

Democratic Services

Riverside, Temple Street, Keynsham, Bristol BS31 1LA

Telephone: (01225) 477000 *main switchboard*

Direct Line - Tel: 01225 395090

Web-site - <http://www.bathnes.gov.uk>

Date: 2 May 2014

E-mail: Democratic_Services@bathnes.gov.uk

To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse, Gerry Curran, Dave Laming, Barry Macrae, Brian Simmons and Other Member

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 13th May, 2014

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 13th May, 2014 at 5.30 pm** in the **Brunswick 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

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Corporate Audit Committee - Tuesday, 13th May, 2014

at 5.30 pm in the Brunswick Room - Guildhall, Bath

A G E N D A

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

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 or a member of his staff 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: 4 FEBRUARY 2014 (Pages 7 - 12)

9. INTERNAL AUDIT ANNUAL REPORT 2013/14 (Pages 13 - 22)

10. INTERNAL AUDIT ANNUAL PLAN 2014/15 (Pages 23 - 40)

11. ANNUAL GOVERNANCE REVIEW 2013/14 (Pages 41 - 46)
12. EXTERNAL AUDIT UPDATE REPORT (Pages 47 - 112)
13. ANNUAL REPORT OF THE COMMITTEE (Pages 113 - 118)

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, 4th February, 2014, 5.30 pm

Councillors: Gerry Curran, Dave Laming, Brian Simmons and Roger Symonds (In place of Will Sandry)

Independent Member: John Barker

Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Divisional Director, Risk and Assurance) and Andy Cox (Group Manager (Audit/Risk))

Guests in attendance: Barrie Morris (Grant Thornton) and Kevin Henderson (Grant Thornton)

52 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

53 ELECTION OF VICE-CHAIR

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

54 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from the Chair, Councillor Will Sandry. Councillor Roger Symonds substituted for him and Councillor Andrew Furse acted as Chair.

Apologies were also received from Councillor Barry Macrae. Members wished Councillor Macrae a speedy recovery.

55 DECLARATIONS OF INTEREST

There were none.

56 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

58 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

59 MINUTES: 3 DECEMBER 2013

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

60 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2014/15

The Divisional Director-Finance presented the report. He explained that the report set out the Treasury Management and Investment Strategies for the coming year. The Committee was invited to approve them before they went to Cabinet and Council for approval. The Treasury Management Strategy dealt with the Council's borrowing and the Investment Strategy with how the Council's cash balances were used. Members were provided with an updated version of the Treasury Management Strategy.

The Divisional Director-Finance reported that the Council's borrowing had decreased by £50m as a result of the debt payment programme, which used cash which would only earn low rates of interest to repay debt typically incurring interest at 4.5%. He emphasised that the prudential indicators given in Appendix 1 set the maximum level of borrowing; the actual level would be based on various factors, including market conditions. Cash reserves had declined because of debt repayment. He drew attention to the list of counterparties given in Appendix 3.

A Member asked about the potential impact on the Council's budget of its designation as a Lead Local Flood Authority. The Divisional Director-Finance explained that contingency funding was included in various budgets, such as Highways. If these were insufficient, then the Council's reserves could be used. It was also possible that insurance cover could be obtained against some events. If funding from these sources were inadequate, an application could be made to the Secretary of State for funding from the Belwin Scheme.

The Chair referred to the updated Treasury Management Strategy and asked about the figure of £101m "not borrowed in previous years". The Divisional Director-Finance explained that Council always had a capital financing requirement, which could be funded in various ways. For example, cash could be used instead of borrowing, though eventually money would have to be borrowed for the capital programme. The figure of £101m represents the sum that would have had to be borrowed in previous years if the capital programme had not been funded by other means. There had been no borrowing for the Keynsham Regeneration Scheme. Anticipated capital receipts were also a factor that depressed the borrowing requirement.

RESOLVED:

1. To recommend the actions proposed within the Treasury Management Strategy Statement to February Cabinet and Council for approval.
2. To recommend the Investment Strategy as detailed in Appendix 2 to February Cabinet and Council for approval.
3. To recommend the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Cabinet and Council for approval.

61 RISK MANAGEMENT UPDATE

The Divisional Director – Risk and Assurance presented the report. He explained that the Risk Management Strategy in Appendix 1 set out the framework and processes for risk management within the Council. Paragraph 4.5 of the report set out the main elements in the framework of systems for risk management. Much had changed in local government since the Risk Management Strategy had been agreed in 2011 and some parts might no longer be relevant; he invited Members to let him have their views on how the Strategy might be updated.

A Member noted that there was no reference to flood management in the Strategy; he thought it might be appropriate to include it in the Strategy now that the Council was a Lead Local Flood Authority. The Divisional Director – Risk and Assurance suggested that it was not appropriate to include individual risks in the Strategy. Another Member suggested that while this might be the case the role of Lead Local Flood Authority did bring additional risk, even if only reputational risk, and this ought to be recognised in an appropriate fashion.

A copy of a summary dashboard of the corporate risk register was provided to Members. The Divisional Director – Risk and Assurance explained that the 11 corporate risks were listed in approximate order of priority. The financial challenge still remained the most significant risk. Flooding was not mentioned specifically, though severe weather did appear among the 11 risks. Members were invited to comment on whether the risks identified and the level of priority given to them was still appropriate. A Member noted that damage caused by severe weather might result in the need to redo work that had already been done. The Divisional Director – Finance responded that this was recognised in the contingency included in, for example, the Highways budget; there was also specific recognition of problem areas, like the Chew Valley. A Member asked about the impact of high levels of nursing and social care in the Council's area. The Divisional Director-Finance explained that nursing care is not the Council's responsibility, though residential care is, and large numbers of people in the area were in receipt of personal care budgets. Though the Council was not responsible for nursing care it was assuming responsibility for the management of nursing care payments.

A Member raised the issue of the safety on the banks of River Avon, referring to a recent drowning and the failure to implement all of the recommendations made by RoSPA. He also referred to the risk of flooding, about which he had made a motion to Council on 16 January this year. He noted that conditions had been very volatile with a change from a drought in April 2012 to repeated flooding within a very short time. He believed that all relevant authorities should work together to address the increasing risks. The Committee agreed that these issues should be referred to the relevant Policy and Development and Scrutiny Panel.

The Chair asked about activities, such as fracking and drilling, in the areas of other local authorities that could impact geologically on Bath and North East Somerset. He recalled that some time ago a geologist commissioned by B&NES had reported that the Bath hot springs were formed from ancient water that had percolated from the Mendips and had been heated as it passed through a geological fault. He wondered what protection the springs had from activities in the area of other authorities. The Risk Manager noted that fracking had to be authorised by a government licence. The Divisional Director-Risk and Assurance said that he would make inquiries and report back to the Committee on the issue.

A Member commented in relation to the Risk 4 that it is not the Council which builds houses, it is builders who do and in relation to Risk 11 that a definition of “successful resolution was required as it might be considered a success if the people went elsewhere, but even in that case there would be a reputational risk for the Council.

RESOLVED to note the Council’s Risk Management Strategy and Corporate Risk Register.

62 ANNUAL GOVERNANCE REVIEW UPDATE

The Risk Manager presented the report. He informed Members that the annual review of the current year had just commenced. He explained that the Annual Governance Review was a very broad review and covered all the Council’s systems and processes. He drew attention to Appendix 1, which showed the components of the review process and significant stages. He said that the long list of governance issues would be brought to the next meeting of the Committee.

The Divisional Director-Finance reminded Members that the Audit and Risk dashboard, brought to the Committee for the first time at the previous meeting, would in future be included with the agenda twice a year.

RESOLVED to note the process and timetable for the Annual Governance Review 2013/2014.

63 EXTERNAL AUDIT UPDATE

Mr Morris presented the External Audit Update Report. He said that the 2013-14 Accounts Audit Plan would be presented to the next meeting of the Committee. Work on the Value for Money opinion would begin this month.

Mr Henderson commented on the Certification Report 2012/13. He drew attention to the “key message” on Housing Benefits (errors in relation to classifying overpayments) on agenda page 77 and to the “significant finding” on the Housing and Council Tax Benefit Scheme claim (insufficient management capacity) on agenda page 79.

Mr Morris reported that representations had been received from members of the public about the Bath Transportation Package (agenda page 81), which had been dealt with as part of the certification work. In response to a question from the Chair, Mr Morris explained that the certification work had been delayed so that the public representations could be dealt with at the same time, rather than them having to be dealt with separately.

The Divisional Director-Finance reported that an action plan was being prepared to address the issues raised by the external auditors. He suggested that the issues needed to be put in context: the error of £64 referred to on agenda page 81 should be considered against the total budget for the Housing and Council Tax Benefit Scheme of £63m. Mr Morris agreed that the error needed to be put in context: it was unusual for a local authority not to have amendments to claims and most authorities had qualified claims. The Chair commented that £64 might not be a lot in relation to the total budget, but it could be a large sum to an individual. The Divisional Director-Finance said that the £64 was not necessarily an overpayment. It was the Council’s

practice to amend benefit payments if the claimant telephoned in to notify a change of circumstances, and to tell them to send in a pay slip as confirmation. The claimant's record should then be flagged and the pay slip chased if it failed to arrive. This might not have happened in relation to the £64, so that there was no supporting evidence for the amendment. The external auditors' comment on the issue was fair and would be addressed in the action plan.

