appendix B)	Section Recommendation number	4
Section 106 agreements monitoring	Medium	1	
Decision Notices for Planning Applications	Low	2	

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

4. Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity. The definitions for high, medium and low priority are set out in the “Definition of Priority of Recommendations” table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
New matters arising					
1	M	<p>Section 106 agreements Monitoring</p> <p>A review of section 106 monitoring arrangements found that:</p> <ol style="list-style-type: none"> 1.) Monitoring is reliant on different officers in separate service areas maintaining the current monitoring spreadsheet. 2.) Expenditure is not easily identified against an individual Section 106 agreement and therefore not able to be fully reconciled with the current financial system. Although a yearly overall reconciliation is undertaken between the S106 monitoring spreadsheet and the Finance System. <p>Compliance</p> <p>Testing of a random sample of 10 Section 106 agreements found: -</p> <ol style="list-style-type: none"> 1.) Five agreements where non-monetary Section 106 agreements were not incorporated into the monitoring spreadsheet and monitoring controls could not be identified elsewhere. 2.) Three agreements where monetary Section 106 agreements had no monitoring in place over the individual spend on the cost codes through E- 	<p>There is a risk that there is no controls in place over the monitoring of the spreadsheet meaning that money that is owed to the council may not be getting collected or paid out on time.</p> <p>There is also a risk that there are non-monetary agreements in place but no controls over the monitoring of obligations required by the council which may affect the council's reputation.</p>	<p>To conduct a full review of the monitoring that takes place currently in relation to Section 106 agreements monetary and non-monetary and determine if the current monitoring process used is fit for purpose and fits the needs of the council. This review needs to consider if additional monitoring is required in relation to the capture of expenditure against each individual S106 agreement. . Especially as this is the ideal opportunity with the implementation of a new finance system.</p> <p>To review who has the overall responsibility of the Section 106 agreements in the authority and is responsible for actively monitoring the S106 agreements or if this is a requirement where current resources need to be reviewed with the potential of using some S106 monies for the administration of S106 agreements</p>	<p>Responsible Manager: Strategic Planning And Conservation Manager</p> <p>Implementation date: June 2020</p> <p>Agreed Strategic Planning And Conservation Manager will lead on this</p> <p>Agreed. Strategic Planning And Conservation Manager will lead on this</p>

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		Fin.		A full reconciliation between the S106 monitoring database and the financial system should be undertaken on at least a quarterly basis.	Agreed. Finance - Business Support Technician will lead on this
2	L	<p>Decision Notices for Planning Applications</p> <p>Testing of 26 planning applications found that:-</p> <p>1.) Two applications where the decision could not be located on the public access, even though the decision was found on the uniform system.</p>	If the authority does not put the decision notice on the public access then there is risk of the planning application not being transparent in accordance to the planning framework.	Review procedures to ensure that all decision notices are included on the public planning portal.	<p>Responsible Manager: Area Planning Manager</p> <p>Implementation date: Already implemented</p>

5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms to the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and are able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented in order to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX A

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 to 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 3 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

APPENDIX B

Definition of Priority of Recommendations

Priority	Definition
H	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
M	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. 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.
L	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

APPENDIX 4

Follow Up

Planned Follow Ups:

