

Democratic Services

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Date: 2 May 2013

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To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Gerry Curran, Dave Laming, Barry Macrae, Will Sandry, Brian Simmons and Geoff Ward

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Monday, 20th May, 2013

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Monday, 20th May, 2013** at **5.30 pm** in the. **Kaposvar Room - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely



Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

This Agenda and all accompanying reports are printed on recycled paper

Corporate Audit Committee - Monday, 20th May, 2013

at 5.30 pm in the Kaposvar Room - Guildhall, Bath

AGENDA

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR, IF REQUIRED

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is **a disclosable pecuniary interest** *or* **an other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 5 FEBRUARY 2013 (Pages 5 - 10)

9. PRESENTATION ON PERFORMANCE AND RISK MANAGEMENT

10. INTERNAL AUDIT ANNUAL REPORT (Pages 11 - 32)

11. NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS (Pages 33 - 46)
12. ANNUAL GOVERNANCE REVIEW (Pages 47 - 52)
13. EXTERNAL AUDIT PLANS (Pages 53 - 94)
14. EXTERNAL AUDIT UPDATE REPORT (Pages 95 - 108)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 5th February, 2013, 5.30 pm

Councillors: Gerry Curran, Sally Davis, Dave Laming, Barry Macrae, Will Sandry and Brian Simmons

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director, Finance) and Andy Cox (Group Manager (Audit/Risk))

Guests in attendance: Chris Hackett (Grant Thornton)

38 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

39 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

40 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Andy Furse, Cllr Geoff Ward and John Barker. Cllr Will Sandry had been nominated to chair the meeting in Cllr Furse's absence. Cllr Sally Davis substituted for Cllr Ward.

Members expressed their condolences for the family bereavement suffered by Cllr Furse.

41 DECLARATIONS OF INTEREST

There were none.

42 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Cllr Sandry noted that there was no report from the external auditors on the agenda and invited Mr Hackett to comment on this. Mr Hackett explained that whereas the Audit Commission had laid an audit plan before the Committee at this time last year, Grant Thornton followed a different procedure. They would take a preliminary look at the controls in place and would then produce a pro-tem plan, which would be brought before the Committee later in the year.

Cllr Macrae sought assurance that this procedure would not compromise the external auditors' ability to advise the Committee on significant issues before the it was required to sign off the Council's annual accounts. Mr Hackett said that the pro-tem plan would be tabled at the May meeting of the Committee. The Divisional Director – Finance said that the Council's accounts would be published in June and would be brought to the Committee for sign-off in September.

43 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

44 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

45 MINUTES: 4 DECEMBER 2012

These were approved as a correct record and signed by the Chair.

46 TREASURY MANAGEMENT STRATEGY

The Divisional Director – Finance presented the report. He said that the Treasury Management Strategy would be put to the Council for approval in February. He explained that limits were set on lending and borrowing by means of prudential indicators. Appendix 1 to the report set out the overall strategy and some of the indicators. Borrowing limits were set on the basis of what was affordable. Treasury management limits were set for the Council's lending. The proposed minimum portfolio credit rating for lending in 2013/14 was 'A'. A summary guide to credit ratings was given on page 34 of the agenda. The Corporate Finance Manager circulated an update to the Treasury Management Strategy to members. Referring to this, the Divisional Director – Finance pointed out the increased figures for fixed interest rate exposures in 2014/15 and 2015/16, which reflected the capital programme and the draft budget, which had been published today. Cllr Macrae asked what would happen if the Council rejected the budget. The Divisional Director – Finance replied that the limits should match the capital programme; he would expect the figures to be lower if a major scheme was removed from the programme.

Cllr Laming asked whether a lower return was received from institutions with higher credit ratings. The Divisional Director – Finance said that this was the case, but there were no longer as many institutions with the highest credit ratings, and the Council had to accept lower ratings than it would have done previously or it would run out of institutions to invest in.

The Divisional Director – Finance highlighted the borrowing limits on page 17 of the agenda and the distinction between the maximum limit and the operating limit. The Council was planning to fund some schemes, such as Keynsham regeneration, from cash flow. It was possible that borrowing would be even lower than the operating limit, because it made more sense to use cash for the capital programme rather than have it on deposit at low rates of interest and borrow at high rates. He asked Members to note the economic context report on pages 18-21 of the agenda, produced by the Council's new treasury advisors, Arlingclose, who had taken over Sterling. Councillor Macrae asked whether any differences had been noted in Arlingclose's views and approach. The Divisional Director – Finance said that Arlingclose had retained two members of Sterling's staff who had previously worked with the Council. The only difference noted so far had been that Arlingclose expected base rates to remain flat for a slighter longer period than Sterling had. Arlingclose was a bigger company than Sterling had been and could undertake more research.

Cllr Laming asked whether there was any contingency in the budget for an unforeseen catastrophe. The Divisional Director – Finance replied that on the capital side, most of the Council’s buildings were insured, so there would be cover in the case of a serious problem affecting a building. On the revenue side, service budgets were regularly and carefully monitored, but if there was a serious shortfall, there was a margin that could be used in an emergency. Cllr Sandry asked about short-term borrowing to cover cash flow shortages, as mentioned at the top of page 20. The Divisional Director – Finance explained that this was uncommon, but sometimes necessary. Generally, it was possible to predict the outflow of cash; there was the monthly payroll and daily runs to pay bills. Services notified Finance if there were a big payment to be processed. However, no more than a couple of times a year, something unforeseen would crop up, which could not be covered by cash flow. In these cases, money would be borrowed overnight.

The Divisional Director – Finance moved on to Appendix 2, which set out the Council’s annual investment strategy. He noted the requirement for the Council to have regard to security and liquidity, and drew attention to the Council’s role as Accountable Body for the West of England Revolving Investment Fund. He then explained the distinction between specified and non-specified investments.

Councillor Macrae noted from page 25 of the agenda that there had been no tendering exercise to appoint bankers to the Council since 2007. The Divisional Director – Finance replied that no investments were made with NatWest, because they did not meet the Council’s investment criteria, but they did handle the Council’s day to day banking business. Changing banks was a big upheaval and required a long lead time. The banking contract would be retendered and take effect from 2014.

The Divisional Director – Finance explained that non-specified investments were those in which the Council invested for longer than 1 year. The Council did this because cash not required for use in the current year could be used to get a better rate of return. Councillor Macrae noted that the Council would not invest in company shares, but wondered whether it might do so indirectly via the Guildhall hub. The Divisional Director – Finance said this would not be the case; the Guildhall hub would be run by a community interest company, which had no shareholders. The Council had given them a small start-up grant, but let premises to them at full commercial rate and would not indemnify them against any losses.

Cllr Sandry noted that limits were specified in Appendix 2 for lending to other local authorities. He said he had heard that West Somerset Council was in some financial difficulties and wondered whether this affected their credit rating. The Divisional Director – Finance said that all local authorities were rated as AAA, because the Council took the view that it was extremely unlikely that the Government would allow them to default, but if they did default, there was legislation allowing us to surcharge West Somerset Council taxpayers. In fact, it was very unlikely that B&NES would lend to West Somerset.

Cllr Laming asked about the flood prevention scheme funded through the West of England Revolving Investment Fund (RIF). He understood that there had been changes to the scheme and wondered whether the funding for it would have to be applied for again. The Divisional Director – Finance explained the process by which funding was awarded under the RIF. The flood scheme had been approved and he had signed on behalf of the West of England Local Enterprise Partnership and had

also signed an agreement with the Department of Business, Innovation and Skills. The next stage would be the signing of a scheme offer letter, which would specify when payments would be made. Payments under the RIF were always made quarterly in arrears. No payments had been made for this scheme from the RIF, because no money had yet been spent on it. Flood prevention could be accomplished by different technical means, and if what was now proposed was still within the terms of the scheme, it would not necessary to reapply for funding. The scheme had only received provisional funding from full Council; final approval could only be given by the Cabinet.

RESOLVED

1. To recommend the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Cabinet and Council for approval.
2. To recommend that Investment Strategy as detailed in Appendix 2 to February Cabinet and Council for approval.
3. To recommend the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Cabinet and Council for approval.
4. To note the Treasury Management indicators detailed in Appendix 1, and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval by full Council on 19th February 2013 to the Divisional Director – Finance and Cabinet Member for Community Resources, in light of any changes to the Budget Report at February Cabinet.

47 ANNUAL GOVERNANCE REVIEW UPDATE

The Group Manager (Audit & Risk) presented the report. He reminded Members of their involvement in the governance review process in past years. Appendix 1 summarised the Corporate Governance Environment and the timescale for the 2012/13 review was set out in paragraph 4.6-4.8 of the report. He requested the Committee’s comments on the process and their input to the review. Councillor Macrae stated his support for the continuation of existing review process based on the assurance from the Group Manager that it could be completed within the resource constraints of the Audit & Risk Team. This assurance was provided.

RESOLVED

1. To note the process and timetable for the Annual Governance Review 2012/13.

The meeting ended at 6.30 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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| Bath & North East Somerset Council | | | |
|---|---|---------------------------|--|
| MEETING: | Corporate Audit Committee | | |
| MEETING DATE: | 20th May 2013 | AGENDA ITEM NUMBER | |
| TITLE: | Internal Audit Annual Report - Outturn 2012/13 & Annual Plan 2013/14 | | |
| WARD: | ALL | | |
| AN OPEN PUBLIC ITEM | | | |
| List of attachments to this report: | | | |
| Appendix 1 – Audit & Risk Outturn 2012/13 | | | |
| Appendix 2 - Audit & Risk Dashboard Quarter 4 2012/13 | | | |
| Appendix 3 – Internal Audit Annual Plan 2013/14 | | | |

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2012/13 and its plan for 2013/14.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

- a) Note the summary of audit work during 2012/13 (Appendices 1 & 2)
- b) Approve the Internal Audit Plan for 2013/14 (Appendix 3)
- c) Request an update on the progress to a partnership model of service delivery

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Internal Audit Work Carried out in 2012/13 (Appendix 1)

4.2 In the report presented to this Committee on 4th December 2012, it was reported that during the first half of the financial year 43% of the plan had

been completed or was work in progress. As at the 31st March 2013, this figure had increased to 80%. The remaining 20% of the originally planned work has been cancelled / rescheduled because it has either been replaced with unplanned work or it wasn't possible to complete based on the reduction in audit days available due to the redeployment of one of the Audit Team Managers to the Procurement Team.

4.3 In relation to the 'unplanned' work it is worthy of note that 111 days were spent on just three investigations. Work has been completed for two of the investigations while the third is on-going.

4.4 In the past two years we reported high sickness absence figures based on two members of staff having to undergo surgery. The loss of productive days through sickness for 2012/13 was in line with expected levels. For the nine members of staff working in the Audit & Risk Team during the year 42 days were lost to sickness, an average of 4.7 days each person.

4.5 The number of days during 2012/13 spent on training / professional study totalled 28, just below that allocated. During the year we had three members of staff actively studying for professional Internal Audit qualifications. I'm pleased to report that one Senior Auditor successfully completed the Chartered Institute of Internal Auditors – Information Technology Auditing Certificate.

4.6 Appendix 2 provides a 'dashboard' view of adopted high level performance indicators. For comparison reasons the results of the last two years are recorded below:

| High Level Performance Indicator | As at 31st March 2012 | As at 31st March 2013 |
|---|---|---|
| % of Audits completed within time allocated | 84% | 65% |
| % of Services which rate Internal Audit as Excellent / Good | 100% | 97% |
| % of recommendations agreed (based on management response recorded in Final version of Audit Reports issued). | 99% | 99% |
| % of recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management). | 89% | 65% |

4.7 In addition to the above, an analysis of work carried out during the financial year identified:

1) 79% of audit reviews assessed specific council activity at Assurance Level 3 to 5 ('Adequate' or 'Excellent'), 18% at Assurance Level 2 ('Weak') and 3% at Assurance Level 1 ('Poor').

2) The Assurance Level 1 ('Poor') review was in relation to the internal control framework related to Systems Administration Management & Control – Privileged Users. Management agreed to implement all 7 of the Audit recommendations and implementation of these recommendations will be 'followed-up' in July 2013.

3) For the 7 audits assessed at Assurance Level 2 ('Weak'), management have agreed to implement all the Audit recommendations.

4) 22 'Follow-Up' reviews were carried out in 2012/13. 6 of these were in relation to Audit Reviews awarded a 'Poor' or 'Weak' Assurance Level. For these 6 'Follow-Ups' 67% of audit recommendations had been implemented by the 'agreed' implementation date. For those recommendations still to be implemented, management have agreed revised implementation dates.

4.8 In addition to the work recorded in Appendix 1 the function provides a 'Responsible Officer' (in effect, a basic Internal Audit service) service to 9 Academy schools. This has necessitated working in partnership with the School and their External Auditors.

4.9 Internal Audit Annual Plan 2013/14 (Appendix 3)

4.10 A summary version of the Audit Annual Plan for 2013/2014 is recorded as an Appendix to the Annual Plan document. The plan has been prepared using a number of factors to risk assess identified auditable activities. The factors used are -

1) 2011/12 Annual Governance Issue or directly linked to Corporate Risk Register (December 2012).

2) Exposure to Financial Irregularity (Control Environment / Corruption).

3) Time since last audit review.

4) Assurance Level last audit.

5) Business Continuity Risk (loss of function impacting on provision of critical services).