Mr Henderson commented on the Protecting the Public Purse: Fraud Briefing (Appendix 3). He noted that nationally the number of detected frauds had fallen by 14% but the value of fraud had reduced by only 1%, which indicated that there had been an increase in higher-value fraud. The graph on page 92 also showed that while the number of cases of Housing Benefit and Council Tax Benefit fraud detected in BANES was higher than the southern Unitary Authority average, the value was lower, raising questions about whether higher-value fraud in BANES might be escaping detection. The Chair asked what the national averages were. Mr Henderson said he would report back on this. A Member asked whether how money lost through fraud was recovered. The Divisional Director-Finance said that he would report back on this.

RESOLVED to note the various updates from the External Auditor.

The meeting ended at 7.00 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:	13th May 2014	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report – 2013/14		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Dashboard Quarter 4 2013/14			
Appendix 2 – Internal Audit Outturn 2013/14			

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2013/14.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

a) Note the summary of audit work completed during 2013/14 and performance of the Internal Audit Team (Appendices 1 & 2).

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 2013/14 (Appendix 1 & 2)

4.2 Plan Performance

4.3 The Committee received an update report on the first six months Internal Audit performance at its December meeting. At that time it was reported that during the first half of the financial year 40% of the plan had been completed or was work in progress with a prediction that approximately 85% of the plan would be completed by the end of the year.

4.4 As at the 31st March 2014, this figure had increased to 86% and whilst this is not of concern it is still disappointing that a higher figure was not achieved. Key reasons for not reaching a higher level are as follows –

- 12% of unplanned work was required, i.e. Investigations and high priority consultancy work;
- A number of reviews were cancelled or deferred for various operational reasons;
- There was a three month lag between a number of staffing vacancies which occurred in the first quarter of the year and their replacement by an external arrangement with the South West Audit Partnership.

4.5 Wider Performance

4.6 Appendix 1 provides a 'dashboard' view of adopted high level performance indicators for quarter 4. For comparison reasons the results of the last two years are recorded below:

High Level Performance Indicator	As at 31st March 2013	As at 31st March 2014
% of Audits completed within time allocated	65%	87%
% of Services which rate Internal Audit as Excellent / Good	97%	100%
% of recommendations agreed (based on management response recorded in Final version of Audit Reports issued).	99%	99%
% of high / critical risk recommendations implemented (based on findings of 'Follow-Up' Reviews completed and reported to management).	65%	83%

% of days spent on formal professional training	2%	2%
% of days sickness as percentage of total days	3%	3%

4.7 Internal Control Framework Analysis

In addition to the above an analysis of the results of audit work - i.e. the state of the internal control environment - was as follows:

- 93% of audit reviews assessed the control framework at Assurance Level 3 to 5 ('Adequate', 'Good' or 'Excellent');
- 5% of audit reviews were assessed at Assurance Level 2 ('Weak'). This represented two audit reviews and management have agreed to implement all the audit recommendations;
- 2% of audit reviews were assessed at Assurance Level 1 ('Poor').

This review was in relation to the findings related to a review of Highways Structures and management have agreed to implement all 14 of the audit recommendations. This review will be followed up in the first quarter of 2014/15.

- 41 'Follow-Up' reviews were carried out in 2013/14;
- 7 'Follow-Up' reviews were in relation to Audit Reviews awarded a 'Poor' or 'Weak' Assurance Level.

For these reviews 96% of audit recommendations had been implemented by the 'agreed' implementation date. For those recommendations still to be implemented, management have agreed revised implementation dates and no significant issues are assessed as outstanding.

- A commercial 'Responsible Officer' service is provided to 11 Academy schools (increasing to 12 in 2014/15). This has necessitated working in partnership with the School and their External Auditors, however no significant issues have been noted during the year.

4.8 Resources & Partnership Development

4.9 As was previously reported to the Committee in December the function has been over the past two years assessing its future and looking at alternative service delivery options. In June of last year the committee again reviewed and re-confirmed in principle that a Local Authority form of Partnership is recommended.

4.10 In September we agreed a joint working arrangement with North Somerset where Bath and North East Somerset will provide a lead in managing their Audit & Assurance functions in combination with those in this Council. The scope of the activities includes, Audit, Risk, Information

Governance and Business Continuity. The plan at that time would be to integrate the two teams into a full partnership at some point over the next 12 to 18 months.

- 4.11** Following a six month review of progress by the S151's of both Authorities and the Head of Legal at North Somerset it has been recommended to move both functions into an integrated partnership by April 2015.
- 4.12** It is planned that the model for delivery will be under S101 of the Local Government Act with Bath and North East Somerset Authority acting as the host authority for staff. The 'partnership' is not a separate legal entity but would have a separate identity, structure and legal constitution and would be constructed to allow additional partners or services to be added if appropriate in the future.
- 4.13** In addition we are also extending our arrangement with the South West Audit Partnership to replace the audit posts which currently cannot be recruited. We will look at the potential to blend this into the new arrangement with North Somerset in the future. This does provide significant flexibility in future working by allowing us to source specialist skills at a reasonable cost, i.e. IT Auditors, where it is difficult to recruit and retain.
- 4.14** Integrating resources from different organisations is not without its challenges and therefore it is important that all partners and staff are fully engaged.
- 4.15** This continues to mean additional time needing to be set aside over the next year to allow this activity to be completed and this has been allowed for within the audit plan for 2014/15.
- 4.16** As advised in December a work plan has been developed to help create a single way of working over the activities of both Councils. This covers four key work streams and four joint sessions have occurred with a number of positive outcomes completed or in progress. These have included –
- Reductions in unproductive time, cost reductions and increased Income generation opportunities;
 - Use of a single audit management system for both partners and single audit methodology to allow 'real' sharing to occur;
 - Development of single templates for key documents, i.e. Audit Brief, Audit Report;
 - Skills Analysis and integrated training plan;
- 4.17** Prior to any final decision the S151 Officers have asked for a more detailed implementation plan to be drawn up by September to ensure all

issues and points of detail have been addressed and therefore a further update will be provided to the committee in September.

4.18 Formal Opinion on Internal Control Framework –

Comments of the Chief Internal Auditor

- 4.19 Despite a small number of financial irregularity investigations - which did incur significant audit resource - 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 is satisfactory.
- 4.20 Last year I reported that it was clear that with increased pressure on budgets, choices on the degree of internal control were having 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.
- 4.21 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 therefore the update I have provided above in section 4.8 regarding the progress of the function towards an independent partnership by April 2015 is both timely and welcomed.
- 4.22 It is my view that this is a necessary step to ensure the service can continue to operate at a sufficient level to ensure professional standards can be met, the right level of independence can be adopted and ultimately that the committee can rely on the advice and outcomes from audit work.
- 4.23 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 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

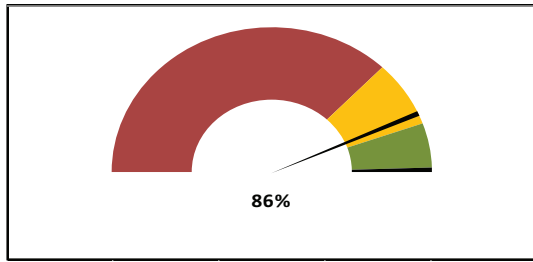
7.1 The report was distributed to the S151 Officer for consultation.

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	

New Audit & Risk Dashboard Quarter 4 2013/14

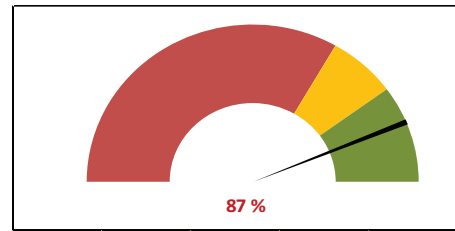
Internal Audit

Annual Audit Plan Completed



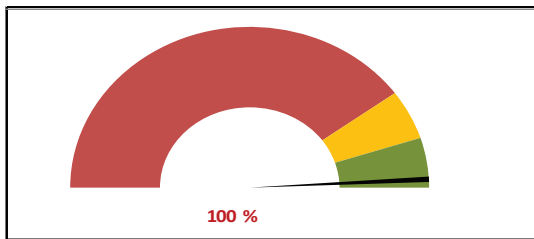
Green Target = >67.5% (>90% whole Year)
Amber Target = >56.25% (>75% Whole Year)

Audit Reviews Completed in Assigned Days



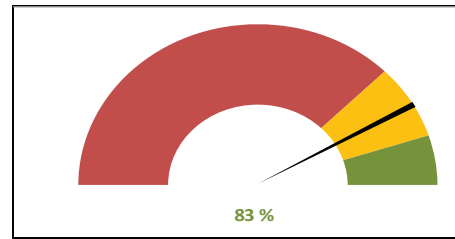
Green Target = >80%
Amber Target = >66.6%