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

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

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

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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>2nd Follow Up</u>	<u>3rd Follow Up</u>
					High and Medium Priorities 6mths after final report issued as long as implementation date has passed	High and Medium Priorities still outstanding 3mths after previous follow up as long as implementation date has passed	
2018-19 Audits							
GDPR	13 th March 2019	Corporate	Moderate	Reported 2 high and 2 medium (only 1 med in BDC) priorities in; Awareness, Data Protection Officer, and Third Party Data Processes. Follow up to be completed in 3 months	Follow up undertaken in August 2019. Outcome reported to CMT in October 2019 with action plan agreed. Follow up scheduled for March 2020.		
Transport (Fleet)	19th June 2019	Operations	Limited	Reported 7 'medium' priority recommendations in Extension of the use of vehicle trackers on the fleet, Fuel monitoring to be introduced on an exception basis, Inventory records should be accurately maintained & be consistent with the insurance schedule, Vehicle service & repair files were not accurately maintained, Accident records are not accurate, Driver 'walk round' checks are not consistently carried out and Untaxed vehicle in used. A follow up will take place in 3 months.	Follow Up undertaken in October which confirmed all recommendations were either completed or being actively addressed. Further follow up March 2020.		
Bromsgrove Energy Efficiency Fund	26th April 2019	Environmental Services	Moderate	Reported 3 'medium' priority recommendations in End of Scheme Reporting, Documentation and	Rescheduled for February 2020		

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(BEEF)				Application Processing. A follow up will take place in 6 months.			
Worcestershire Regulatory Services	10th April 2019	Worcestershire Regulatory Services	Significant	Reported 2 'medium' priority recommendations in Complaint register should be reviewed for completeness quarterly and Complaints should be completed within processing timescales. A follow up will take place in 6 months.	Follow up to be completed as part of the 2019/20 audit in Q4. 2019/20 commenced in February 2020.		
Health and Safety	20th July 2019	Corporate	Limited	Reported 9 'high' and 5 'medium' priority recommendations in Policies, Fire Safety and Evacuations, Manager IOSH training, Lift Risk Assessments, Fuelling Point Assessment at Redditch Borough Council Depot, Fire Risk Assessment Action Plan, Fire Alarms, Evacuation of less able people from Redditch BoC Town Hall, Active and Re-active measures of a terrorist attack, Active and re-active measures of a terrorist attack, Action Plan Update, Financial Analysis and Training Budget, Induction Process and Bespoke H&S training. A follow up will take place in 3 months.	Action plan in place and being monitored by the Health and Safety Officer. Progress reported before Committee 24/01/2020. A follow up audit has taken place and is at clearance as at January 2020.		
2019-20 Audits							
Markets	6th September 2019	Economic Development	Limited	Reported 4 high and 2 medium priorities in Recording of toll finds, Policy & Procedures, Records Comply with GDPR, Public Liability Assurance, Reconciliation of stalls and Fees, Charges and Incentive Scheme. Follow up to be completed in 3 months.	Follow up December 2019. 2 'high' and 1 'medium' priority recommendations have been implemented; 2 'high' priority recommendations have been partially implemented; 1 'medium' priority recommendation is in progress as indicated at Appendix 3 above. Further follow up planned for		

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					April 2020.		
Treasury Management	18th October 2019	Finance	Moderate	Reported 2 medium and 2 low priority findings in reconciliation, iDeal Trading System, inter Council borrowing and lending and benchmarking. Follow up to be completed in 3 months.	Follow up undertaken as part of the 2019/20 audit. No further follow up required.		
Document Retention	5th November 2019	Legal	Limited	Reported 2 high and 1 medium priority recommendations in controls of the retention schedule, security of archived information and retention policy. Follow up to be completed in 3 months.	Feb-20		
Compliments & Complaints	6th December 2019	Corporate	Moderate	Reported 1 high and 3 medium priority findings in, Complaints Recording Management System Issues, Complaints Process, Compliments and Complaints Reporting and GDPR. Follow up to be completed in 3 months.	Mar-20		
SLM	7th Jan 2020	Leisure	Moderate	Reported 3 medium priority recommendations in Performance Monitoring, Financial Performance Monitoring and Management and Performance Reporting. Follow up to be completed in 3 months	Apr-20		
Planning Applications	4th February 2020	Planning	Moderate	Reported 1 medium recommendation in Section 106 agreements monitoring. Follow up to be completed in 6 months.	Jul-20		
Council Tax	6th February 2020	Revs & Bens	Significant	Reported 1 medium recommendation in Recovery of Prior Year Debts. Follow up to be completed in 6 months.	Aug-20		
end							

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Appendix 5

Quality Assurance Improvement Plan (QAIP) for 2019/20.