6) Expenditure (not including employee costs).

7) Income

8) Inherent risk (a multiplier based on taking into account 'other' risks and compensating controls such as review by external agencies / inspectorates).

4.11 Based on productive days available (following a deduction of days for leave, training, admin / management, and Academy 'Responsible Officer' visits) the plan records a total of 61 discrete Internal Audit Reviews.

4.12 In addition to completing the Internal Audit Reviews the Audit & Risk Team will -

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council's Annual Governance Statement;
- Complete 'Follow-up' reviews to verify the implementation of Internal Audit Review recommendations.
- Provide support to the Council's risk management framework including maintaining the Corporate Risk Register;
- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit & Risk staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures.

4.13 Formal Opinion on Internal Control Framework –

Comments of the Divisional Director for Risk and Assurance

4.14 Despite a small number of financial irregularity investigations it is pleasing to note that within the year there were no fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

4.15 It is however clear that with increased pressure on budgets, choices on the degree of internal control have to be made and the level of risk being accepted by the organisation is imperceptibly rising. This in itself is not a cause of undue concern at this time as the risk appetite level of Local Authorities is broadly low. Therefore applying a degree of flexibility to what is an acceptable level of risk is a sensible course of action to ensure the organisation's priorities continue to be delivered.

4.16 This does however place increased pressure on the Internal Audit function to adapt to this changing framework and also provide the right balance of scrutiny and support to management. Ensuring value from the function as well as providing a strong independent voice is a critical check in establishing successful organisational governance. This becomes important as structures change and indeed the Resources Directorate is currently consulting on a new structure which would see current reporting lines change to a lower level and issues of independence challenged. These issues will need to be reviewed in light of new Public Sector standards for Internal Audit which have come into force from April 2013.

4.17 As previously reported to the Committee a 30% reduction to audit resources has been implemented over the last 2 years and this does place the function at a relatively basic level to cope with a fast changing organisation. Indeed as highlighted earlier, instances of long term sickness and secondments reduce the resilience and capability of the team significantly. Therefore whilst I remain confident that an in-house service can still deliver an effective function in the immediate future, the long-term prognosis is unclear.

4.18 Previous reports to the Audit Committee have recommended a local authority partnership form of delivery, especially one organised and delivered locally within the region as the most appropriate to deliver a sustainable future. Discussions remain ongoing with a number of parties with agreement potentially close and it is therefore recommended that an update report be given to the next committee to re-confirm the path currently pursued as we are now at a critical stage.

4.19 Finally the support of the Audit Committee remains vital to effective corporate governance and I would like to thank all the members of the committee for their input and guidance over the last 12 months.

5 RISK MANAGEMENT

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for consultation.

| | |
|--|---|
| Contact person | Jeff Wring (01225 477323) Andy Cox (01225 477316) |
| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |

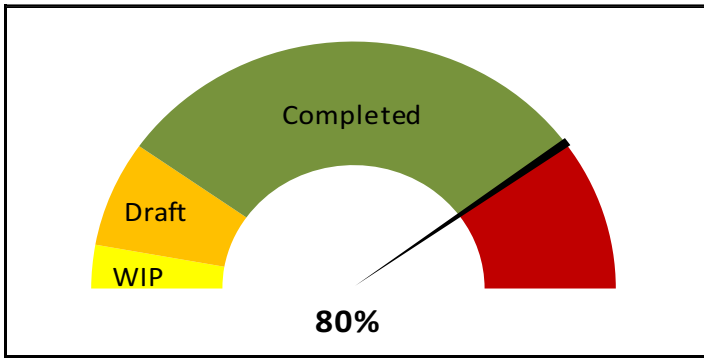
| Audit Reviews (Position As At End of Q4) | | | | | | |
|--|---------------------------|--|-----------|-----------------|-----------------|--------|
| Audit Plan Year | Final Report Date (Month) | Audit Review Title | Status | Assurance Level | Recommendations | |
| | | | | | Made | Agreed |
| 2011/12 | Apr-12 | Radstock Road Community Store | Finalised | 2 | 8 | 8 |
| 2011/12 | May-12 | Payroll Additions & Deductions | Finalised | 2 | 6 | 6 |
| 2011/12 | N/A | School Theme - Governance Arrangements (Corporate Work New Financial Standard) | Finalised | N/A | N/A | |
| 2011/12 | Jul-12 | Accounting Arrangements Asset Management | Finalised | 3 | 8 | 8 |
| 2011/12 | May-12 | Land Charges | Finalised | 3 | 8 | 7 |
| 2011/12 | May-12 | HB - Processing Claims | Finalised | 3 | 3 | 3 |
| 2011/12 | Aug-12 | Housing Allocations (Homefinders) | Finalised | 2 | 14 | 14 |
| 2011/12 | May-12 | Highway Maintenance & Term Contracts | Finalised | 3 | 9 | 9 |
| 2011/12 | May-12 | Agresso IT Data security | Finalised | 3 | 7 | 7 |
| 2011/12 | Jun-12 | Supplier Account & Contract Set Up (Anti Fraud) | Finalised | 2 | 6 | 6 |
| 2011/12 | Jun-12 | School Theme - Safeguarding | Finalised | 3 | 7 | 7 |
| 2012/ 13 | Aug-12 | Catering (Property) | Finalised | 2 | 9 | 9 |
| 2012/ 13 | Sep-12 | Funding Programmes (Policy & Partnerships) | Finalised | 4 | 3 | 3 |
| 2012/ 13 | Aug-12 | Themed School Review - Purchasing Arrangements | Finalised | 4 | 7 | 7 |
| 2012/ 13 | Sep-12 | Library Services - Overall Arrangements | Finalised | 4 | 5 | 5 |
| 2012/ 13 | Sep-12 | Bereavement Service (Cemetaries & Crematoria) | Finalised | 3 | 11 | 11 |
| 2012/ 13 | Sep-12 | Tenancy Fraud (Housing Allocations - Changes in regulations) | Finalised | 2 | 6 | 6 |
| 2012/ 13 | Nov-12 | Council Tax - Liability, Billing, & Refunds (Incl Northgate Revs & Bens Application) | Finalised | 4 | 13 | 12 |
| 2012/ 13 | Oct-12 | Public Protection (Environmental Services) | Finalised | 3 | 19 | 19 |
| 2012/ 13 | Oct-12 | Cleaning Service | Finalised | 4 | 3 | 3 |
| 2012/ 13 | Oct-12 | Neighbourhood Operations | Finalised | 3 | 12 | 12 |
| 2012/ 13 | Oct-12 | Payments to Dom Care Providers | Finalised | 3 | 4 | 4 |
| 2012/ 13 | | Health & Safety | Draft | | | |
| 2012/ 13 | Dec-12 | System Administration Management and Control - Privileged Users | Finalised | 1 | 7 | 7 |
| 2012/ 13 | | Anti Fraud & Corruption Expenditure | Draft | | | |
| 2012/ 13 | | Waste Operations - Disposals | Draft | | | |
| 2012/ 13 | Nov-12 | Home to School Transport (Administration incl. Entitlement / Duty of Care) | Finalised | 4 | 2 | 2 |
| 2012/ 13 | | WINBACS / BACS | Draft | | | |
| 2012/ 13 | Nov-12 | CHAPS & Cheques | Finalised | 4 | 2 | 2 |
| 2012/ 13 | Feb-13 | Youth Offending | Finalised | 3 | 10 | 10 |
| 2012/ 13 | Jan-13 | Payroll (PEN05 / TR17) | Finalised | 3 | 6 | 6 |
| 2012/ 13 | Dec-12 | Service IT Budgets, coding and recharging | Finalised | 3 | 2 | 2 |
| 2012/ 13 | Jan-13 | Personalised Budgets | Finalised | 2 | 5 | 5 |
| 2012/ 13 | Dec-12 | Youth | Finalised | 4 | 4 | 4 |
| 2012/ 13 | | Budgeting (Cost Centre Management) | Draft | | | |
| 2012/ 13 | Feb-13 | Passenger Support (RENAMED Transport Services) see Fleet Management below | Finalised | 5 | 2 | 2 |
| 2012/ 13 | | Fleet Management (SEE ABOVE) | Finalised | N/A | N/A | N/A |
| 2012/ 13 | Mar-13 | Registrars | Finalised | 4 | 10 | 10 |
| 2012/ 13 | | Cash Receipting System / Civica Application | Finalised | | Consultancy | Work |
| 2012/ 13 | | WEP / LEP Governance | Draft | | | |
| 2012/ 13 | | Economic Enterprise & Business Development | Draft | | | |
| 2012/ 13 | N/A | Adult Commissioning (Connecting Families) | Finalised | | Consultancy | Work |
| 2012/ 13 | Jan-13 | NNDR | Finalised | 4 | 1 | 1 |
| 2012/ 13 | | Revenues (Commercial) Estate | WIP | | | |
| 2012/ 13 | | Anti Fraud Corruption - Income | WIP | | | |
| 2012/ 13 | | Heritage Events Management | Draft | | | |
| 2012/ 13 | | Off Street Car Parking (Parking Services Review) | WIP | | | |
| 2012/ 13 | | On Street Car Parking (Parking Services Review) | WIP | | | |
| 2012/ 13 | Feb-13 | Themed School Review - Income Collection | Finalised | 4 | 5 | 5 |
| 2012/ 13 | Feb-13 | Themed School Review - Payments | Finalised | 4 | 4 | 4 |
| 2012/ 13 | Feb-13 | ONE Application | Finalised | 4 | 2 | 2 |
| 2012/ 13 | Feb-13 | Carefirst Application | Finalised | 4 | 2 | 2 |
| 2012/ 13 | Apr-13 | Commissioning - Childcare Placements | Finalised | 5 | 2 | 2 |
| 2012/ 13 | | Planning Enforcement | Draft | | | |
| 2012/ 13 | | Adult Safeguarding | Draft | | | |
| 2012/ 13 | | Pensions Administration | Draft | | | |
| 2012/ 13 | | Parking Enforcement (Incl. Bus Lanes / Gates) | Draft | | | |
| 2012/ 13 | | Pension Investments | WIP | | | |
| 2012/ 13 | | Park & Ride | C/f | | 2013/14 | Plan |
| 2012/ 13 | N/A | PCIDSS | Finalised | | Consultancy | Work |
| 2012/ 13 | | Payroll - Starters & Leavers | Draft | | | |
| 2012/ 13 | N/A | Residential & Nursing Care Payments | Finalised | | Consultancy | Work |
| 2012/ 13 | | Public Transport | WIP | | | |
| 2012/ 13 | | Strategic Transport Projects | Draft | | | |
| 2012/ 13 | | Design & Projects (Structures & General Programme) | Draft | | | |
| 2012/ 13 | Apr-13 | Admission Team | Finalised | 4 | 4 | 4 |
| 2012/ 13 | Feb-13 | Fostering Allowances | Finalised | 5 | 0 | 0 |
| 2012/ 13 | | SIMS Application | WIP | | | |
| 2012/ 13 | | Waste Operations - Collections | Draft | | | |
| 2012/ 13 | | Heritage Income | WIP | | | |
| 2012/ 13 | | Improvement & Performance - HR / Payroll Client Side Management | Finalised | | Consultancy | Work |
| 2012/ 13 | | Schools Theme Review (Personnel & Payroll) | WIP | | | |
| 2012/ 13 | | Safeguarding - Ofsted Review 2012 findings - Risk Rating Re-assessed | Postponed | | | |
| 2012/ 13 | | Pest Control - Risk Rating Reassessed based on Anti-Fraud Income Audit Review | Postponed | | | |
| 2012/ 13 | | Performance Management (Public Health) - Risk Rating Re-assessed | Postponed | | | |
| 2012/ 13 | | Procurement (Service specific) - School Theme Procurement Audit Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Commissioning (Commissioning Support) - Risk Rating Re-assessed | Postponed | | | |
| 2012/ 13 | | Accounts Payable - Scheduled for 2013/14 | Postponed | | | |
| 2012/ 13 | | Business Continuity & Disaster Recovery - Scheduled for 2013/14 | Postponed | | | |
| 2012/ 13 | | Capital & Schools Organisation Capital Strategy - Capital Expenditure Audit 2013/14 | Postponed | | | |
| 2012/ 13 | | Early Years Strategic Planning - Grants - Scheduled for 2013/14 | Postponed | | | |
| 2012/ 13 | | Documentum - Risk Rating Re-assessed | Postponed | | | |
| 2012/ 13 | | Council Tax / NNDR - Collections, Recovery, Enforcement, W-Offs - Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Scan Coin Payment Kiosk - Cash Collection Audit Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Energy Management - Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Insurance - Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Heritage Exhibits & Stocks - Scheduled 2013/14 | Postponed | | | |
| 2012/ 13 | | Heritage Marketing - Risk Rating Re-assessed | Postponed | | | |

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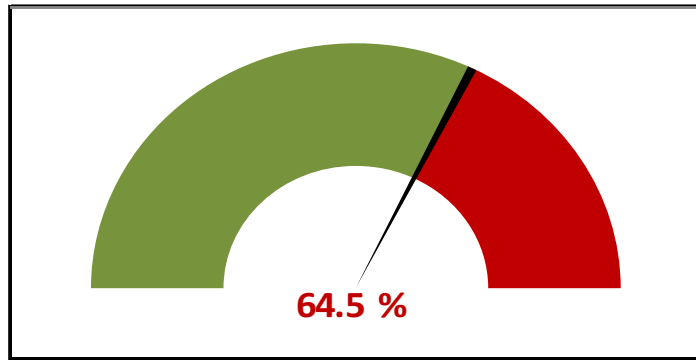
Audit & Risk Dashboard Quarter 4 2012/13