Customer Satisfaction - Good or Excellent



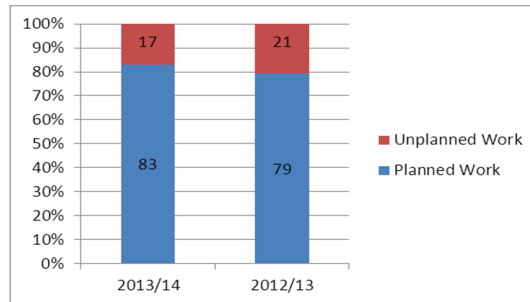
Green Target = >90%
Amber Target = >80%

Recommendations (Critical / High) Implemented by Follow Up

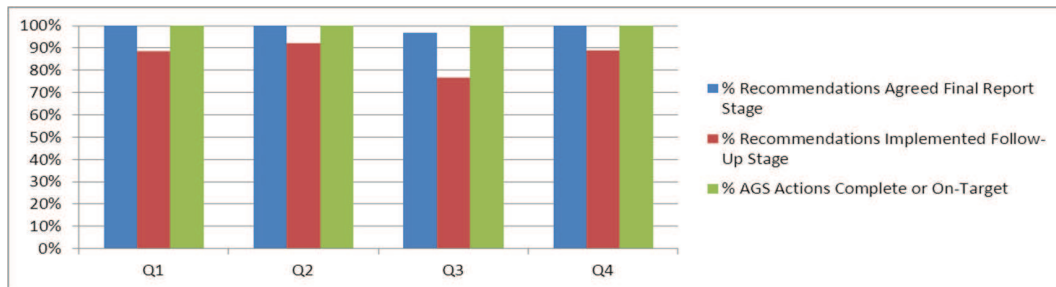


Green Target = >90%
Amber Target = >80%

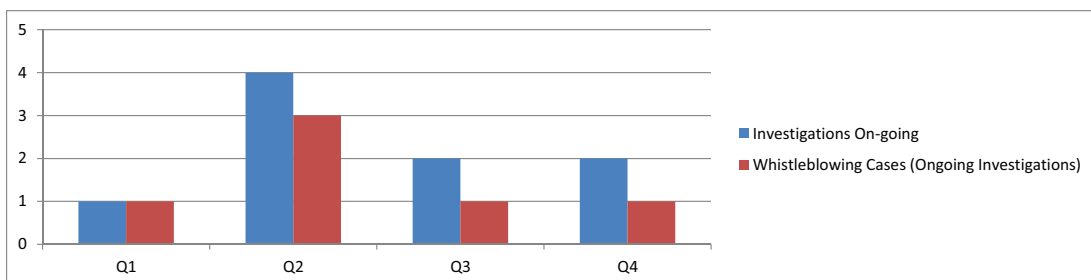
Planned V Unplanned Work 2013/14 & 2012/13 for comparison purposes



Overall Audit Recommendations



Investigations/Whistleblowing



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Audit Reviews (Position As At End of Quarter 4 2013/14)			Appendix 2	
Audit Review Title	Status	Assurance Level	Recommendations	
			Made	Agreed
Bath Transport Package	Finalised	4	4	4
Design & Structures	Finalised	1	14	14
Revenues Estate Management	Finalised	4	5	5
Safeguarding Adults	Finalised	5	3	3
School Theme - Personnel & Payroll	Finalised	3	6	6
Planning Enforcement	Finalised	3	8	8
Waste Collections Final Report	Finalised	4	7	7
Budgeting - Control of Virements	Finalised	4	3	3
2012/13 Carry Forward - Heritage Review	Finalised	5	1	1
2012/13 Carry Forward - Parking Review		Carry Forward to 2014/15 Plan		
2012/13 Carry Forward - Pensions Investments	Finalised	5	3	3
2012/13 Carry Forward - Public Transport	Finalised	4	4	4
2012/13 Carry Forward - SIMS Application	Finalised	4	3	3
Anti Fraud & Corruption - Bribery & Corruption	Draft			
Anti Fraud & Corruption - Expenditure	Finalised	4	2	2
Anti Fraud & Corruption - Income	Finalised	2	4	4
Parking IT System (Contract Management)	Finalised	2	11	11
Parking Permits	Draft			
Personalised Budgets		Carry Forward to 2014/15 Plan		
Accounts Payable	Draft			
Development Control	Finalised	4	6	6
Cash Receipting System / Civica Icon Application	Finalised	4	2	2
Northgate Revenues & Benefits Application		Covered scope in 2012/13 audit		
I.T. Business Continuity and Disaster Recovery	Draft			
Park & Ride	Finalised	4	2	2
Public Health & Clinical Commissioning Group - Statutory Responsibilities and Financial Governance	Draft			
Pensions Payroll	Finalised	4	3	3
Accounts Receivable	Draft			
Themed School Review - Risk Management	Finalised	4	2	2
Capital Expenditure	Draft			
Welfare Support	Draft			
Themed School Review - Procurement	Draft			
Sirona Contract Management		Carry Forward to 2014/15 Plan		
Electronic Commerce Replaced by 'Anti-Fraud Refunds'	WIP			
PAYE & NICS	Draft			
Early Years Entitlement	Finalised	4	2	2
Fostering & Adoption		Carry Forward to 2014/15 Plan		
Housing Improvement/Adaptions	Finalised	4	6	6
IT (Software Licensing)	WIP			
IT System Management and Control		Carry Forward to 2014/15 Plan		
Cash Collection & Banking	Finalised	5	1	1
Themed School Review - Unofficial Funds	WIP			
Parking Income Collection	Draft			
Insurance	Finalised	4	1	1

Passenger Support		Covered scope in 2012/13 audit		
Licensing	Finalised	4	3	3
Council Tax - Collections, Recovery, Enforcements & Write-Offs	Finalised			
IT Physical & Environmental Controls	WIP			
Energy Management	Finalised	4	7	7
Residential & Nursing Care Payments	Finalised	4	5	5
Highway Electrical - Street Lighting	Draft			
Connecting Families	Finalised	4	9	9
Payroll - Pensions Auto Enrolment	Finalised	4	5	5
Purchasing Card System		Carry Forward to 2014/15 Plan		
Flood Alleviation		Carry Forward to 2014/15 Plan		
Heritage - Collections	Finalised	4	5	5
Legal Services	Finalised	3	8	8
Building Control	Finalised	4	9	9
Safer Recruitment		Carry Forward to 2014/15 Plan		
Fleet Management	Finalised	4	1	1
Parks & Green Spaces	Draft			
VAT	Finalised	4	6	6
Leased Assets		Covered in Property & Fleet Management audits		
Community Rights (Statutory Obligations)	Draft			
Information Governance - Data Protection	WIP			
IT Procurement & Disposals (Hardware / Software)	WIP			
Payroll - Processing, Payruns & Reconciliations	Draft			
Electoral Services Bank Accounts	Draft			

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	13th May 2014	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Plan - 2014/15		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Internal Audit Annual Plan 2014/15			

1 THE ISSUE

1.1 This is a report detailing the proposed Internal Audit Plan for 2014/15.

2 RECOMMENDATIONS

2.1 The Corporate Audit Committee is asked to:

Approve the Internal Audit Plan for 2014/15 (Appendix 1)

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 Internal Audit Annual Plan 2014/15 (Appendix 1)

4.2 The plan has been prepared using a number of factors to risk assess identified auditable activities. The factors used are -

- 1) 2012/13 Annual Governance Issue or directly linked to Corporate Risk Register (December 2013).
- 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).

4.3 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 71 discrete Internal Audit Reviews.

4.4 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.

4.5 The Plan has gone through a wide series of consultation with Strategic and Divisional Directors in addition to the risk assessment process to understand the views of key stakeholders.

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	

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Bath & North East Somerset Council

Internal Audit Annual Plan

April 2014 - March 2015

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Contents:

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ANNEX A: Audit Brief	8
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APPENDIX 1: Internal Audit Annual Plan 2014 / 2015	

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 2014 / 2015 Annual Audit Plan
- 1.2 During the last quarter of 2013/14 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 2013/14 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 27th March 2014 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 – 2014/15

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 2014 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 Audit 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

Chief Internal Auditor – Joint Head of Audit & 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 and People {Adult Care Health Strategy & Commissioning})	Dave Mehew 07980998969 dave_mehew@bathnes.gov.uk
Audit Team Leader (Place, People {CYP} & Council Solicitor)	Paul Chadwick 07980998925 paul_chadwick@bathnes.gov.uk
Address	Audit & Risk Team Risk & Assurance Service The Guildhall High Street BATH, BA1 5AW