Actions for points 1, 2 & 5 reported completed before 20th September 2019. Further progress has been made in regard to the remaining points as indicated below.

Action No.	Area to be actioned	Outcome required	Action	To be undertaken by:	Date to be completed	Completed	Further Action Required
3	2240 - Approving Work prior to starting	Develop a process where by we can QA the testing programme prior to testing being undertaken, and to ensure that a formal sign off has taken place by either Head of Internal Audit or Team Leader	Engage with staff via Team Meetings to agree a process and to adjust the methodology to reflect the initial sign off prior to the testing commencing.	Audit Team Leader	Dec-19	Ongoing. Included in July Team Meeting.	Feedback collated during August/ September with live running October 2019 onwards. Monitoring being undertaken to ensure fully embedded. January: Live running commenced in October. Monitoring continuing.
4	2420 - Timely Completion of Stages	To make improvements in line with completing all stages of audits in a timely manner.	Stage monitoring will be picked up via 1-2-1's and the report monitoring will be picked up with the Audit Tracker "Response" tab (and discussed in 1-2-1's).	Audit Team Leader	Immediate implementation with ongoing monitoring throughout the year	First phase implementation completed but remains ongoing.	Continue to monitor to 31 st March 2020 to ensure fully embedded. January: Monitoring continuing.

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AUDIT, STANDARDS AND GOVERNANCE COMMITTEE

Date: 5th MARCH 2020

THE 2020/21 INTERNAL AUDIT PLAN REPORT OF THE HEAD OF INTERNAL AUDIT SHARED SERVICE, WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE.

Relevant Portfolio Holder	Councillor Geoff Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	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 2020/21
- the key performance indicators for the Worcestershire Internal Audit Shared Service for 2020/21

2. RECOMMENDATIONS

2.1 **The Committee is asked to approve the Audit Plan subject to any comments / proposed changes.**

2.2 **The Committee is asked to approve the Key Performance Indicators.**

3. KEY ISSUES

Financial Implications

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

Legal Implications

3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2018 to “maintain in accordance with proper practices an adequate and effective system of internal audit of its accounting records and of its system of internal control”.

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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

WAISS operates an Internal Audit Charter which sets out the standards to which it operates for this Council. The Internal Audit Plan for 2020/21, 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 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 2020/21 has been agreed with the s151 Officer, considered by the Senior Management Team and was brought before Committee in draft form on the 23rd January 2020. 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 was 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,

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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 2020/21 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. It is planned that a review before Senior Management Team will take place to ensure the audit plan remains risk focussed and any required changes can be considered.

Resource Allocation

The Internal Audit Plan for 2020/21 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. 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 2019/20.

Due to the changing internal environment, ongoing transformation and more linked up and shared service working between Bromsgrove District Council and Redditch Borough Council 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

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

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. However, during 2020/21 this will not be the case due to a planned change in system. 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 2020/21 is set out at Appendix 1.

Monitoring and reporting of performance against the Plan

Operational progress against the Internal Audit Plan for 2020/21 will be closely monitored by the Head of Internal Audit Shared Service and will be reported to the Shared Service's Client Officer Group (which comprises the s151 officers from partner organisations), and, to the Audit, Standards and Governance Committee on a quarterly basis.

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

Customer / Equalities and Diversity Implications

There are no implications arising out of this report.