Internal Audit

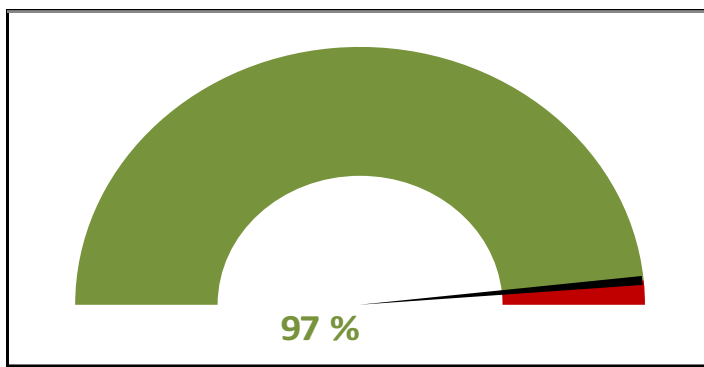
Annual Audit Plan Completed



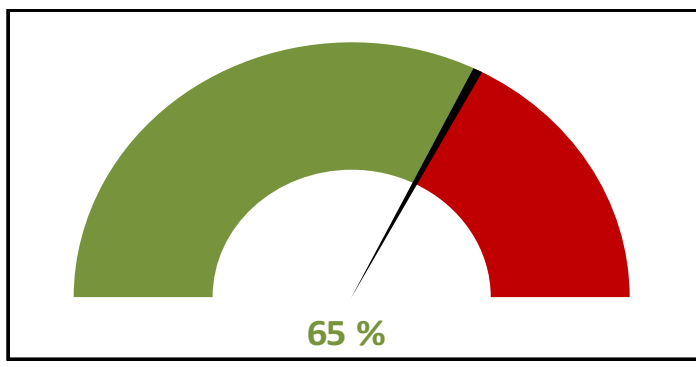
Audit Reviews Completed in Assigned Days



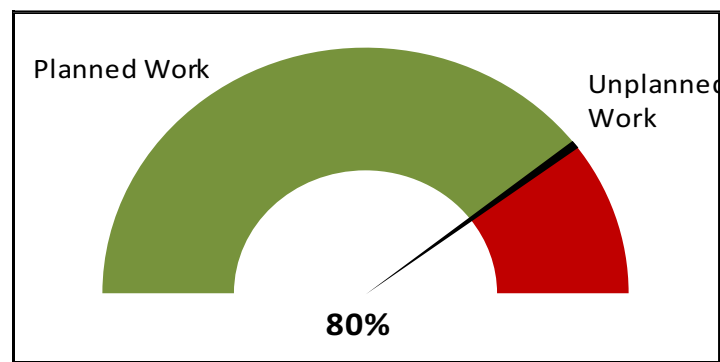
Customer Satisfaction - Good or Excellent



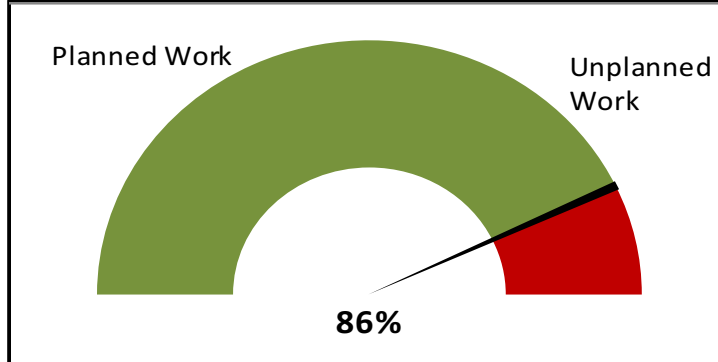
Recommendations (Critical / High) Implemented by Follow Up



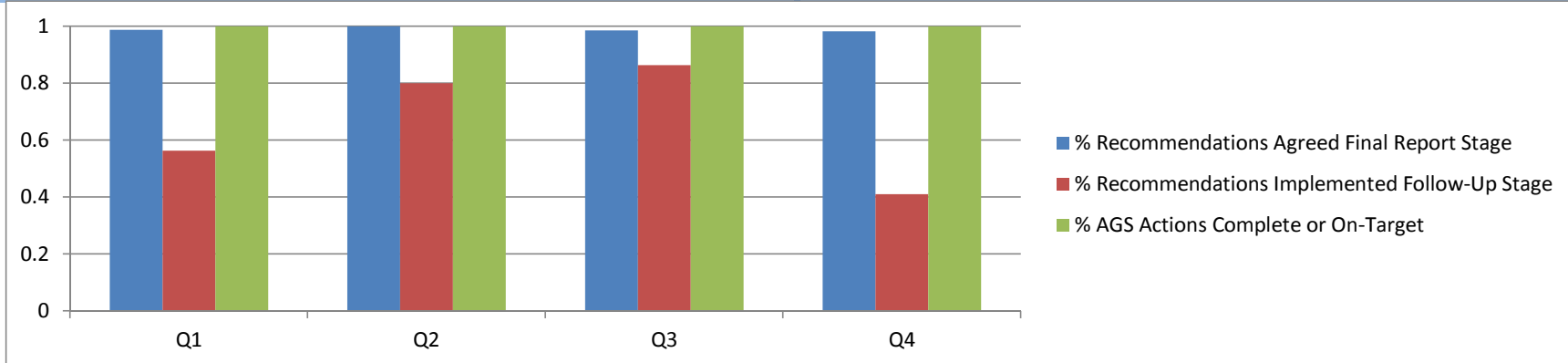
Planned V Unplanned Work 2012/13



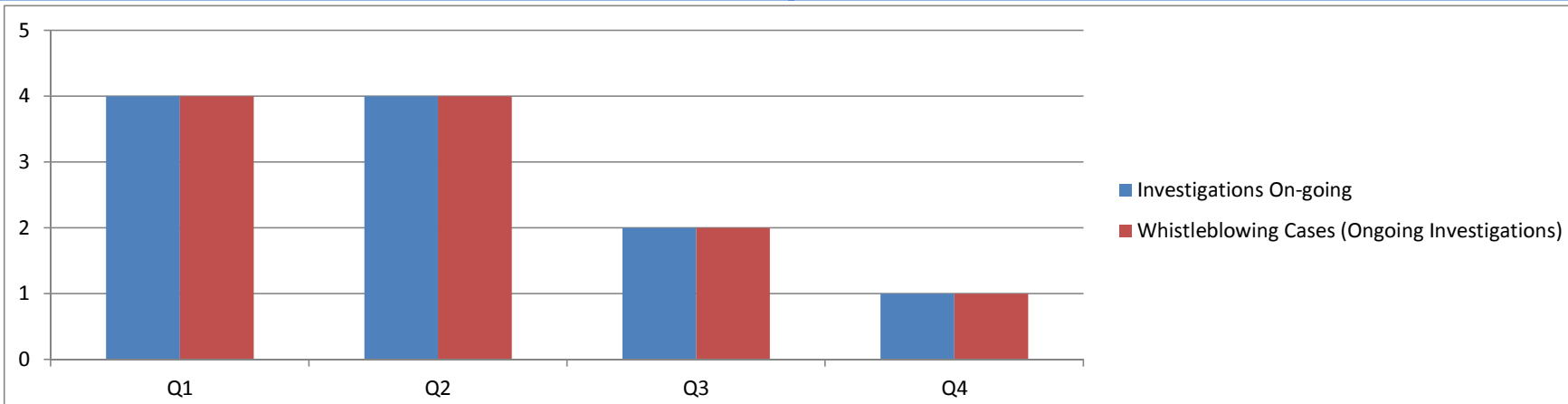
Planned V Unplanned Work 2011/12



Overall Audit Recommendations



Investigations/Whistleblowing



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Bath & North East Somerset Council

Risk & Assurance Service

Audit & Risk Team

Internal Audit Annual Plan

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April 2013 - March 2014

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1. Introduction:

- 1.1 The purpose of this document is to explain:
- The role of Internal Audit
 - How the Audit & Risk Team carries out its Internal Audit work
 - Relationship with the Council's External Auditor
 - How the annual plan is prepared, and
 - Present the 2013 / 2014 Annual Audit Plan
- 1.2 During the last quarter of 2012/13 members of the Audit & Risk Team have liaised and consulted with Strategic Directors, Divisional Directors & key third tier Officers to enable an Annual Internal Audit Plan to be compiled.

2. The Internal Audit function within the Council:

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit is not limited to the Council's financial systems and records, but extends to all activities of the Council.
- 2.2 The Audit & Risk Team is required to compile each year an Internal Audit Plan for approval by the Council's Corporate Audit Committee.
- 2.3 The Audit & Risk Team is compliant with the Public Sector Internal Audit Standards.

Internal Audit Independence:

- 2.4 A critical element of the performance of Internal Audit function is independence from the activities audited. This enables the Audit & Risk Team to form impartial and effective judgment for the opinions and recommendations made.
- 2.5 To help ensure independence, the Audit & Risk Team is allowed unrestricted access to Senior Management & Members, particularly, the Leader of the Council, Chair of the Corporate Audit Committee, the Chief Executive, Strategic Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Divisional Director Risk & Assurance (responsible for the Audit & Risk Team) reports in his own name.
- 2.6 The Audit & Risk Team forms part of the core governance structure of the organisation and its input is required as part of the Council's Annual Governance review which results in the publication of the Council's Annual Governance Statement.

3. Relationship with the Council's External Auditor:

- 3.1 As part of their audit of the Council's financial statements, the Council's external auditor, Grant Thornton, have a dedicated plan from which they carry out specific reviews of the Council's activities and the Avon Pension Fund. To facilitate this work they have issued a plan for the audit of the 2012/13 accounts.
- 3.2 The External Auditors carry out their own risk assessment methodology to assist in agreeing their workplan.
- 3.3 The working relationship between the Audit & Risk Team and the External Auditors carrying out the internal audit and external audit functions respectively is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express

an opinion on the Council's financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

- 3.4 The External Auditors seek to place as much reliance as possible on the work of the internal audit function i.e. the Audit & Risk Team. To maintain effective working there is regular contact between the two parties. At a meeting on 18th March 2013 the annual planning process was discussed and the Annual Internal Audit Plan presented.

4. Preparation of the Annual Plan:

The Audit & Risk Team has adopted a risk based approach in determining its Annual Internal Audit Plan.

Internal Audit Plan Risk Assessment:

- 4.1 To properly develop and substantiate the overall Annual Audit Plan it is necessary to carry out a full and detailed needs assessment of the whole of the Council's activities.

This is carried out through the use of a Risk Assessment model. This model has been developed over many years of audit experience and external best practice and is being continually updated and refined.

The Risk Assessment model, for which a summary of the criteria can be seen below, was applied to the Council's activities:

Internal Audit Risk Assessment Matrix – 2013/14

| Criteria |
|--|
| Previous Year Annual Governance Review Issue (Significant or Long List) or Directly linked to a Corporate Risk Register risk. |
| |
| Exposure to Financial Irregularity (Control Environment / Corruption) |
| |
| Time since Last Audit Review |
| |
| Assurance level last Audit |
| |
| Business Continuity Risk (Loss of function impacting on provision of Critical Services) |
| |
| Expenditure (not to include employee costs) |
| |
| Income |
| |
| Inherent risk (Multiplier) – take into account 'other' risks and compensating controls such as review by external agencies / inspectorates. |

- 4.2 In order to select reviews to be included in the audit plan, the number of available productive audit days based on available resources must be calculated. The number of available productive days is compared directly with the list of audits (recorded in risk score order – high to low) produced through the risk assessment process. When the total number of available days equals the cumulative number of allocated audit days per audit a line is drawn. All those audits 'above the line' are included in the Audit Plan. If 'Unplanned' work is required during the year this has to take the place of 'Planned Audit Work'. Unplanned work consists of the investigation of irregularities and prioritised 'consultancy' work. So, when the need arises to redirect resources to unplanned work, planned audit reviews, with the lowest risk rating will not be carried out during the current financial year.
- 4.3 In view of the ever changing environment in which Local Government exists the Internal Audit Annual Plan will be reconsidered in September / October 2013 to confirm that work planned to be carried out in the second half of the year is still appropriate. This process will be carried out in consultation with Strategic Directors, Divisional Directors and Service Managers.

The Draft Plan is attached at **APPENDIX 1**.

5. Internal Audit Function Methodology:

Individual Audit Reviews:

- 5.1 At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Divisional Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the client (Council Service) and the auditor.
- 5.2 At the conclusion of each review, an end of review meeting will be held with the client (usually Service Manager) to discuss the matters arising. The Divisional Director may be involved at this stage. Wherever possible this meeting will occur before a 'draft' audit report is produced.
- 5.3 Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses and recommendations.
- 5.4 The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation.
- 5.5 The management comments and implementation plan are compiled into a 'final' version of the report. This is issued to the recipients of the 'draft' version and the Divisional Director. It should be noted that the relevant Strategic Director will be informed of the outcome of all work carried out by the Audit & Risk Team on a quarterly basis.