APPENDIX 1 - AUDIT PLAN 2014/15 – LIST OF AUDIT REVIEW AREAS

SERVICE AREA	AUDIT REVIEW	RISK FACTOR
Business Support	Introduction of new HR & Payroll System	High
Business Support	Adult Care - Debt Management	High
Property	Catering	High
Adult Care & Health	Adults - Single Panel Process	High
Business Support	Pensions - Iconnect system	High
Business Support	Pro-Contract	High
CYP Strategy & Commissioning	Virtual School Governance Arrangements	High
Customer Services	Incident Management	High
CYP Strategy & Commissioning	Safeguarding (Communication & Information Sharing including complaints)	High
Business Support	Direct Payments system	High
Customer Services	Cash - Library Services	High
Adult Care & Health	Contract Management - Registered Residential Care	High
Business Support	IT - Procurement & Disposal	High
Environmental Services	Leisure Provision (Aquaterra)	High
Environmental Services	Highway Maintenance & Improvement Works Contract	High
Development, Skills and Regeneration	LEP	High
Business Support	Payroll - Mileage & Business Expenses	High
CYP Strategy & Commissioning	The Hub - Governance Arrangements	High
Development, Skills and Regeneration	Spring Water Supply	High
Environmental Services	Waste Treatment and Disposal (Incl. Contract Management)	High
Business Support	Purchase Cards	High
Customer Services	Council Tax -Liability, Billing & Refunds (Inc. Northgate Revs & Bens Application)	High
CYP Strategy & Commissioning	Commissioning	High
CYP Specialist Services	Extended Services	High
Adult Care & Health	Adult Finance - Receivership	High
Business Support	IT Provision - Malware Protection	High
Customer Services	Scan Coin Payment Kiosks	High
CYP Strategy & Commissioning	Out of County Placements	High
CORPORATE	Anti-Fraud & Corruption - NFI	High
CORPORATE	Anti-Fraud & Corruption - Bribery & Corruption	High
Strategy & Performance	Sustainability	High
Environmental Services	Traffic & Safety (Traffic Signals & Intelligent Transport Systems)	High
Adult Care & Health	Joint Safeguarding - Effectiveness of joint case reviews	High
Business Support	Finance Monitoring / risk management	High
Business Support	IT Provision - Firewalls	High
CORPORATE	AGS 2013/14	High
CORPORATE	AGS 2014/15	High
Customer Services	Welfare Reform (Universal Credit)	High
CYP Specialist Services	Connecting Families - Claim Certification	High
CYP Strategy & Commissioning	Children Missing Education	High

SERVICE AREA	AUDIT REVIEW	RISK FACTOR
Development, Skills and Regeneration	New Homes Bonus	High
Development, Skills and Regeneration	City Deal	High
Development, Skills and Regeneration	Tenancy Fraud	High
Environmental Services	Design & Projects	High
Property	Electrical & Mechanical Repairs & Maintenance	High
Responsible Officer Support	Backwell Responsible Officer: Support Service	High
Development, Skills and Regeneration	Homelessness & Temp Accommodation	High
Environmental Services	Taxis & Private Hire Vehicles	High
Project Delivery	Project Delivery	High
Property	Property Officer Decision Making	High
CYP Strategy & Commissioning	Capital & Schools Organisation – Children’s Services Property Estate	High
Development, Skills and Regeneration	Tourism Company - Contract Management (Bath Tourism Plus)	High
Development, Skills and Regeneration	World Heritage	Medium
Environmental Services	Enforcement (Cleansing, Waste)	Medium
Environmental Services	Food Safety & Health Promotion	Medium
Development, Skills and Regeneration	Retail Shops (Incl. Warehouse)	Medium
CORPORATE	Anti-Fraud & Corruption - Expenditure	Medium
CYP Strategy & Commissioning	Theme Schools Review - Energy Management	Medium
CYP Strategy & Commissioning	Theme Schools Review - Information Governance	Medium
Development, Skills and Regeneration	Festivals	Medium
CORPORATE	Anti-Fraud & Corruption - Income	Medium
Environmental Services	Land Drainage (LLFA - Flood & Drainage Programme Management)	Medium
Business Support	School Pensions / Payroll Responsibilities	Medium
Development, Skills and Regeneration	Art Development	Medium
Development, Skills and Regeneration	Economic Enterprise & Business Development	Medium
Place - Planning & Strategic	Hot Spring Water Monitoring (Avon Act / Shale Gas Extraction)	Medium
Development, Skills and Regeneration	Roman Baths & Assembly Rooms (Incl. Income, Premises & Contracts)	Medium
CYP Specialist Services	Fostering Allowances	Medium
Business Support	Council Website	Medium
Development, Skills and Regeneration	Better Care Fund	Medium
Customer Services	NNDR - Database & Valuation	Medium
Customer Services	Council Tax - Database & Valuation	Medium
CYP Strategy & Commissioning	SVFS Returns	Medium
Environmental Services	Car Parking Governance	Medium

SERVICE AREA	AUDIT REVIEW	RISK FACTOR
CORPORATE	Follow Ups	N/A
Responsible Officer Support	Beechen Cliff Responsible Officer: Support Service	High
Responsible Officer Support	Fosseway Responsible Officer	High
Responsible Officer Support	Hayesdown Responsible Officer	High
Responsible Officer Support	Norton Hill Responsible Officer	High
Responsible Officer Support	Ralph Allen Responsible Officer	High
Responsible Officer Support	Somervale Responsible Officer	High
Responsible Officer Support	The Link Responsible Officer	High
Responsible Officer Support	Three Ways Responsible Officer	High
Responsible Officer Support	Wellsway Responsible Officer	High
Responsible Officer Support	Writhlington Responsible Officer	High
Carried Forward 2013/14	Personalised Budgets	C/F
Carried Forward 2013/14	Anti-Fraud Refunds	C/F
Carried Forward 2013/14	Cash Collection & Banking	C/F
Carried Forward 2013/14	Safer Recruitment	C/F
Carried Forward 2013/14	Information Governance	C/F
Carried Forward 2013/14	Wellsway RS Q4 visit	C/F
Carried Forward 2013/14	Ralph Allen RS Q4 visit	C/F
Carried Forward 2013/14	School Theme - Unofficial Funds	C/F

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Agenda Item 11

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	13th May 2014	AGENDA ITEM NUMBER
TITLE:	Annual Governance Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Annual Governance Review – Outline of Framework.		

THE ISSUE

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 2013/14.

RECOMMENDATION

The Corporate Audit Committee is asked to note progress of the review and comment on the issues being considered within the Annual Governance Review.

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.

THE REPORT

1.1 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'.

1.2 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 The review is now in its final stages and issues are being considered based on evidence collected and assessed as part of the review process. At this moment it is unlikely there will be any significant issues recommended for inclusion, however this is an on-going process and an update will be provided 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 2014).
- 2) Chief Executive & Leader of the Council sign the Statement (30th June 2014).
- 3) Final approval as part of the Annual Accounts (30th Sept 2014)

4.9 The implementation of Annual Governance Statement actions if there are any significant issues 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 The report was consulted on with the S151 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	

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 12

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	13th May 2014	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 Appendix 2 – Audit Plan 2014/15 Appendix 3 – Guide to Local Authority Accounts Appendix 4 – Decluttering Your Accounts Appendix 5 – Approving the Minimum Revenue Provision Appendix 6 – Benchmarking Financial Resilience		

1 THE ISSUE

1.1 The External Auditor will provide a general update to the Committee on their work.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the various updates from the External Auditor.

3 FINANCIAL IMPLICATIONS

3.1 Costs in relation to the External Auditor are contained within existing resources. There are no other direct financial implications as a result of this report.

4 THE REPORT

- 4.1 Appendix 1 details an update report on External Audit work and key issues;
Appendix 2 details the External Auditors Plan;
Appendix 3 details a guide to Local Authority Accounts;
Appendix 4 details a guide to decluttering your Accounts;
Appendix 5 details a guide to approving the minimum revenue provision;
Appendix 6 details results of benchmarking data around financial resilience.
- 4.2 The External Auditor will provide a fuller verbal briefing on all 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 and Strategic Director for Resources

Contact person	Jeff Wring (01225 47323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Audit Committee Update for Bath and North East Somerset Council

Year ended 31 March 2014

May 2014

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Barrie Morris

Director

T +44 (0)117 3057708

E barrie.morris@uk.gt.com

Kevin Henderson

Manager

T +44 (0)117 3057873

E Kevin.j.henderson@uk.gt.com



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
- includes a number of questions in respect of these emerging issues which the Committee may wish to consider.

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 – 'Local Government Governance Review 2014 – Working in Tandem', '2016 tipping point – Challenging the current?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future' and '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.

Barrie Morris Engagement Lead T 0117 3057708 M 0777 1976684 barrie.morris@uk.gt.com
Kevin Henderson Audit Manager T 0117 3057873 M 07780 456132 kevin.j.henderson@uk.gt.com

Progress at 1 May 2014

Work	Planned date	Complete?	Comments
<p>2013-14 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 2013-14 financial statements.</p>	May 2014	Yes	The Council's plan is included on the agenda.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early work for the Value for Money conclusion. 	December 2013 to April 2014	Yes	There are no issues to bring to the attention of the Corporate Audit Committee at this stage.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion. 	July to September 2014	Not yet due	

Progress at 1 May 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • Continuing review of your processes for developing financial plans and savings plans • Monitoring progress with economic development projects • Monitoring progress with joint working including social care and health care integration (Better care Fund). 	February 2014 – July 2014	Not yet due	Work is in progress. At this stage, there are no issues to bring to the attention of the Corporate Audit Committee.
<p>Other areas of work</p> <p>We will certify your Regional Growth Fund return in accordance with the Government department timetable.</p>	January 2014	Yes	We have issued two audit reports on the Regional Growth Fund, one in February 2014 and one in March 2014. There are no issues to bring to the attention of the Corporate Audit Committee.
<p>Other activity undertaken</p> <ul style="list-style-type: none"> • Certification of (2012/13) claims and returns within the Audit Commission regime • Financial resilience benchmarking report (based on results of 2012/13 work) • Responded to correspondence from a member of the public regarding Radstock regeneration • Shared Grant Thornton national reports with the Divisional Director: Finance. These included 'Working in Tandem', our 2014 governance review and 'Reaping the Benefits?', our early impressions of welfare reform. 			<ul style="list-style-type: none"> • Our report on the certification of claims and returns for 2012/13 was presented at the February 2014 meeting. • The financial resilience report is included on the agenda.