4. RISK MANAGEMENT

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

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

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

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5. APPENDICES

Appendix 1 ~ Internal Audit Plan 2020/21
Appendix 2 ~ Key performance indicators 2020/21

6. BACKGROUND PAPERS

None

7. KEY

N/a

AUTHOR OF REPORT

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BROMSGROVE DISTRICT COUNCIL**AUDIT, STANDARDS AND GOVERNANCE COMMITTEE**Date: 5th MARCH 2020APPENDIX 1SUMMARY OF DETAILED PLAN

Planned Days	2020/21
Financial	60
Corporate Work	66
Service Delivery and Operational	68
Sub total	194
Audit management meetings	15
Corporate meetings / reading	5
Annual plans, reports and Audit Committee support	16
Sub total	36
TOTAL Audit Days	230

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Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2020/21 Plan	Proposed resource 2020/21
FINANCIAL					
Debtors	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	9
Main Ledger/Budget Monitor/Bank Rec	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	10
Creditors	Enabling	Lack of robust financial accounting and monitoring arrangement	Medium/ High	<input checked="" type="checkbox"/> *	9
Treasury Management (incl. Asset & Acquisitions)	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 (Transformation)	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
Sub TOTAL					60
CORPORATE					
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"/> *	7
Procurement (Consultants action plan implementation)	Fundamental to strategic purpose delivery	s151 request	Medium	<input checked="" type="checkbox"/> *	8
GDPR – (Limited assurance follow up)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/> *	8
Orb – (Business critical reliance)	Fundamental to strategic purpose delivery	N/a	High	<input checked="" type="checkbox"/> *	9

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Audit Area	Corporate Link (Corporate Priority / Strategic Purpose)	Risk Register Reference	Plan Priority	Include in 2020/21 Plan	Proposed resource 2020/21
Use of agency and consultants (Cost and specification)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/> *	9
Projects (Critical Friend)	Fundamental to strategic purpose delivery	N/a	Medium	<input checked="" type="checkbox"/> *	11
Sub TOTAL					66
SERVICE DELIVERY					
Environmental					
Refuse Service scalability (new builds) (Critical Friend)	Keep my place safe and looking good	Env 24	Low/ Medium	<input checked="" type="checkbox"/> *	6
Leisure					
Markets (Limited assurance follow up)	Help me run a successful business	N/a	Low/ Medium	<input checked="" type="checkbox"/>	10
Worcester Regulatory Services					
	Statutory and Regulatory Requirement	Head of Service request	Medium	<input checked="" type="checkbox"/>	10
Sub TOTAL					26
Other Operational Work					
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
Sub TOTAL					42
Audit Management Meetings	Operational support	N/a	N/a	<input checked="" type="checkbox"/>	15
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
Sub TOTAL					36
TOTAL CHARGEABLE					230

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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 Councils. 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.

The customer journey will be considered overall as part of the service audits.

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APPENDIX 2

Performance against Key Performance Indicators 2020-2021

The success or otherwise of the Internal Audit Shared Service will be measured against some of the following key performance indicators for 2020/21. 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	2020/21 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 <i>(previous year figure)</i>	When Audit Committee convene
5	No. of moderate or below assurances	Downward (minimal)	XX <i>(previous year figure)</i>	When Audit Committee convene
6	'Follow Up' results	Management action plan implementation date exceeded (<5%)	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).

AUDIT, STANDARDS & GOVERNANCE COMMITTEE

WORK PROGRAMME 2019/20

5 March 2020

- Monitoring Officer's Report
- Annual Report
- Grant Thornton Audit Plan 2019/2020
- Grant Thornton – Sector Report and Audit Progress Update
- External Audit – Informing the Risk Assessment
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan
- Risk Champion's Update Report
- Work Programme

22 July 2020

- Monitoring Officer's Report
- External Audit – Progress / Action Plan Update Report
- External Audit – Audit Plan 2019/20
- External Audit – Informing the Risk Assessment
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan
- Housing Benefits Subsidy Account Report
- Financial Savings September to December 2019
- Risk Champion's Update Report
- Work Programme

8 October 2020

- Monitoring Officer's Report
- External Audit – Progress / Action Plan Update Report
- External Audit – Audit Plan 2020/21
- External Audit – Informing the Risk Assessment
- Internal Audit – Progress Report
- Internal Audit – Draft Audit Plan
- Financial Savings
- Risk Champion's Update Report
- Work Programme

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