Audit Review 'Follow-Ups':

- 5.6 Internal Audit reports / recommendations are subject to "follow-up". The objective of this process is to ensure actions are implemented within the agreed timescales.
- 5.7 All recommendations are subject to 'follow-up'. The process is dependent on the risk classification of the weaknesses / recommendations. For all 'Low' and 'Medium' risk recommendations, management are required to confirm implementation of actions. For all 'Critical' and 'High' risk recommendations the Audit & Risk Team will carry out appropriate testing to confirm implementation.
- 5.8 The findings of Audit Review 'Follow-Up' will be reported to the relevant manager(s) and the Divisional Director. As stated in 5.5 above the relevant Strategic Director will be informed of the outcome of this work.

6. Investigation of Financial Irregularities:

- 6.1 The Internal Audit function does not have responsibility for the prevention and detection of fraud and other financial irregularities. The staff of the Audit & Risk Team will however be alert in all their work to the possibility of theft, fraud, corruption and bribery.
- 6.2 Members of staff working within the Council are required to report any possible wrongdoing. The Audit & Risk Team will provide a professional response to any such reports received. In this respect, attention is drawn to the Council's own Anti-fraud & Corruption and Whistle blowing policies. These can be found on the 'Internal Audit' website.

AUDIT BRIEF



| | |
|-------------------|--|
| Client | Divisional Director / Head of Service / Other Service Area |
| Audit Area | e.g. Legal Services |

| | |
|--|--|
| 1. Purpose of Audit | The audit will review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an audit opinion on the adequacy of the framework of internal control including an Assurance Level grading. |
| 2. Scope of Audit Review | <p>This audit of xxxxxx will review the following key control objectives:</p> <ul style="list-style-type: none"> • Appropriate financial management arrangements are in place to ensure that income and expenditure related to legal cases is promptly and accurately coded with the approval of the 'responsible' Officer (budget holder). • All legal records / documentation including 'Property Deeds' can be accessed without undue delay by authorised personnel and are safeguarded in compliance with relevant Information Governance Legislation and Council adopted standards and policies. • The Service complies with Contract Standing Orders, relevant EU Procurement Directives and other Council procurement procedures including transparency arrangements, when engaging external legal services. • A performance monitoring system is in place to ensure that the Service provides effective legal support to the Council. |
| 3. Access Requirements & Timescales | <p>Access to all systems, records and personnel as required, to complete the review.</p> <p>The audit fieldwork will commence in {Month} {Year}. Based on the scope of the audit the 'Draft' audit report should be available in {Month} {Year}. If the scope of the review is altered you will be consulted / informed.</p> |
| 4. Audit & Risk Personnel | <p>Dave Mehew - Audit Team Leader Mark Wheeler - Senior Auditor</p> |
| 5. Audit Report | <p>A written report will be produced at the completion of the audit. The report will provide:</p> <ul style="list-style-type: none"> • An audit opinion on the framework of internal controls. • An 'Assurance Level' grading based on the assessment of the risks and the internal controls related to the key control objectives being reviewed (Scope of Audit). • An Action Plan recording system / control weaknesses, associated risk(s) and the recommended actions(s). |

| | |
|--|---|
| <p>6. Standards</p> | <p>The Audit & Risk Team operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The Team / Service 'Terms of Reference' have been agreed by Members and more details about the work of the Audit & Risk Team are available on our intranet web pages.</p> |
| <p>7. Service Management Responsibilities</p> | <ul style="list-style-type: none"> •Review and agree Audit Brief. •Inform all relevant staff of the scheduled audit. •Respond promptly to all reasonable requests for access to systems, records and personnel. •Attend a meeting to discuss 'Draft' Audit Report and agree on recommendations to be implemented and timescales. •To monitor the implementation of agreed audit recommendations (consider the use of Team / Service Risk Registers). •To provide confirmation of implementation status of audit recommendations during the Audit & Risk 'Follow-Up' process. (Note: The Audit Risk 'Follow-Up' Review will be timed based on the implementation dates of agreed audit recommendations). |

Audit Opinions

Assurance Level 5 - Excellent Control Framework

The administration and management of the system of internal controls was excellent and reasonable assurance can be provided over all the areas within the audit scope.

- *Assurance Level 4 - Good Control Framework*

The administration and management of the system of internal controls was good and only minor weaknesses were identified from the areas detailed in the audit scope.

- *Assurance Level 3 – Adequate Control Framework*

The administration and management of the system of internal controls was adequate. However, there are a number of areas which require improvement.

- *Assurance Level 2 – Weak Control Framework*

The administration and management of the system of internal controls was weak and reasonable assurance could not be provided over a number of areas detailed in the audit scope. Prompt action is necessary to improve the current situation and reduce the risk exposure.

- *Assurance Level 1 – Poor Control Framework*

The administration and management of the system of internal controls was poor and there are fundamental weaknesses in the areas detailed in the audit scope. Urgent action is necessary to reduce the high levels of risk exposure.

Contact Details

| | |
|--|--|
| Divisional Director Risk & Assurance | Jeff Wring 01225 477323 jeff_wring@bathnes.gov.uk |
| Group Manager (Audit & Risk) | Andy Cox 01225 477316 andy_cox@bathnes.gov.uk |
| Audit Team Leader (Resources, People {Adult Care Health Housing & Commissioning} and Improvement & Performance) | Dave Mehew 07980998969 dave_mehew@bathnes.gov.uk |
| Audit Team Leader (People {CYP} & Council Solicitor) | Paul Chadwick 07980998925 paul_chadwick@bathnes.gov.uk |
| Audit Team Leader (Place) | Richard Howroyd 07530263028 richard_howroyd@bathnes.gov.uk |
| Address | Audit & Risk Team Risk & Assurance Service The Guildhall High Street BATH, BA1 5AW |

| Core Indicator | Anti Fraud Indicator | Directorate | Service | Team | Audit Activity | Risk Rating |
|----------------|----------------------|----------------------|---|---|--|-------------|
| | | Resources | Corporate | Corporate | 1. Audit Review 'Follow-Ups' | High |
| | AF | Corporate | Fraud | Corporate | 2012/13 Carry Forward - Anti Fraud & Corruption - Expenditure | High |
| | AF | Corporate | Fraud | Corporate | 2012/13 Carry Forward - Anti Fraud & Corruption - Income | High |
| | | Place | Tourism, Leisure & Culture | Heritage | 2012/13 Carry Forward - Heritage Income | High |
| | | Place | Environmental Services | Car Parking | 2012/13 Carry Forward - Parking | High |
| | | Resources | PENSIONS | PENSIONS | 2012/13 Carry Forward - Pensions Investments | High |
| | | Place | Planning & Transportation | Transportation | 2012/13 Carry Forward - Public Transport | High |
| | | People & Communities | Health Commissioning & Strategic Planning | | 2012/13 Carry Forward - SIMS Application | High |
| Core | | Resources | Corporate | Governance | AGS Review 2012/13 | High |
| Core | | Resources | Corporate | Governance | AGS Review 2013/14 | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - Bribery & Corruption | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - Expenditure | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - Income | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - NFI - 2012/13 - Data Set Co-ordination / Investigation | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - NFI - 2013/14 - Data Submission Co-ordination | High |
| | AF | Resources | Corporate | Fraud | Anti Fraud & Corruption - NFI - 2013/14 Data Set Co-ordination / Investigation | High |
| | | Resources | Corporate | Grant Certification | Grant Certification (Bus Services Operators, Local Transport Capital, RIF - Growing Places Fund) | High |
| | | Place | Environmental Services | Parking Services | Parking IT System (Contract Management) | High |
| | AF | Place | Environmental Services | Parking Services | Parking Permits | High |
| | AF | People & Communities | Adults | Adults | Personalised Budgets (incl monitoring of expenditure & co-ordination between Finance Team / Non Acute & Social Care) | High |
| Core | AF | Resources | Finance | Business, Finance & Pensions | Accounts Payable | High |
| | | Place | Planning & Transport | Planning | Development Control | High |
| Core | AF | Resources | Revenues & Benefits | Revenues & Benefits | Cash Receipting System / Civica Icon Application (incl e-pay) | High |
| | | Resources | Revenues & Benefits | Revenues & Benefits | Northgate Revenues & Benefits Application | High |
| | | Resources | Transformation | Transformation | I.T. Business Continuity and Disaster Recovery | High |
| | | Place | Planning & Transportation | Transport & Development | Park & Ride | High |
| | | Resources | Public Health | Public Health | Public Health & Clinical Commissioning Group - Statutory Responsibilities and Financial Governance | High |
| Core | AF | Resources | PENSIONS | PENSIONS | Pensions Payroll | High |
| Core | AF | Resources | Finance | Business, Finance & Pensions | Accounts Receivable | High |
| | | People & Communities | Learning & Inclusion | School Theme | Themed School Review - Risk Management | High |
| | | Resources | Finance / Project Management | Corporate Finance - Capital | Capital Expenditure | High |
| | AF | Resources | Revenues & Benefits | Revenues & Benefits | Community Care Grants / Crisis Loans | High |
| | AF | People & Communities | Learning & Inclusion | School Theme | Themed School Review - Procurement | High |
| | | People & Communities | People | People | Sirona Contract Management - Community Care Budget Management, Client Assessment & Contributions, Statutory responsibilities (monitoring & delegation) | High |
| | | Resources | Finance | Business, Finance & Pensions | Electronic Commerce (including PCIDSS) | High |
| Core | | Resources | Improvement & Performance | Payroll | PAYE & NICS (Incl new HMRC Monthly Info provision & ResourceLink Application) | High |
| | | People & Communities | Health Commissioning & Strategic Planning | Health Commissioning & Strategic Planning | Early Years Strategic Planning - Grants | High |

| | | | | | | |
|-------------------|----|----------------------|---|--|--|--------|
| | | People & Communities | Safeguarding Social Care & Family Service | Family Placement | Fostering & Adoption | High |
| | AF | People & Communities | Adults | Adults | Housing Improvement/Adaptions | High |
| | | Resources | Transformation | Transformation | IT (Software Licensing) | High |
| | | Resources | Transformation | Transformation | IT System Management and Control | High |
| | AF | Resources | Finance | Finance | Cash Collection & Banking (scope to include a general review of Council Cash Collection - Bristol CC) | High |
| | AF | People & Communities | Learning & Inclusion | School Theme | Themed School Review - Unofficial Funds | High |
| C-Cash collection | AF | Place | Environmental Services | Parking Services | Parking Income Collection | High |
| | | Resources | Finance | Business, Finance & Pensions | Insurance | High |
| | | Place | Environmental Services | Transport & Fleet Management | Passenger Support (incl Home to School Transport, Dial a Ride & Grants) | Medium |
| | AF | Place | Environmental Services | Public Protection | Licensing | Medium |
| Core -C Tax | AF | Resources | Revenues & Benefits | Revenues & Benefits | Collections, recovery, enforcements & write-offs (incl Bristow & Sutor portal) | Medium |
| | | Resources | Transformation | Transformation | IT Physical & Environmental Controls | Medium |
| | | Resources | Property Services | Property Services | Energy Management (requires input from Sustainability Team) | Medium |
| | | People & Communities | Adults | Adults | Residential & Nursing Care Payments | Medium |
| | | Place | Environmental Services | Highways | Highway Electrical & Intelligent Transport Systems, UTMC - Traffic Signal System, Mayrise Buchanan Traffic Accident Street Lighting Software | Medium |
| | | People & Communities | Adults | Adults | Connecting Families | Medium |
| | AF | Resources | Improvement & Performance | Payroll | Payroll - Additions & Deductions (Focus on Pensions Auto Enrolment) | Medium |
| | | Resources | Finance | Business, Finance & Pensions | Purchasing Card System | Medium |
| | | Resources | Regeneration & Development | Economic Enterprise & Business Development | Flood Alleviation | Medium |
| | | Place | Tourism, Leisure & Culture | Heritage | Heritage - Exhibits, Stocks & Stores | Medium |
| | | Resources | Council Solicitor | Legal | Legal Services | Medium |
| | | Place | Planning & Transport | Building Control | Building Control | Medium |
| | | Resources | Improvement & Performance | Payroll | Safer Recruitment | Medium |
| | | Place | Environmental Services | Transport & Fleet Management | Fleet Management - Vehicle Management & Maintenance (including Vehicle Procurement & leasing, MOT Trading Activity) | Medium |
| | | Place | Environmental Services | Neighbourhoods Services | Parks & Green Spaces | Medium |
| | | Resources | Finance | Corporate Finance Team | VAT | Medium |
| | | Resources | Finance | Corporate Finance Team | Leased Assets | Medium |
| | | Resources | Policy & Partnerships | Policy & Partnerships | Community Rights (Statutory Obligations) | Medium |
| | | Resources | Risk & Assurance | Information Governance | Info Gov - Transparency (access to information and management of FOI / EIR / DP Requests) | Medium |
| | | Resources | Transformation | Transformation | IT Procurement & Disposals (Hardware / Software) | Medium |
| Core | | Resources | Improvement & Performance | Payroll | Payroll - Processing, Payruns & Reconciliations | Medium |

Agenda Item 11

| Bath & North East Somerset Council | | |
|---|--|--------------------|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 20th May 2013 | AGENDA ITEM NUMBER |
| TITLE: | New Public Sector Internal Audit Standards | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 – Desktop Review of Conformance with Public Sector Internal Audit Standards. | | |

1 THE ISSUE

1.1 The Relevant Internal Audit Standards setters (including HM Treasury, Department of Health and CIPFA for Local Government) have adopted a new set of Public Sector Internal Audit Standards (PSIAS). The aim of this report is to inform the Committee about the new standards (adopted to provide a consistent framework for internal audit services across the UK public sector) and to provide the results of a desk top exercise to initially assess B&NES Council Internal Audit Service conformance with the Standards.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- 1) Note that the Council's Internal Audit Service will have to comply with the new PSIAS which came into effect from 1st April 2013.
- 2) Comment on the RAG assessment of conformance with the PSIAS (Appendix 1) and approve the action plan recorded in this report to ensure compliance with the standards.