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issue to consider:

- How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authorities will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authorities will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issue to consider:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Issues to consider:

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Would the members like the Divisional Director: Finance to complete the checklist and report it to the Corporate Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Divisional Director: Finance reviewed these case studies and considered whether there is scope to adopt these?

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Issues to consider:

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Council reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Council's consideration of future service delivery as part of the ongoing strategic review?

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits?: first impressions of the impact of welfare reform

The potential scope of this topic is broad, so our report, Reaping the Benefits? focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Issues to consider:

- Has the Divisional Director: Customer Services kept appropriate Council members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Council carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Council have a plan in place or in development for the introduction of universal credit?

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Issue to consider:

- Has Divisional Director: Finance considered the programme of valuations and the proposals for disclosing information about classes of assets?

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
 - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
 - to recognise a provision where a reliable estimate can be made
 - to disclose a contingent liability where a reliable estimate cannot be made
 - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Issues to consider:

- Is the Council confident of obtaining the information it needs from the VOA?
- Has the Council recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has the Council provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is the Council planning to revisit its provision and contingent liability before the audit opinion is issued?

Reporting the costs of public health

Accounting and audit issues

Changes to SeRCOP – new public health line

SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Issue to consider:

- Is the Divisional Director: Finance confident that he can provide accurate information and a robust audit trail for the public health line within cost of services?

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years. This is understood to be the case at Bath and North East Somerset Council.



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The Audit Plan for Bath and North East Somerset Council

Year ended 31 March 2014

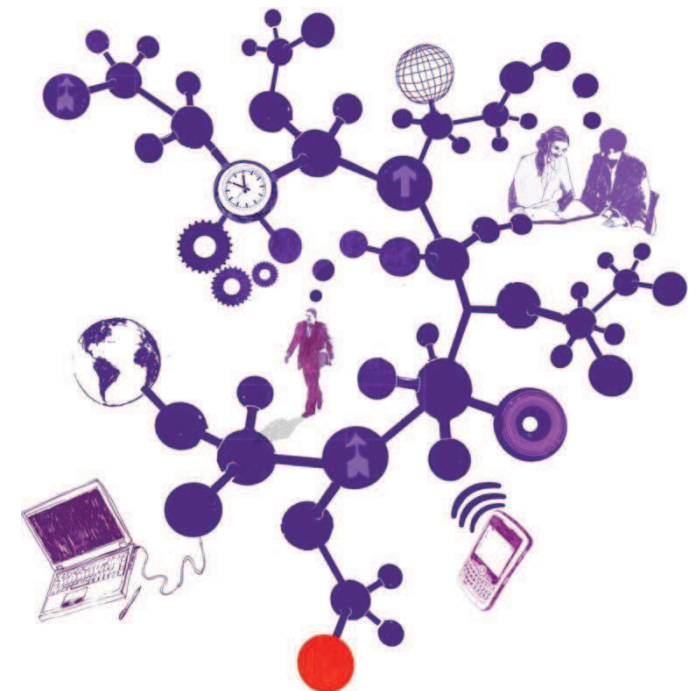
1 May 2014

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Barrie Morris
Engagement Lead
T 0117 305 7707
E barrie.morris@uk.gt.com

Kevin Henderson
Manager
T 0117 305 7873
E kevin.j.henderson@uk.gt.com

Louise Luke
Executive
T 0117 305 7863
E louise.m.luke@uk.gt.com



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.

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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.

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Challenges/opportunities

1. Maintaining Financial resilience

- In common with the local government sector nationally, the Council faces continuing pressure on its finances. Nationally the local government sector's funding will have fallen 40% during the current Parliament.

2. Working with partners in the provision of services

- The Council's Corporate Plan places emphasis on working with partners to achieve its priorities in a number of areas including promoting independence and building a strong economy. The latter is principally achieved through the West of England Local Enterprise Partnership.
- The Council works especially closely with the Clinical Commissioning Group in the delivery of adult social care..

3. Ensuring overall value for money

- The Council's Corporate Plan acknowledges that the Council faces some very tough challenges and will need to radically redesign and potentially reduce some types of service in response to the financial and policy climate.

4. City Deal

- 2013/14 sees the launch of the Business Rates Retention scheme as a form of local government funding. The Council has been working with other councils in the West of England to formulate a scheme (the City Deal) which will allow them to keep 100% of growth in business rates over the next 25 years to invest in projects.

5. Local Transport Schemes

- Bath & North East Somerset, Bristol, North Somerset and South Gloucestershire Councils are working in partnership to plan and deliver transport improvements in the West of England area. Substantial funding is being made available by the Government as well as funding from each of the councils.

Our response

- We will review the Council's medium term financial strategy, considering the assumptions and risks built into the Strategy.

- We will review how the Council is developing partnership working in the key area of social care. Specifically, how the Council is working with NHS partners to develop joint plans, linked to the 'Better Care Fund.

- We will review the Council's overall corporate arrangements for ensuring value for money in its use of resources.

- We have had, and will continue to have, discussions with officers on the City Deal.
- We will also continue to liaise with colleagues auditing the other West of England councils to ensure we have a co-ordinated audit approach.

- We will continue to discuss, with senior officers, progress on the transport schemes and ensure that risks are being managed, with appropriate governance arrangements put in place.
- We will continue to liaise with colleagues auditing the other West of England councils to ensure we have a coordinated audit approach to any work undertaken.

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 ('the code') and associated guidance.

Developments and other requirements

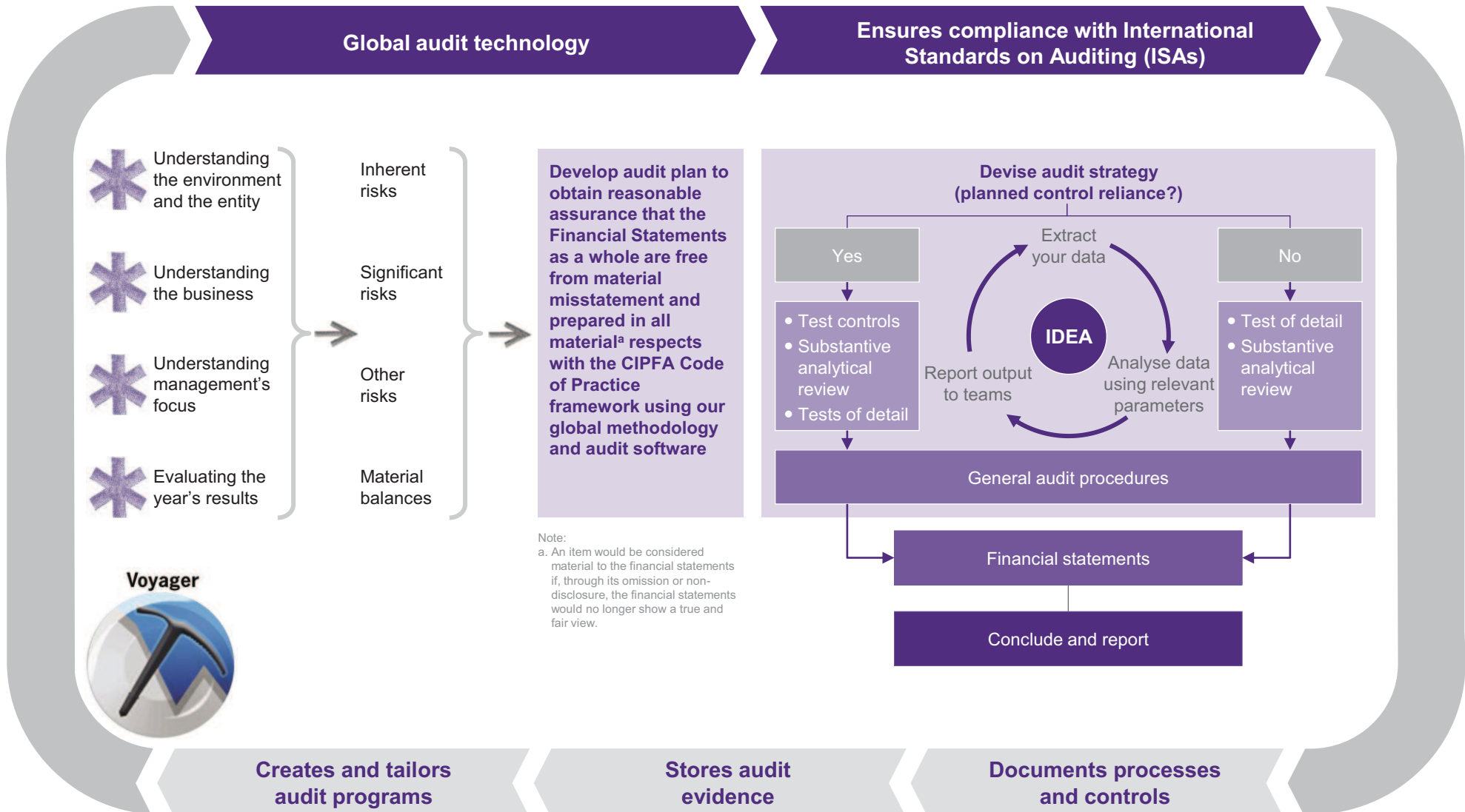
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • 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"> • The impact of 2013/14 changes 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
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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 and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> • We will discuss the impact of the 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 review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 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
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Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

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• Testing of 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 identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

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 	Substantive testing including: <ul style="list-style-type: none"> • Reviewing cashbook/ledger for unrecorded liabilities • Testing a sample of accruals to underlying documentation • Testing of sample of expenditure items to underlying documentation • Ensuring that members expenses have been appropriately disclosed
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> • Documentation of accounting system processes • Identifying, and walkthrough of, activities-level controls 	Substantive testing including: <ul style="list-style-type: none"> • Calculating a trend analysis across the year • Agreeing gross pay and employer national contributions to year end returns • Agreeing pension disclosures to actuarial reports
Welfare Expenditure	Welfare benefit expenditure 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"> • Agreement of draft claim to the general ledger and the benefits system • Completion of analytical procedures • Undertaking specific testing of claim details in line with the mandated approach and sample selection • Consider if any further work is appropriate given the claim guidance and the result of the work completed.

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Documentation of accounting system processes 	<ul style="list-style-type: none"> Identifying, and walkthrough of, activities-level controls Sample testing of PPE additions, confirming the ownership and depreciation method. Reviewing the capital programme for the year, identifying and explaining significant deviations.
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 Confirming for assets that have been revalued in year, the qualifications and the work of the valuation expert. Ensuring all assets in the same class have been revalued Confirming that the accounting treatment of the revaluation was appropriate

Value for money

Value for money

The Code 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

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We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Assess the arrangements in place to ensure financial resilience in 2013/14 and the medium term;
- Review year end outturn, compare this to budget and consider the explanations provided for any material variances;
- Review the arrangements for establishing the Better Care Fund; and
- Discuss any findings with senior management and those charged with governance.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

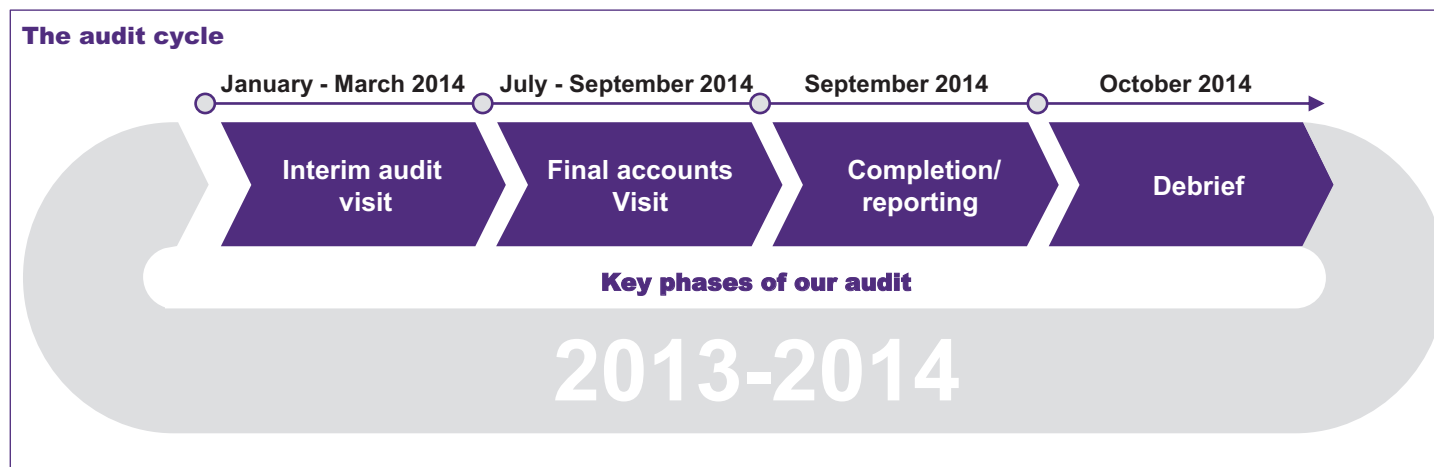
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>With the exception of property, plant and equipment, we have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. We have been unable to complete the walkthrough in relation to plant, property and equipment as there are a number of year end processes.</p> <p>Internal controls have been implemented in accordance with our documented understanding. However, our work has identified one weakness in control, which we need to bring to your attention. Please see appendix A.</p>	<p>Our work only identified one weaknesses which does not impact on our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist is due to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up any issues that were raised last year.</p>	<p>Our information system specialist will complete work to establish if there are any material weaknesses which are likely to adversely impact on the Authority's financial statements. The onsite work has been completed and a review of documentation is now being undertaken. The work is likely to be concluded by the end of May 2014.</p>

Results of interim audit work

	Work performed	Conclusion
Journal entry controls	<p>We will review the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy to identify any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p> <p>We will undertake detailed testing on journal transactions recorded for the financial year, by extracting large and unusual entries for further review.</p>	We will review journal policies and procedures. We will undertake detailed testing on journal transactions.
Early substantive testing	We have completed early testing for payroll and expenditure expenses in 2013-14 for April through to November 2013.	We will complete the remaining months' testing for payroll and operating expenses.
Value for money	Our review of financial resilience is in progress.	No issues have been identified to date that need to be brought to the attention of those charged with governance. Our work will continue up to the point at which the value for money conclusion is issued.

Key dates



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Date	Activity
January - March 2014	Planning
January - March 2014	Interim site visit
13 May 2014	Presentation of Audit Plan to Audit Committee
July - September 2014	Audit fieldwork on statement of accounts and completion of VFM work
September 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to those charged with governance (Audit Committee)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	164,039
Grant certification	16,036
Total fees (excluding VAT)	180,075

Fees for other services

Service	£
None	Nil

Our fee assumptions include:

- 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

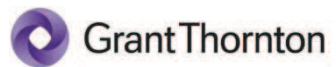
Priority

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. This was also raised in 2012-13.</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 ceased in December 2012.</p> <p>We recommend reinstating the control for the 2014/15 financial year.</p>	Medium		



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An instinct for growth™

A guide to local authority accounts

March 2014



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Introduction

This guide is designed to help members of audit committees discharge their responsibilities for the financial statements. It aims to help them understand and challenge the accounts, supporting notes and other statements.

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

However, local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. IFRS provides a comprehensive framework (over 3,000 pages of mandatory requirements) for the production of financial statements in the public and private sector. This framework is continually being refined.

We have prepared this guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

“It sounds extraordinary, but it's a fact that balance sheets can make fascinating reading.”

Mary Archer
British scientist



A guide to local authority accounts

1

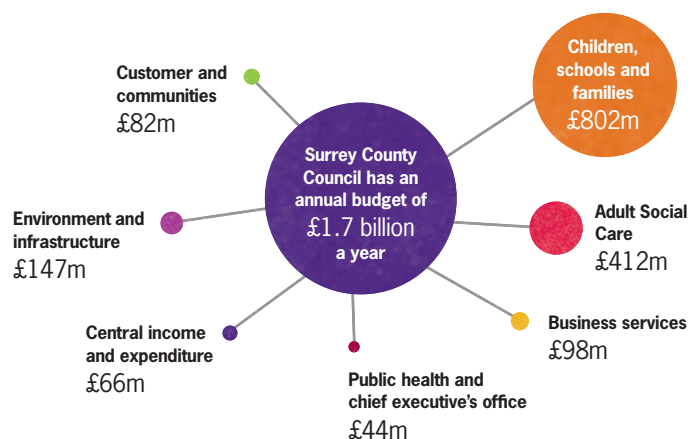
Explanatory foreword

The purpose of the explanatory foreword is to provide a commentary on the financial statements. It should include an explanation of key events and their effect on the financial statements.

The information included in the explanatory foreword should not be a surprise and should be familiar to you from the budget reports provided during the year. The explanatory foreword should therefore ideally also reconcile the year end financial position reported to members (the outturn) to the statutory financial accounts.

However, in a recent survey on governance, conducted by Grant Thornton, 40% of respondents did not agree that the explanatory foreword aids public understanding of local government accounts. Too often, explanatory forewords repeat key elements of the accounts and run the risk of being overly long, rather than provide a clear commentary in plain English. This indicates there is still some way to go before the explanatory foreword achieves its purpose.

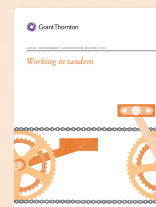
Key financial information should be clearly explained and authorities should consider the best way to present it. Below is an example of the presentation of financial information that we consider to be helpful.



Challenge questions

- 1 Does the explanatory foreword provide a clear summary of the authority's financial performance and financial position at the year end?
- 2 Is the summary in line with your expectations? Is the financial performance in line with budget reports? Are the key events described in the explanatory foreword those you expected to see?
- 3 Can you trace the figures to the financial statements? Are they consistent?
- 4 If last year's figures have been restated, is the reason clearly explained?
- 5 Is there a better way that this information could be presented or communicated?

For more information, see [Grant Thornton's Local Government Governance Review 2014](#)



Annual governance statement

The annual governance statement (AGS) sets out the arrangements the authority has put in place to manage and mitigate the risks it faces when meeting its responsibilities. The AGS should give the reader a clear sense of the risks facing the authority and the controls in place to manage them.