3 FINANCIAL IMPLICATIONS

3.1 The implementation of an action plan to ensure compliance with the PSIAS will be carried out using existing resources, i.e. Internal Audit management time. Within a five year period an external assessment will be required. Initial conversations have taken place with other local Council Heads of Internal Audit and it has been agreed in principal that we will work together to complete external assessments.

4 THE REPORT

- 4.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013. They provide a consistent framework for auditors working across the different parts of the public sector and are designed to drive improvement, leading to better public financial management.
- 4.2 They are based on the Institute of Internal Auditors' International Standards, Definition of Internal Auditing and Code of Ethics, replacing the existing ones in local government (CIPFA Code of Practice for Internal Audit in Local Government, central government and the NHS).
- 4.4 A key difference for local government is the terminology. The PSIAS use the term 'Chief Audit Executive' (CAE), the description used internationally, rather than 'Chief Internal Auditor or Head of Internal Audit' more commonly used in the UK.
- 4.5 Another change is the requirement for an Internal Audit 'Charter'. This formally defines purpose, authority and responsibility of the internal audit activity as well arrangements for avoiding conflicts of interest.
- 4.6 There is a need for a risk-based plan linked to a strategic / high-level statement on how the service will be provided and developed in accordance with the charter and how this links to the organisation's objectives and priorities.
- 4.7 A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The CAE is required to include a statement on the results of the QA&IP in the annual report. The external assessment must be carried out by a qualified and independent assessor from outside the organisation. It can be a full external evaluation or a self-assessment with independent external validation.
- 4.8 An initial desk top review of the Standards has been carried out to provide an understanding of work required to comply with the Standards. The RAG assessment of conformance with the PSIAS is attached (Appendix 1).
- 4.9 This assessment has identified that in the main the service is complying with the new standards. However there are some areas of further clarification and improvement still required and the key actions are summarised below:

| No. | Action | Responsible Officer | Target Date for Completion |
|-----|---|---------------------|----------------------------|
| 1 | Consider and report upon changes to the Resources Directorate senior management structure in terms of Internal Audit's status, reporting lines and organisational independence. | DD Risk & Assurance | September 2013 |
| 2 | Carry out a fully 'evidenced' internal assessment of compliance with the new Public Sector Internal Audit Standards. | DD Risk & Assurance | September 2013 |
| 3 | Agree the timing and provider for the external assessment process as required by the Quality Assurance and Improvement Programme. | DD Risk & Assurance | April 2014 |

| | | | |
|---|---|------------------------------|----------------|
| 4 | Review and update the current Internal Audit Terms of Reference and formally adopt a new Council Internal Audit Charter. | Group Manager (Audit & Risk) | September 2013 |
| 5 | Formalise systems and communicate the need for Audit staff to declare 'interests' at individual auditor and engagement level. | Group Manager (Audit & Risk) | September 2013 |
| 6 | Verify maintenance of Auditors Continued Professional Development Logs. | Group Manager (Audit & Risk) | September 2013 |

5. RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance. No significant issues to report for the Committee.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7. CONSULTATION

7.1 A copy of this report was presented to the S151 Officer and Monitoring Officer for comment.

| | |
|--|---|
| Contact person | Andy Cox (01225 477316) Jeff Wring (01225 477323) |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

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RAG Assessment of Conformance with the Public Sector Internal Audit Standards

| | Standards Reference | R | A | G | Commentary |
|---------|--|---|---|-------------------------------------|---------------|
| 1 | Ethics | | | G | Green Overall |
| Page 38 | <p>Integrity Internal Auditors:</p> <p>a) Perform their work with honesty, diligence and responsibility?</p> <p>b) Observe the law and make disclosures expected by the law and the profession?</p> <p>c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation?</p> <p>d) Respect and contribute to the legitimate and ethical objectives of the organisation?</p> | | | <p>G</p> <p>G</p> <p>G</p> <p>G</p> | |

| Standards Reference | R | A | G | Commentary |
|--|---|---|----------------------------|------------|
| <p>Objectivity</p> <p>Internal Auditors display objectivity by not:</p> <p>a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?</p> <p>b) Accepting anything that may impair or be presumed to impair their professional judgement?</p> <p>c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?</p> | | | <p>G</p> <p>G</p> <p>G</p> | |
| <p>Confidentiality</p> <p>Internal Auditors display objectivity by:</p> <p>a) Acting prudently when using information acquired in the course of their duties and protecting that information?</p> <p>b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?</p> | | | <p>G</p> <p>G</p> | |

| Standards Reference | R | A | G | Commentary |
|--|---|---|-------------------|--|
| <p>Competency</p> <p>Internal Auditors display objectivity by:</p> <p>a) Only carrying out services for which they have the necessary knowledge, skills and experience?</p> <p>b) Performing services in accordance with the PSIAS?</p> | | | <p>G</p> <p>G</p> | |
| <p>c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?</p> | | A | | <p>Use Performance Development Review (Appraisal) process to confirm maintenance of CPD Logs (include the completion of 'Training Log' to be completed by all Audit & Risk staff).</p> |
| <p>1000 Purpose, Authority and Responsibility</p> | | | G | <p>Green Overall</p> |
| <p>Content and maintenance of an Internal Audit Charter</p> | | A | | <p>The current Internal Audit Terms of Reference requires a refresh to ensure full compliance with the Standards. This includes:</p> <ol style="list-style-type: none"> 1) Defining the terms 'Board' (Corporate Audit Committee) and 'Senior Management' for purposes of internal audit activity. 2) Establish the Chief Audit Executive's (CAE) functional reporting relationship with the Corporate Audit Committee (CAC). 3) Establish the responsibility of the CAC and Statutory Officers with regards to internal audit. 4) Identify internal audit's contribution to the review of the effectiveness of the control environment. 5) Establish the organisational independence of internal audit. Especially in light of the current proposed restructuring of the Resources Directorate. 6) Cover the arrangements for appropriate resourcing. This has to take into account the reduction of internal audit personnel over the last three years and whether the service can now provide 'reasonable' assurance due to the reduced capacity of the team to review Council activities. 7) Recording arrangements to avoid conflict of interest if undertaking non audit activities. 8) Define assurance services provided internally and to external parties, i.e. Academies. |

| Standards Reference | | R | A | G | Commentary |
|---------------------|--|---|---|---|---|
| | | | | | 9) Define nature of consulting services. 10) Recognise the mandatory nature of the PSIAS. |
| 3 | 1100 Independence & Objectivity | | A | | Amber Overall See detail below. Plus a need to put in place processes to ensure individual internal auditors can and will declare 'one-off' and 'on-going' potential conflicts of interest, e.g. a friendship or family relationship with individual(s) subject to an Audit Review or Investigation. |
| | <i>1110 Organisational Independence</i> | R | | | |
| Page 41 | CAE reporting to an organisational level equal or higher to the corporate management team enabling internal audit to fulfil its responsibilities (independence & objectivity). | R | | | The proposed restructure of the Resources Directorate indicating that the CAE will report to a Divisional Director Finance who will have a portfolio of service responsibilities. |
| | CAE confirms to the board, at least annually, that the internal audit activity is organisationally independent. | | A | | The CAE needs to obtain the CAC approval of the internal audit budget and resource plan. The CAC should be required as part of its Terms of Reference to approve decisions related to the appointment and removal of the CAE. |
| | The Chief Executive to undertake, countersign, contribute feedback to or review the performance appraisal of the CAE | R | | | |
| | Chair of CAC to provide feedback on the CAE's performance appraisal | R | | | |
| | <i>1111 Direct Interaction with the Board</i> | | | G | |
| | <i>1120 Individual Objectivity</i> | | | G | |

| | Standards Reference | R | A | G | Commentary |
|----------|---|---|---|---|--|
| | <i>1130 Impairment to Independence or Objectivity</i> | | A | | The CAE currently also has operational responsibility for Procurement, Information Governance and Business Continuity & Emergency Planning Teams. |
| 4 | 1200 Proficiency and Due Professional Care | | | G | Green Overall |
| | <i>1210 Proficiency</i> | | A | | Further consideration needed of use of computer assisted audit techniques including data analysis |
| | <i>1220 Due Professional Care</i> | | | G | |
| | <i>1230 Continuing Professional Development</i> | | | G | |
| 5 | 1300 Quality Assurance and Improvement Programme | | A | | Amber Overall. |
| | <i>1310 Requirements of the Quality Assurance and Improvement Programme</i> | R | | | Based on adoption of the new Standards wef 1 st April there is a need to develop a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated. It will need to be maintained by the CAE and assess efficiency / effectiveness and opportunities for improvement. |
| | <i>1311 Internal Assessments</i> | | | G | |
| | <i>1312 External Assessments</i> | | | G | Based on requirements of PSIAS external assessment every 5 years will be introduced. |
| | <i>1320 Reporting on the Quality Assurance and Improvement Programme</i> | | | G | As above |
| | <i>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</i> | | | G | As above |

| | Standards Reference | R | A | G | Commentary |
|---------|--|---|---|---|---|
| | <i>1322 Disclosure of Non-conformance</i> | | | G | As above |
| 6 | Performance Standards | | | | |
| | 2000 Managing the Internal Audit Activity | | | G | Green Overall |
| | <i>2010 Planning</i> | | | G | |
| | <i>2020 Communication and Approval</i> | | | G | Need for CAE to communicate any significant interim changes to the plan and/or resource requirements to senior management and the CAC for review and approval. |
| | <i>2030 Resource Management</i> | | | G | |
| Page 43 | <i>2040 Policies and Procedures</i> | | A | | Need to compile a documented Audit Manual to formally guide internal audit activity. |
| | <i>2050 Coordination</i> | | | G | |
| | <i>2060 Reporting to Senior Management and the Board</i> | | A | | Need to report periodically to CAC and senior management (as agreed) about significant risk exposures and control issues, including fraud risks, and governance issues. In addition to any other matters needed or requested. |
| | <i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i> | | | | N/A – Service provided by In-house Service |
| | Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation? | | | | |

| Standards Reference | R | A | G | Commentary |
|--|---|---|---|---|
| 2100 Nature of Work | | | G | Green Overall |
| <i>2110 Governance</i> | | | G | Consider new IT Strategy – IT Governance supports Council’s objectives and that this is considered when developing the risk based audit plan. |
| <i>2120 Risk Management</i> | | | G | |
| <i>2130 Control</i> | | | G | |
| 2200 Engagement Planning | | | G | Green Overall |
| <i>2210 Engagement Objectives</i> | | A | | Need to consider formalising (documenting) the engagement preliminary risk assessment of the activity under review to verify that the objectives of the audit are correctly focussed. This will include ascertaining whether or not adequate criteria to evaluate accomplishment of objectives have been agreed and are in use. E.g. VFM criteria used – have resources such as money, people, assets been considered. |
| <i>2220 Engagement Scope</i> | | | G | |
| <i>2230 Engagement Resource Allocation</i> | | | G | |
| <i>2240 Engagement Work Programme</i> | | | G | |
| 2300 Performing the Engagement | | | G | Green Overall |
| <i>2310 Identifying Information</i> | | | G | |

| | Standards Reference | R | A | G | Commentary |
|---------|---|---|---|---|--|
| | <i>2320 Analysis and Evaluation</i> | | | G | |
| | <i>2330 Documenting Information</i> | | | G | |
| | <i>2340 Engagement Supervision</i> | | A | | New system recently introduced to evidence adequacy of Supervision & Review by Audit Team Leaders. |
| | 2400 Communicating Results | | | G | Green Overall |
| | <i>2410 Criteria for Communicating</i> | | | G | |
| | <i>2420 Quality of Communications</i> | | | G | |
| Page 45 | <i>2421 Errors and Omissions</i> | | | | N/A – Haven't experienced a significant error or omission in a 'final communication'. |
| | <i>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</i> | | A | | Compliance review of PSIAS has only just commenced following the Standards adoption with effect from 1 st April 2013. |
| | <i>2431 Engagement Disclosure of Non-conformance</i> | | A | | As above |
| | <i>2440 Disseminating Results</i> | | | G | |
| | <i>2450 Overall Opinion</i> | | | G | |
| | 2500 Monitoring Progress | | | G | Green Overall Based on Standards and 2012/13 Performance Indicators revising the 'Assurance Level' (Internal Audit Opinion) in relation to poor implementation of audit recommendations at 'Follow-Up' will be considered. |
| | 2600 Communicating the Acceptance of Risks | | | G | Green Overall We have not had an occasion when the CAE has concluded that management |

| Standards Reference | R | A | G | Commentary |
|---------------------|---|---|---|--|
| | | | | have accepted a level of risk considered as unacceptable to the Council. |

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Agenda Item 12

| Bath & North East Somerset Council | | |
|--|---------------------------------|--------------------|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 20th May 2013 | AGENDA ITEM NUMBER |
| TITLE: | Annual Governance Review Update | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 – Annual Governance Review – Outline of Framework. | | |
| Appendix 2 – Draft List of Issues - 2012/13 – (To be distributed at Committee Meeting) | | |

1 THE ISSUE

1.1 The aim of the report is to update the Committee on the Annual Governance Review and allow the Committee to contribute to the process which will result in the publication of the Council's Annual Governance Statement 2012/13.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to comment on the 'long list' of issues being considered for inclusion in the Annual Governance Statement 2012/13.