While the AGS is prepared by the authority at the end of the year, it should be built up from processes designed, run and tested throughout the year. There should be no surprises for members of the audit committee as all of the issues described should already have been discussed. However, surprises can occur if the first sight of the document is not until June. We recommend making the AGS an iterative document which is presented in draft to audit committee members towards the end of the calendar year.

The AGS should be consistent with:

- the rest of the financial statements
- internal audit findings
- the results of any external inspections of the authority during the year.

Challenge questions

- 1 Is the content of the AGS consistent with your knowledge of the operations of the authority over the year?
- 2 Does the AGS succinctly describe the control environment in an understandable way?
- 3 In particular, does the AGS include:
 - all significant risks that you were aware of during the year?
 - the actions the authority is taking to address the identified risks?

Only 65% of respondents to our survey agreed that the AGS helps the public to understand how the organisation manages risk.



Movement in reserves statement

Reserves represent the authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable.



Usable reserves

- Result from the authority's activities
- Can be spent in the future
- Include:
 - general fund
 - earmarked reserves
 - capital receipts reserve

The level of usable reserves, the spending plans of the authority and other sources of funding will determine how much council tax needs to be raised.

The movement in reserves statement (MIRS) analyses the changes in each of the authority's reserves from year to year. It should be clear to see what has caused the movement in each reserve. The statement shows:

- **opening balances** – these should be the same as the previous year's closing balances
- **total income or expenditure for the year** – this should agree with the comprehensive income and expenditure account
- **statutory transfers between reserves** – these are made as the result of regulation
- **voluntary transfers between reserves** – these are made as the result of the authority's decisions
- **closing balances** – these should agree to those on the balance sheet.

Transfers between reserves should not result in a change in the overall level of reserves.

Unusable reserves

- Derive from accounting adjustments
- Cannot be spent
- Include:
 - pensions reserve
 - revaluation reserve
 - capital adjustment account

Statutory transfers are adjustments that are made to usable reserves to:

- remove transactions that are required by accounting standards
- add transactions required by statute.

For example, accounting standards require depreciation to be charged to the general fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the general fund. Depreciation is therefore taken out of the general fund and replaced with the minimum revenue provision (MRP). The MRP represents the authority's estimate of how much it should contribute to capital expenditure each year and is approved by members at the start of every year.

Voluntary transfers include the earmarking of reserves. Members may choose to earmark reserves, putting aside cash to deliver specific longer-term objectives, such as the replacement of vehicles, plant and equipment. The purpose and usage of each earmarked reserve should be clearly set out.

Challenge questions

- 1 Are the movements in the two types of reserves shown in separate tables?
- 2 Do the opening balances agree with last year? Have any restatements been clearly explained?
- 3 Do the figures in the MIRS agree to the comprehensive income and expenditure statement?
- 4 Can you trace the figures in the MIRS to the relevant notes? Do the notes adequately explain the major movements?
- 5 Are the purposes of the material earmarked reserves consistent with the authority's objectives and the authority's decisions?

For more information, see **Grant Thornton's Approving the MRP Policy**



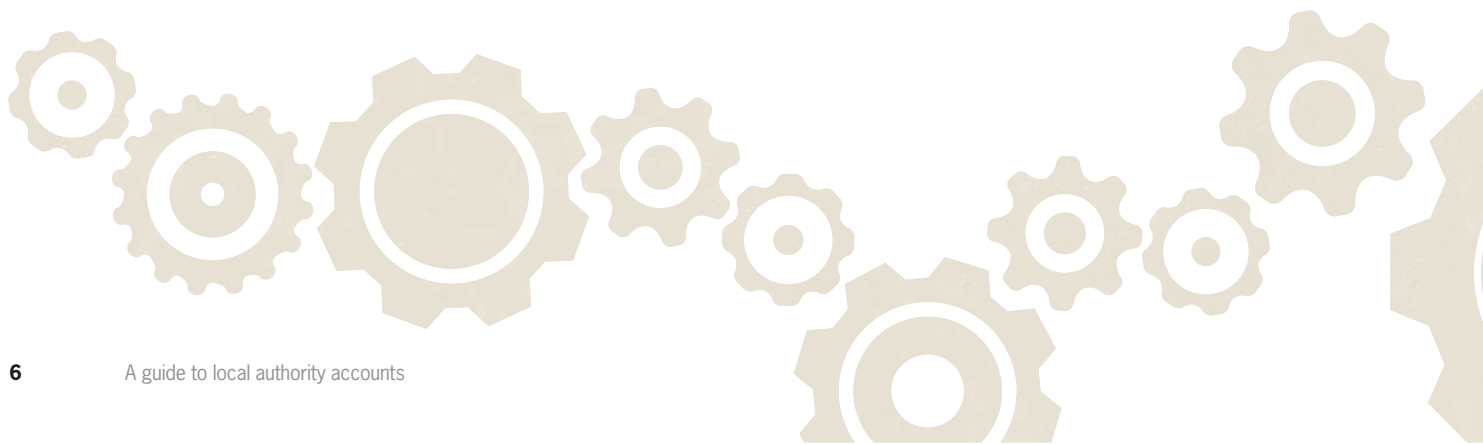
Comprehensive income and expenditure statement

The comprehensive income and expenditure statement (CIES) reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit.

The CIES is sometimes described as a 'film' of all the transactions in the year. It includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

The CIES shows the accounting position of the authority before statutory overrides are applied. It analyses income and expenditure based on services. This means that it does not have the same headings you see in commercial financial statements.

The standard format of the CIES means that it will differ from the layout in your budget book, which will be based on your authority's own activities and internal reporting needs. A note to the accounts should reconcile the figures reported internally to those included in the CIES.



Five broad sections within the CIES

Cost of services	Presented in a standardised format as set out by the 'Service reporting code of practice for local authorities'. Includes service specific income and expenditure. Any large and/or unusual items which may affect the reader's view of the accounts should be disclosed separately.
Other operating income and expenditure	Includes the surplus or deficit from the sale of property, plant and equipment.
Financing and investment income and expenditure	Includes interest payable and receivable.
Taxation and general grant income	Includes revenue from council tax and the revenue support grant.
Other comprehensive income and expenditure	Items which are not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

Challenge questions

- 1 Does the CIES reflect the financial performance of your authority as you know it?
- 2 Have there been significant changes year on year? If so, are these clearly explained?
- 3 Is there a detailed note to reconcile the CIES to budget reports? Is it easy to find? Can you trace the figures through?



Balance sheet

The balance sheet is a ‘snapshot’ of the authority’s financial position at a specific point in time, showing what it owns and owes at 31 March.

The balance sheet is always divided into two halves that should, as the name suggests, balance:

- assets less liabilities (the top half)
- reserves (the bottom half).

Non current assets including: <ul style="list-style-type: none">• property, plant and equipment• heritage assets• intangible assets• investment property	Non-current assets have a life of more than one year. For most authorities the biggest balance by far is property, plant and equipment. These are tangible assets that are used to deliver the authority’s objectives. With some exceptions they need to be shown at a value based on market prices. Changes in valuations are matched by changes in reserves (generally the revaluation reserve). The cost of property, plant and equipment is spread over the period in which it is used by charging depreciation.
Current assets	Includes cash and other assets that, in the normal course of business, will be turned into cash within a year from the balance sheet date. Other assets include investments, non-current assets held for sale, inventories and debtors.
Current liabilities	Comprises short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance. Receipts in advance arise when the authority receives income this year for expenditure it will incur, or services it will provide, in future years.
Long-term liabilities	Includes borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There will also be an estimate for the cost of meeting the authority’s pension obligations earned by past and current members of the pension scheme.
Provisions	Represent future liabilities of the authority, but there is uncertainty about how much the authority owes or when it will have to pay.
Reserves	These are usable and unusable reserves.

Challenge questions

- 1 Have any significant changes between years been sufficiently explained?
- 2 Are there clear references to the notes where more detailed information is available?
- 3 Are the changes in property, plant and equipment what you would expect, based on any major disposals of assets, the authority’s capital programme and movements in market prices?
- 4 Are movements in investments and borrowing consistent with the authority’s treasury plans and with the cash movements in the cash flow statement?
- 5 Are the reasons for provisions and details of how they have been calculated clearly shown?
- 6 Do the reserves in the balance sheet agree to the balances in the movement in reserves statement?

Other statements

A number of other statements will be included within the financial statements, though not all will be relevant to every authority.

Cash flow statement	<p>Sets out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities.</p> <p>Cash flows are related to income and expenditure, but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the CIES when the transactions occurred, not when the cash was paid or received.</p> <p>The Local Authority Code of Practice allows two different methods of presentation to be used, and therefore formats may vary between neighbouring authorities.</p>
Collection fund	<p>Shows the transactions in respect of council tax and business rates during the year.</p>
Housing revenue account	<p>Shows the transactions in respect of council housing during the year. It is ring-fenced, so it cannot subsidise or be subsidised by other activities.</p>
Pension fund accounts	<p>Included within the financial statements of a pension fund administering authority, such as a county or unitary council. Shows the transactions and net assets/liabilities of the pension fund as a whole.</p>
Group accounts	<p>Prepared if the authority has a significant subsidiary, such as a local authority trading company. Shows the combined income and expenditure and balances of all the constituent bodies.</p>

Challenge questions

- 1 Have any significant changes between years been sufficiently explained?
- 2 Are there clear references to the notes where more detailed information is available?