3 FINANCIAL IMPLICATIONS

3.1 A robust review of the Council's internal control and governance framework and the subsequent implementation of action plans form an essential part of the financial management framework.

4 THE REPORT

4.1 In 2007/2008 the Council revised its Code of Governance and its methodology for producing an Annual Governance Statement based on the Accounts & Audit Regulations and the CIPFA / SOLACE 'Delivering Good Governance in Local Government'.

4.2 The methodology requires:-

- The involvement of all Divisional Directors
- The use of Service Specialists to review evidence with relation to :-
 - Finance
 - Strategic Performance
 - Corporate Communications
 - Information Governance
 - Human Resources
 - Health & Safety
 - Environmental Impact & Sustainability
 - Equalities & Diversity
 - Safeguarding
 - Procurement

4.3 The review of governance covers all significant corporate systems, processes and controls, spanning the whole range of Council activities, including in particular those designed to ensure:

- Council policies are implemented;
- Quality services are delivered efficiently and effectively;
- Council's values and ethical standards are met;
- Compliance with laws and regulations;
- Financial statements and other published performance information are accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively.

4.4 A draft 'long list' of issues is being prepared based on evidence collected and assessed as part of the review process and will be available for Members at the time of the meeting.

4.5 The consultation process for deciding which issues should be included on the Statement begins with this report and will also include senior management and the Cabinet.

4.6 The Annual Governance Statement is a 'management' statement and as such is signed by the Chief Executive and Leader of the Council.

4.7 In deciding which issues are 'significant' Councils are required to exercise sound judgement and guidance is limited to that provided by the Chartered Institute of Financial Accounts (CIPFA) as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose.
- The 'Head of Internal Audit' has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

4.8 Work on the governance review will continue following this Committee meeting. Key milestones in finalising the Annual Governance Statement are:

- 1) Report to Senior Management Team (June 2013).
- 2) Chief Executive & Leader of the Council sign the Statement (30th June 2013).

4.9 The implementation of Annual Governance Statement actions will be monitored by the Corporate Audit Committee.

5. RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance. No significant issues to report for the Committee.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7. CONSULTATION

7.1 A copy of this report was presented to the Executive Member for Resources and Strategic Director Resources & Support Services for comment

8. ADVICE SOUGHT

8.1 The Council's Section 151 Officer (Strategic Director - Support Services) has had the opportunity to input to this report.

| | |
|--|---|
| Contact person | Andy Cox (01225 477316) Jeff Wring (01225 477323) |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

Annual Governance Statement
(Chief Executive & Leader of the Council)

**Consultation with
Officers, Cabinet &
Corporate Audit
Committee**

**Review Issues and
Examine Supporting
Evidence**

**Service Assurance
Statements**
(Audit & Risk Manager)

**Consultation with
Officers & Corporate
Audit Committee**

**Co-ordinate Draft
AGS**
(Audit & Risk
Manager)

Risk & Assurance Services
(Internal Review)

Internal Audit Reviews
Fraud & Special Investigations
Information Governance Reviews
Corporate Governance Work
National Fraud Initiative
Risk Management Work
Business Continuity Work
Procurement Work

**Senior Management
Assurance**
(2nd Tier Officers)

Financial Management
HR Management
Performance Management
Risk Management
Procurement Management
H&S / Equalities
Sustainability
Public Interest

**Performance
Management &
Improvement &
Performance)**

Directorate Business
Reviews
National & Local KPI's
Corporate Performance
Reporting
Organisational Health

**External Review
Assurance**
(e.g. External Audit &
Other Inspectorates)

External Audit
Governance Report
Peer Review
Inspection Reports
Information
Commissioner
CQC
OFSTED

**Other Sources of
Assurance**

Scrutiny Committees
Regulatory Council
Committees
Ombudsman Reports
Statutory Officer
Assurance Statements
Officer Groups
Complaints

Corporate Management - Internal Control Environment

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Agenda Item 13

| Bath & North East Somerset Council | | |
|---|--|---|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 20th May 2013 | AGENDA ITEM NUMBER |
| TITLE: | External Audit Plans – Council & Pension Fund | EXECUTIVE FORWARD PLAN REFERENCE: E |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 – Audit Plan – Bath & North East Somerset Council | | |
| Appendix 2 – Audit Plan – Avon Pension Fund | | |

1 THE ISSUE

1.1 The External Auditor is presenting their plans for the audit of the accounts of both the Council and Avon Pension Fund for the year ending 2012/13.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to –

- a) Approve the External Audit Plan for the Council for the year ended 2012/13
- b) Approve the External Audit Plan for the Avon Pension Fund for the year ended 2012/13

3 FINANCIAL IMPLICATIONS

3.1 The financial implications as a result of this report are primarily related to the fees for the external audit of the Council and Pension Fund. The reduction in fees has previously been reported to the Committee and are noted again below.

4 THE REPORT

4.1 The purpose of each of the reports attached is as follows –

- a) Appendix 1 – External Audit Plan for the Council 2012/13 – This document sets out the work which Grant Thornton wish to carry out for the 2012/13 audit and which will cost the Council £164,039 for the accounts, £24,550 in relation to

grant certification and £5,200 for the Audit of the Regional Growth Fund government return. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on their work and key dates for the completion of its work. The Committee is asked to approve the plan.

- b) Appendix 2 – External Audit Plan for the Avon Pension Fund 2012/13 - This document sets out the work which Grant Thornton wish to carry out for the 2012/13 audit and which will cost the Avon Pension Fund £28,804. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on their work and key dates for the completion of its work. The Pension Fund Committee will also review the plan but the Audit Committee is charged with its governance and is asked to approve the plan.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

- 7.1 Consultation has been carried out with the Section 151 Finance Officer.

| | |
|--|--------------------------|
| Contact person | Jeff Wring (01225 47323) |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |



The Audit Plan for Bath and North East Somerset Council

Year ended 31 March 2013

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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 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 the Council 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.

Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial management

- The Council faces significant pressure on its finances and has introduced detailed savings as part of its medium term service resource plans. At the same time, the Council is seeking to invest in social care and school buildings linked to its Corporate objective of promoting independence and positive lives.

2. Economic development

- Over £81.5 million has been budgeted for economic regeneration including town centre redevelopment and improvement in highways and transport infrastructure. In addition the Regional Growth Fund should enable further investment locally to promote economic development.

3. Working with communities and partners

- The Council is working with Partners such as Sirona, the Community Interest Company, and the Primary Care Trust during a period of change in the NHS to provide health and social care. A key change being the creation of Clinical Commissioning Groups. In addition, the Council is seeking to build capacity with community groups to improve the quality of life in neighbourhoods.

4. Academies

- The Council are supporting the transfer of schools to academy status. In the medium term this will impact on the operation of the local education authority.

Our response

- Linked to our work to form a conclusion on your arrangements to ensure value for money and financial resilience, we will review the Council's processes for developing savings and financial plans.

- Through our meetings with officers we will monitor progress and continue to review arrangements for managing the projects.

- We will continue to review joint working and the management of the Sirona contract. As part of our work to support the value for money conclusion we will meet officers and discuss progress with engagement with partners.

- We will review the accounting entries arising from schools becoming academy and through meetings with officers monitor the impact on the operation of the Council.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

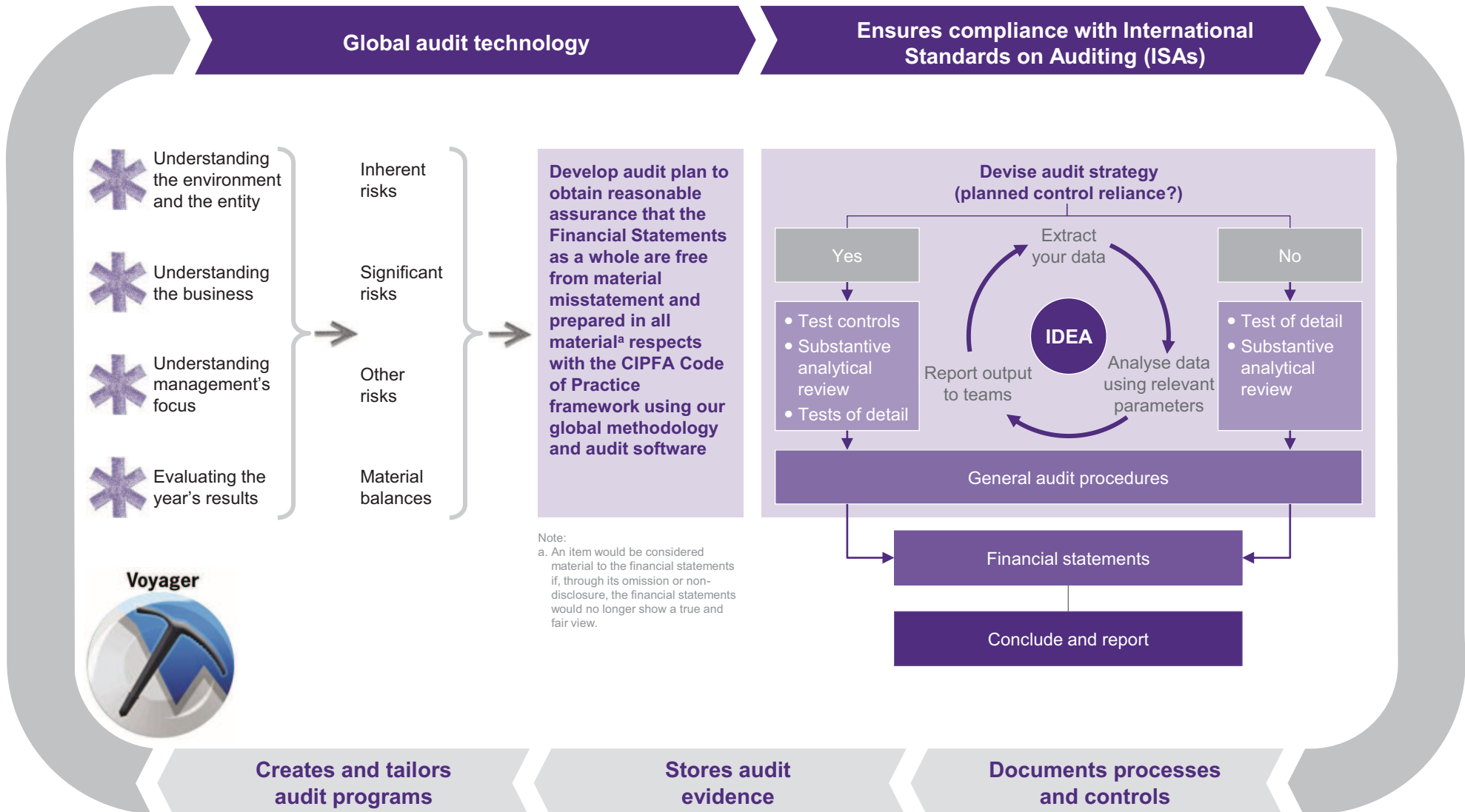
Developments and other requirements

| | | | | | |
|---|---|---|---|--|---|
| <p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Transfer of assets to Academies • Recognition of grant conditions and income | <p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 | <p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword | <p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the financial impact of changes, due to take effect in 2014, to the Local Government pension Scheme (LGPS) | <p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans | <p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required |
|---|---|---|---|--|---|

Our response

| | | | | | |
|--|---|--|--|--|---|
| <p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard | <ul style="list-style-type: none"> • We will discuss the impact of the financial settlement and legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate | <ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge | <ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the changes through our meetings with senior management | <ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion | <ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements |
|--|---|--|--|--|---|

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

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| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-------------------------------|---------------|-----------------------------|---|----------------------|
| Cost of services - operating expenses | Yes | Operating expenses | Medium | None | | ✓ |
| Cost of services – employee remuneration | Yes | Employee remuneration | Medium | Other | Payroll tax obligations understated. Employee remuneration accruals understated. | ✓ |
| Costs of services – Housing & council tax benefit | Yes | Welfare expenditure | Medium | Other | Welfare benefits improperly computed | ✓ |
| Cost of services – other revenues (fees & charges) | Yes | Other revenues | Low | None | | ✓ |
| (Gains)/ Loss on disposal of non current assets | Yes | Property, Plant and Equipment | Low | None | | ✓ |
| Precepts and Levies | Yes | Council Tax | Low | None | | ✓ |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|---------------------|----------------------|
| Interest payable and similar charges | Yes | Borrowings | Low | None | | ✓ |
| Pension Interest cost | Yes | Employee remuneration | Low | None | | ✓ |
| Interest & investment income | No | Investments | Low | None | | × |
| Return on Pension assets | Yes | Employee remuneration | Low | None | | ✓ |
| Impairment of investments | No | Investments | Low | None | | × |
| Investment properties: Income expenditure, valuation, changes & gain on disposal | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Income from council tax | Yes | Council Tax | Low | None | | ✓ |
| NNDR Distribution | Yes | NNDR | Low | None | | ✓ |
| PFI revenue support grant & other Government grants | Yes | Grant Income ⁹ | Low | None | | ✓ |
| Capital grants & Contributions (including those received in advance) | Yes | Property, Plant & Equipment | Low | None | | ✓ |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|--------------------------------------|----------------------|
| (Surplus)/ Deficit on revaluation of non current assets | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Yes | Employee remuneration | Low | None | | ✓ |
| Other comprehensive (gains)/ Losses | No | Revenue/ Operating expenses | Low | None | | × |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Medium | Other | PPE activity not valid | ✓ |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Medium | Other | Revaluation measurements not correct | ✓ |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Heritage assets & Investment property | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Intangible assets | No | Intangible assets | Low | None | | × |
| Investments (long & short term) | Yes | Investments | Low | None | | ✓ |
| Debtors (long & short term) | Yes | Revenue | Low | None | | ✓ |
| Assets held for sale | No | Property, Plant & Equipment | Low | None | | × |
| Inventories | No | Inventories | Low | None | | × |
| Cash & cash Equivalents | Yes | Bank & Cash | Low | None | | ✓ |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--------------------------------|---|-----------------------|---------------|-----------------------------|---|----------------------|
| Borrowing (long & short term) | Yes | Debt | Low | None | | ✓ |
| Creditors (long & Short term) | Yes | Operating Expenses | Medium | Other | Creditors understated or not recorded in the correct period | ✓ |
| Provisions (long & short term) | Yes | Provision | Low | None | | ✓ |
| Pension liability | Yes | Employee remuneration | Low | None | | ✓ |
| Reserves | Yes | Equity | Low | None | | ✓ |

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|--|--|---|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | Further work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Performance of attribute testing on material revenue streams |
| Management over-ride of controls | Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. | Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Work completed to date | Further work planned |
|---------------------------------|--|---|--|
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls | <ul style="list-style-type: none"> Controls testing including: <ul style="list-style-type: none"> Testing of the reconciliation process within the operating expenses system Substantive testing including: <ul style="list-style-type: none"> Review of payments to ensure that they are allocated to the correct year and correctly recognised |
| Employee remuneration | Payroll tax obligations understated Employee remuneration accruals understated. | <ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls | <ul style="list-style-type: none"> Substantive testing including: <ul style="list-style-type: none"> Testing a sample of payments back to prime records e.g. contracts |
| Welfare Expenditure | Welfare benefits improperly computed | <ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls | <ul style="list-style-type: none"> Substantive testing including: <ul style="list-style-type: none"> Testing a sample of payments back to prime records Completing analytical review procedures |
| Property, Plant & Equipment | PPE activity not valid | <ul style="list-style-type: none"> Documentation of accounting system processes Substantive testing to prove existence and ownership rights of significant assets | <ul style="list-style-type: none"> Identifying, and walkthrough of, activities-level controls, this is a year end process Substantive testing including: <ul style="list-style-type: none"> Comparison of actual expenditure against plan |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Work completed to date | Further work planned |
|---------------------------------|-------------------------------------|--|--|
| Property, Plant & Equipment | Revaluation measurement not correct | <ul style="list-style-type: none"> • Documentation of accounting system processes | <ul style="list-style-type: none"> • Identifying, and walkthrough of, activities-level controls, this is a year end process. • Substantive testing including: <ul style="list-style-type: none"> • Reviewing revaluation report • Ensuring all assets have been revalued • Agreeing the accounting treatment of the revaluations |

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls
- Completed initial work around the Value for Money Conclusion

| | Work performed | Conclusion/ Summary |
|-----------------------------------|--|---|
| Internal audit | We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate. | Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Council. We are using the work of internal audit to inform our approach. |
| Walkthrough testing | Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. The Plant Property and Equipment (PPE) walkthrough is incomplete as the information has not yet been loaded onto the fixed asset register. | No significant issues were noted . There was a control failure noted in the housing benefit and council tax system. This has been noted at the end of this report. Subject to the completion of the PPE system all other identified in-year internal controls were observed to have been implemented in accordance with our documented understanding. |
| Value for Money Conclusion | We have had meetings with a number of officers across the Council. | No issues have been identified to date. We will form an opinion on the VFM conclusion once the work has been completed. |

Results of interim audit work (continued)

| | Work performed | Conclusion/ Summary |
|--|---|--|
| Review of information technology controls | Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. | We will form an opinion once the work has been completed |
| Journal entry controls | We have reviewed the Council's overall policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. | We have not identified any material weaknesses that are likely to adversely impact on the Council's control environment or financial statements. Detailed testing of journals will be undertaken during our final accounts audit. |

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to the Corporate Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Review the Council's processes for developing savings and financial plans
- Monitor progress with economic development projects.
- Review joint working.
- Monitor the impact of schools becoming academies.
- Discuss any findings with senior management.

Logistics and our team

The audit cycle



| Date | Activity |
|-----------------------------|--|
| November 2012 | Planning meeting |
| December 2012 to March 2013 | Interim site work |
| May 2013 | The audit plan presented to Corporate Audit Committee |
| July 2013 | Year end fieldwork commences |
| August 2013 | Audit findings clearance meeting |
| September 2013 | Corporate Audit Committee meeting to report our findings |
| September 2013 | Sign financial statements and VfM conclusion |
| September 2013 | Issue Annual Audit Letter |

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Our team

| | |
|---|---|
| <p>Barrie Morris Engagement Lead T 0117 305 7708 M 0777 197 6684 E Barrie.Morris@uk.gt.com</p> | <p>Chris Hackett Audit Manager T 0117 305 7876 M 0788 045 6130 E Chris.I.Hackett@uk.gt.com</p> |
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| <p>Barbara Craig IT Audit Business Risk Services T 0117 305 7663 E Barbara.L.Craig@uk.gt.com</p> | |

Fees and independence

| Fees | 2012/13 | 2011/12 |
|---------------------|----------------|----------------|
| | £ | £ |
| Council audit | 164,039 | 273,398 |
| Grant certification | 24,550 | 46,158 |
| Total | 188,589 | 319,556 |

Fees for other services

| Service | Fees 2012/13 to date £ |
|---|---------------------------|
| Audit of Regional Growth Fund Government return (non audit commission grant certification new in 2012/13) | 5,200 |
| In 2012/13 we invoiced £15,950 relating to a contract agreed in 2011/12 | |

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Action plan

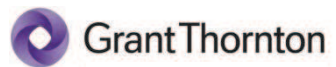
Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|--|---|
| 1 | <p>A control failure was observed during the walkthrough of the Housing Benefit and Council Tax system.</p> <p>For all new claims for benefits where they are made in person by a claimant visiting the office, HB assessors review supporting information. The benefits team leader would do a secondary check of the claim to supporting documentation. This process has ceased since December 2012.</p> <p>We recommend reinstating the control for the 2013/14 financial year.</p> | Medium | <p>From December 2012, Customer Services were unable to access 'cap charts', necessary to collate information regarding new claims. This was because the necessary software licence had lapsed. This issue has been addressed.</p> | <p>This control has been reinstated from 2013-14 and has recommenced.</p> |



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The Audit Plan for Avon Pension Scheme

Year ended 31 March 2013

15th April 2013

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Stephen Malyn

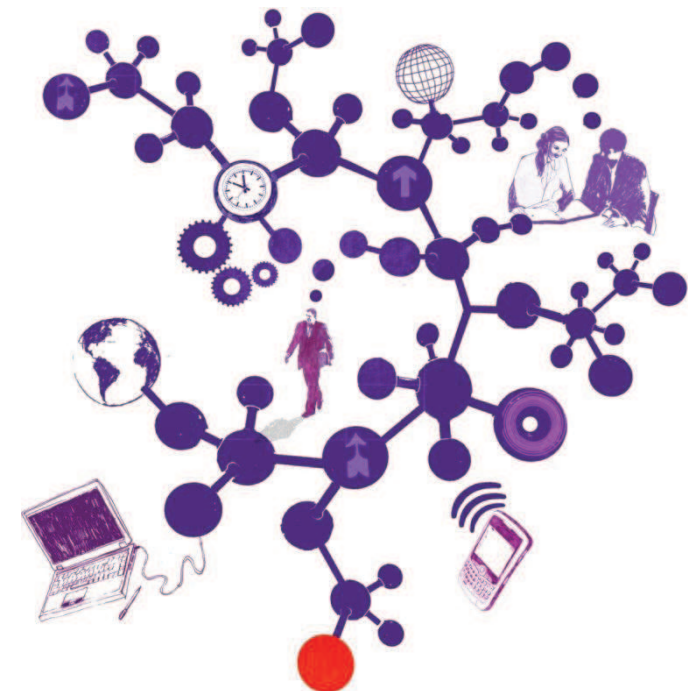
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council 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.

Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Logistics and our team
9. Fees and independence
10. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

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Challenges/opportunities

1. Financial Pressures – Pension fund

- Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.



2. Local Government Pension Scheme (LGPS) 2014

- Planning for the impact of the implementation of the changes to the LGPS from 1st April 2014, including the introduction of career average re-valued earnings scheme (CARE) and the option for members to pay 50% of normal contributions for a reduced 50% pension.



3. Increasing number of member bodies

- The growth in the number of academy schools and the continuing outsourcing of functions by existing member bodies is continuing to increase the number of member bodies. This requires officers to administer and value transfers between admitted bodies.



Our response

- We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review arrangements for setting up new bodies.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- Chartered Institute of Public Finance Accountancy (CIPFA) publication of a revised set of example accounts for pension funds in 2013. Additional disclosures are required including comparative data. Further disclosures may be required around processes for dealing with conflicts of interest.

3. Financial Pressures – scheduled and admitted bodies

- Managing pensions administration where contributing bodies are restructuring for example offering early retirement and redundancies. These changes place additional workload on the pension fund admin team.

5. Triennial valuation

- Demands on pension funds' staff time in terms of administrating the information to pass to the actuary and regular dialogue with the actuary.

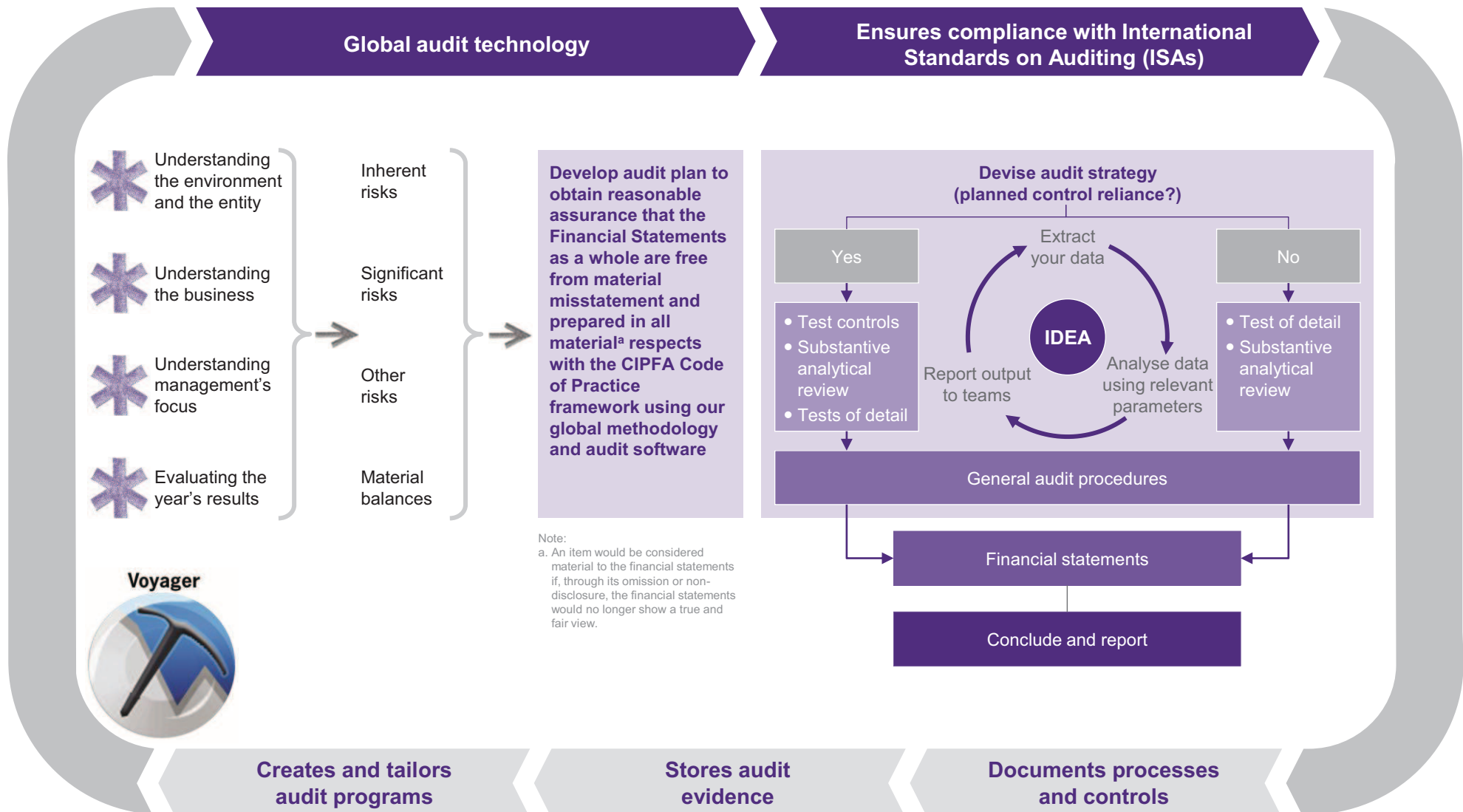
Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our testing.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

| | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Planned control reliance? | Substantive testing? |
|---------------------------------------|---|----------------------------|---------------|-----------------------------|---|---------------------------|----------------------|
| Contributions receivable | Yes | Scheme Contributions | Medium | Other | Recorded contributions not correct | Yes | ✓ |
| Transfers in | Yes | Transfers in to the scheme | Low | None | | No | ✓ If material |
| Pensions payable | Yes | Benefit payments | Medium | Other | Benefits improperly computed/claims liability understated | Yes | ✓ |
| Payments to and on account of leavers | Yes | Benefit payments | Low | None | | No | ✓ If material |
| Administrative expenses | No | Administrative expenses | Low | None | | No | X |
| Investment income | Yes | Investments | Medium | Other | Investment activity not valid | No | ✓ |

An audit focused on risks (continued)

| | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Planned controls assurance? | Substantive testing? |
|--|---|--|---------------|-----------------------------|---|-----------------------------|----------------------|
| Profit and loss on disposal of investments and changes in value of investments | Yes | Investments | Medium | Other | Investment activity not valid | No | ✓ |
| Taxes on income | No | Investments | Low | None | | No | × |
| Investment management expenses | No | Investments | Low | None | | No | X |
| Investments | Yes | Investments | Medium | Other | Investments not valid Fair value measurement not correct | No | ✓ |
| Current assets | No | Scheme Contributions, investments and cash | Low | None | | No | X |
| Current liabilities | No | Benefit payments, investments | Low | None | | No | x |

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

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| Significant risk | Description | Substantive audit procedures |
|---|---|---|
| Revenue | Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Avon Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue. | <p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Avon Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the pension fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. |
| Management over-ride of controls | Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. | <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Planned audit procedure |
|--|--|---|
| <p>Investment Income</p> <p>Profit and loss on disposal of investments and changes in the value of investments</p> | <p>Investments not valid</p> <p>Investments activity not valid</p> <p>Fair value measurement not correct</p> | <p>We will review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances.</p> <p>We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation.</p> <p>We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.</p> |
| Pensions payable | Benefits improperly computed / claims liability understated | <p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Avon Pension Fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p> <p>The movements on membership statistics will also be compared to transactions in the accounting records</p> |
| Contributions receivable | Recorded contributions not correct | <p>We will test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies.</p> <p>We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</p> <p>We will liaise with the auditors of a sample of admitted bodies to confirm deductions are correctly made on their respective payroll systems.</p> |

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

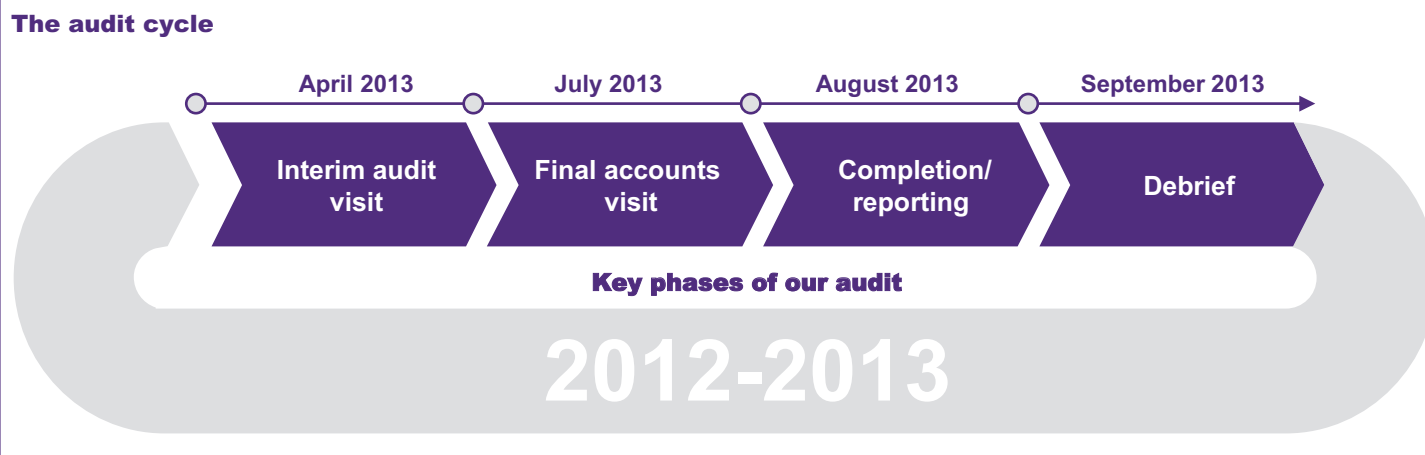
- the effectiveness of the internal audit function
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- review of journals

| | Work performed | Conclusion/ Summary |
|----------------------------|---|---|
| Internal audit | We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate. | Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council including the Pension Fund and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Pension Fund. |
| Walkthrough testing | Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. | No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding. |

Results of interim audit work (continued)

| | Work performed | Conclusion/ Summary |
|-------------------------------|---|----------------------------|
| Journal entry controls | We have reviewed the Pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension fund's control environment or financial statements. | Our testing is on-going. |

Logistics and our team



| Date | Activity |
|----------------|---|
| December 2012 | Planning meeting |
| April 2013 | Interim site work |
| May 2013 | The audit plan presented to Corporate Audit Committee |
| June 2013 | The audit plan presented to the Pensions Committee |
| July 2013 | Year end fieldwork commences |
| August 2013 | Audit findings clearance meeting |
| September 2013 | Pensions Committee meeting to report our findings |
| September 2013 | Corporate Audit Committee meeting to report our findings |
| September 2013 | Issue opinion of the financial statements and annual report |

Our team

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Fees and independence

Fees

| | 2011/12 fee £ | 2012/13 fee £ |
|--------------------|------------------|------------------|
| Pension fund audit | 46,622 | 28,804 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management / those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|--------------------------------------|
| | None identified at end of interim visit | | | |
| | | | | |



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Agenda Item 14

| Bath & North East Somerset Council | | |
|--|----------------------------------|---|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 20th May 2013 | AGENDA ITEM NUMBER |
| TITLE: | External Audit Update | EXECUTIVE FORWARD PLAN REFERENCE: E |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Appendix 1 – External Audit Update Report for Audit Committee | | |

1 THE ISSUE

- 1.1 The External Auditor will update the Committee on a range of issues affecting the Councils audit work (Appendix 1).

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the update from the External Auditor and the findings from Appendix 1.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications as a result of this report.

4 THE REPORT

- 4.1 The purpose of the report attached at Appendix 1 is to provide the Corporate Audit Committee with a commentary on progress in delivering the external auditors responsibilities. Additional matters include –
- a) Local government accounts timetable
 - b) UK Public Sector Internal Audit Standards
 - c) Local Government Governance Report
 - d) Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013
 - e) Guidance on local authority charging for health activity
 - f) New funding reforms for care and support

4.2 The External Auditor will provide a verbal briefing on these areas at the meeting.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

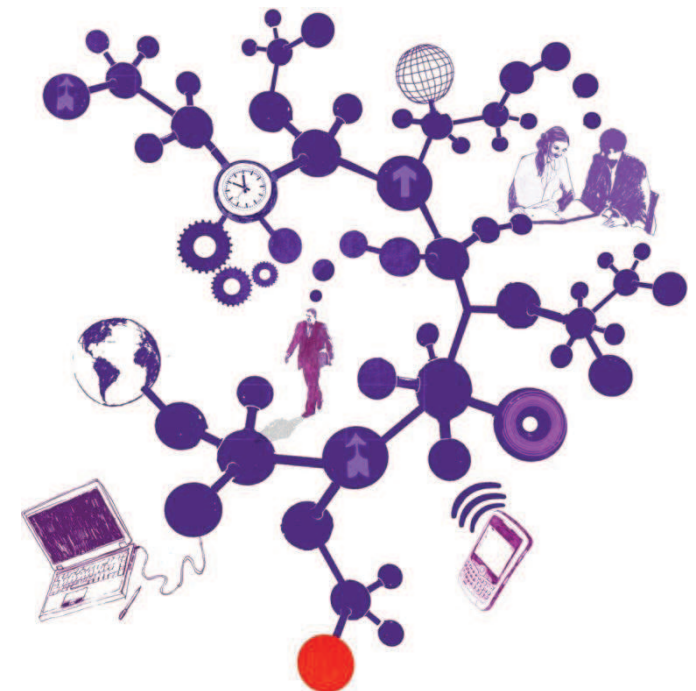
| | |
|--|--------------------------|
| Contact person | Jeff Wring (01225 47323) |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |

Audit Committee Update for Bath & North East Somerset Council

May 2013

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

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Introduction

This paper provides the Corporate Audit 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 unitary council.

Members of the Corporate Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Towards a tipping point?', 'The migration of public services', 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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 Audit Manager.

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Progress at May 2013

| Work | Planned date | Complete? | Comments |
|--|------------------------|-----------|---|
| <p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p> | May 2013 | Yes | Two plans have been issued, one for the audit of the Council and one for the audit of Avon Pension Fund. Both Plans were Issued to officers in April and to the Corporate Audit Committee in May 2013. The Pension Fund Audit Plan will be presented to the next Pension Fund Committee which is in June. |
| <p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council and Pension Fund's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Initial work to support the Value for Money conclusion. | December to April 2013 | Yes | Certain work of necessity has to be left until our visit in the summer to ensure we obtain assurance covering the whole year of audit. |
| <p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the accounts • proposed Value for Money conclusion. | September 2013 | | We have agreed working papers with officers and the timing of our visit. |

Progress at May 2013

| Work | Planned date | Complete? | Comments |
|--|----------------|-----------|--|
| <p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises:</p> <ul style="list-style-type: none"> - Review of the Council's processes for developing savings and financial plans - Monitoring progress with economic development projects - Review of joint working - Monitoring the impact of schools becoming academies | September 2013 | | We have completed approximately half the work in our programme. We are on track to complete our work in advance of the September deadline. |

Emerging issues and developments

Accounting and audit issues

Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
 - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
 - members approve the statement of accounts
 - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

Emerging issues and developments

Accounting and audit issues

UK Public Sector Internal Audit Standards

From 1 April 2013, the UK Public Sector Internal Audit Standards (PSIAS) are to be used throughout the public sector. The PSIAS are based on existing International Standards for Internal Audit, but have been adapted for use in the public sector.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The key changes are:

- the term 'chief audit executive' is used rather than 'head of internal audit' or 'chief internal auditor'.
- the requirement for an internal audit charter. This must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- there is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.

Emerging issues and developments

Grant Thornton

Local Government Governance report

In February, we published '[Local Government Governance Review 2013](#)', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

Grant Thornton can provide you with a bespoke, bench-marked governance review. If you have any queries on governance, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013

The [Local Authorities \(Health and Wellbeing Boards and Health Scrutiny\) Regulations 2013](#) have now been published by the Secretary of State for Health. The regulations will allow local authorities to finalise local preparations for health and wellbeing boards and health scrutiny arrangements.

The regulations relating to health and wellbeing boards aim to provide local areas with the flexibility and freedom to shape their health and wellbeing boards as best fits with local circumstances. In particular:

- health and wellbeing boards will be free to establish sub-committees and delegate functions to them
- voting restrictions have been lifted so that non-elected members of a health and wellbeing board (i.e. CCG representative, local Healthwatch, Directors of Public Health, Children's Services and Adult Social Services and any wider members) could vote alongside nominated elected representatives on the board
- political proportionality requirements have also been lifted so that the question of political proportionality of health and wellbeing board membership is left to local determination.

The regulations in relation to health scrutiny make provision for local authorities to review and scrutinise matters relating to the planning, provision and operation of the health service in their area. There are new obligations on NHS bodies, relevant health service providers and local authorities around consultations on substantial developments or variations to services to aid transparency and local agreement on proposals.

In February, the Local Government Association and Association of Democratic Services Officers [jointly published a practical guide](#) to support local authorities in interpreting and implementing the constitutional and governance aspects of the legislation. This includes a summary of key issues for local authorities to consider.

Emerging issues and developments

Local government guidance

Guidance on local authority charging for public health activity

From April 2013 upper tier and unitary local authorities in England will have a new duty under section 2B of the National Health Service Act 2006 to take such steps as they consider appropriate for improving the health of the people in their areas. As a result, they will take on responsibility for a range of public health services previously provided by the NHS.

In February, the Department of Health published [guidance for local authorities](#) on what health improvement activity they can charge for and what services must be free at the point of use.

New funding reforms for care and support

In February, the Government announced [new funding reforms](#) to ensure that the individuals get the care required without facing unlimited costs. The reforms are based on the recommendations made in 2011 by the Dilnot Commission, an independent panel set up to look at the fairest and most sustainable way to fund care and support in England.

From April 2017, there will be:

- a cap on care costs
- financial protection for those with modest wealth.

From April 2015:

- individuals will not have to sell their home in their lifetime to pay for residential care
- individuals will have clearer entitlements. A national minimum eligibility will make access to care more consistent around the country, and carers will have a legal right to an assessment for care for the first time.



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