Additional disclosures

The notes to the financial statements are generally the least read part of any set of accounts. This is because they appear complicated and are rarely written in plain English.

However, additional disclosures include important information and provide the context for the figures in the primary financial statements.

Accounting policies	Set out the accounting rules the authority has followed in compiling its financial statements, for example that land and buildings are shown at valuation rather than at cost. They are largely specified by International Financial Reporting Standards and the Local Authority Code of Practice. Authorities have limited discretion to amend them, but should: <ul style="list-style-type: none">• provide additional information where needed• remove accounting policies that are not relevant or apply to immaterial amounts.
Critical judgments	Show the key areas where officers have made judgements about the application of accounting policies. For example: <ul style="list-style-type: none">• classification of leases and public finance initiative (PFI) schemes• identification of provisions• impairment of assets. The aim is to highlight key areas of the accounts where others may have made different judgments about the accounting treatment.
Estimates	The authority may need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there is a significant risk the estimate will need to be materially adjusted next year.
Property, plant and equipment	Details about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value and the amount of depreciation charged.
Leases and PFI schemes	Set out how much will be paid annually to leasing companies and how much will be paid in total over the lifetime of the agreement.
Employee remuneration	Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes show the annual cost and cumulative liabilities of pensions.
Contingent liabilities	Details of possible costs that the authority may need to meet, but has not charged to the CIES because it thinks that it will probably be able to avoid them. The most common contingent liability is for legal claims.

Challenge questions

- 1 Have you already seen and been able to comment on the proposed accounting policies?
- 2 Are you comfortable with the critical judgements disclosed?
- 3 Do the figures reported in the financial statements agree to those included in the relevant notes?
- 4 Are the notes easy to find and follow?
- 5 Is too much information included? Could it be better presented?

And finally...

Once you have completed your review of the detail, you may wish to reflect upon the financial statements as a whole and what could be done to improve the process for future years.

About the financial statements

- 1 Are they clear, concise and easy to follow?
- 2 Are they presented in the best format? Could graphs or diagrams be used to help explain information more easily?
- 3 Is detailed information on the most important items easy to find?
- 4 Are technical terms explained in plain English? Is there a glossary?
- 5 Is it clear how a reader could find out more information?
- 6 Where are the accounts to be published? Are they easy to find?

About the process

- 1 Does your authority recognise that producing robust financial statements is important for strong financial governance?
- 2 Has your authority set targets to produce shorter, clearer, earlier financial statements?
- 3 What support can you give your officers to meet these challenges? Do they have sufficient resources? Are they given enough support from senior management?
- 4 What support do you need to help you discharge your responsibilities? Are there any areas in which you need training?

For more information, see **Grant Thornton's Declutter your accounts – top 10 tips**



CIPFA's Financial statements: a good practice guide for local authorities



About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 185 partners and employing over 4,200 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county

councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector.

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

Contact us

Paul Dossett

Head of local government
T 020 7728 3180
E paul.dossett@uk.gt.com

Kathryn Sharp

Author
T 01293 554086
E kathryn.e.sharp@uk.gt.com

London, South East and Anglia**Darren Wells**

Director
T 01293 554120
E darren.j.wells@uk.gt.com

Wales**Barrie Morris**

Director
T 0117 305 7708
E barrie.morris@uk.gt.com

North**Mike Thomas**

Director
T 0161 214 6368
E mike.thomas@uk.gt.com

South West**Liz Cave**

Director
T 0117 395 7885
E liz.a.cave@uk.gt.com

Midlands**Mark Stocks**

Director
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Scotland**Gary Devlin**

Director
T 0131 659 8554
E gary.j.devlin@uk.gt.com



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EPI1074



Decluttering your accounts

Helping local authorities prepare clear and concise financial statements

Spring 2014

The case for de-cluttering

Financial statements are an important part of good governance and accountability. But many local authorities say their financial statements are becoming more complex, harder to prepare and less clear for readers. We believe it is possible to break this trend.

In 2012 we published our top ten tips on how to de-clutter local authority accounts. Since then we have worked with authorities across the UK to help them prepare financial statements that are clear and concise. For some the change has been dramatic with one of our clients successfully halving the length of its financial statements. Based on this work we have identified the five critical success factors.

1 Engage stakeholders

Securing the commitment of your members, senior managers and other stakeholders (including auditors) to the project is essential. And understanding what your stakeholders think of your latest financial statements will help you identify the main areas for improvement:

- are the financial statements consistent with their knowledge of the authority?
- do they think that big issues are disclosed clearly?
- are there any areas where the financial statements do not make sense to them?

2 Remove immaterial disclosures

Disclosure notes are only needed for material items or where disclosure is required by statute. Removing immaterial disclosures can have a major impact on the size of your financial statements. To do this you will need to have a clear understanding of what is material to your local authority:

- an item is material if it could influence the view of a user of the financial statements
- assessing materiality requires consideration of both qualitative and quantitative factors.

3 Remove duplication

Financial statements often include several disclosures covering the same balances, sometimes resulting in duplication. Merging these notes and disclosing information just once can make the accounts more readable and shorter.

4 Re-order

Many local authorities follow a standard order for their disclosures. Changing the order in which information is disclosed can help give greater prominence to the big issues and make the accounts more readable.

5 Use a variety of presentational formats

Lines of text and lists of numbers may not always be the best way to engage a reader. Financial information is often most effectively presented in tables or graphs. Using a variety of presentational formats can also help you highlight the big issues and maintain the reader's interest for longer.

Who should I contact?

For more information on how to de-clutter your financial statements, contact your usual Grant Thornton contact in the first instance or, alternatively:

Paul Dossett

Partner

T 020 7728 3180

E paul.dossett@uk.gt.com



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Approving the minimum revenue provision policy

Supporting members to take informed decisions
Spring 2014

Why is this important?

Local authority members are not expected to be financial experts. However, capital financing is complex and each year members are required to approve a policy that charges capital costs to revenue: the minimum revenue provision (MRP). This guide is designed to provide members with background information to help them make a more informed decision.

Different types of expenditure

Local government incurs two main types of expenditure – revenue and capital. In local government, as in other sectors, there are different rules which govern accounting for revenue and capital.

- **Revenue expenditure** refers to day-to-day expenses incurred in running services such as staff salaries, payments to contractors. The rules in respect of revenue expenditure are straightforward. The Local Government Finance Act 1992 requires authorities to set a balanced budget each year, although historic reserves may be used to fund specific items.
- **Capital expenditure** refers to the council's expenditure on long-term assets such as buildings, IT systems, vehicles and so on. This expenditure is different because it can commit the council to payments many years in the future, particularly when the assets are funded by borrowing.

Charging for capital expenditure

Why not charge depreciation?

Local authorities follow international financial reporting standards (IFRS). These set out how to charge for capital items and include concepts such as depreciation. However, if local authorities were required to meet these IFRS charges, many would be unable to balance their general fund without raising significant additional funds from taxpayers. This is not indicative of poor decision-making in previous years: it is a consequence of accounting charges relating to capital projects encouraged by central government in the past.

As a result, local authorities are required to follow a regulatory framework for charging for capital costs. This means that although a local authority income and expenditure statement includes accounting entries for items such as depreciation, these are removed from reserves and replaced with a charge that is determined by statute.



What are the key principles of the local authority statutory framework for capital financing?

- **Capital grants and capital receipts cannot be used to fund revenue:** a local authority cannot, for example, sell land to fund the running costs of the Town Hall. Local authorities place income from capital grants and receipts into specific capital reserves that can only be used to fund capital expenditure.
- **Local authorities can spread the funding of capital expenditure over more than one year:** where a local authority incurs capital expenditure it funds the costs from a combination of its capital grants, receipts and reserves and the general fund. It is allowed to spread this funding over several years taking on board the impact on current and future taxpayers.
- **Each year members must approve the local authority's policy on how much capital expenditure to charge to the general fund:** it is up to each local authority to decide how to fund its capital expenditure. However, each year it must charge an amount to the general fund that it considers to be prudent. This is known as the Minimum Revenue Provision (or MRP). The MRP Policy must be approved by full council or (if an authority does not have a council) the nearest equivalent.

How might members go about approving a prudent MRP policy?

- **Consider the Capital Financing Requirement (CFR)** – this sets out how much capital expenditure still needs to be funded by the local authority. Authorities must set an MRP policy that charges this balance to reserves on a prudent basis.
- **Consider the Department for Communities and Local Government's (DCLG's) guidance on setting an MRP policy** – local authorities are required to 'have regard' to DCLG's guidance on MRP. This means that an authority must consider what the statutory guidance says. It does not mean that a local authority is obliged to follow the guidance. However, if an authority does decide to depart from the guidance, it must be able to show good reasons for doing so.
- **Apply judgment** – members are not expected to be financial experts but they are required to make an informed decision as to whether the MRP policy is prudent. In reaching this judgement members may wish to consider the following:
 - 1 Does the MRP policy follows DCLG's statutory guidance? If not have officers prepared a report that explains clearly the basis for any departure from the guidance?
 - 2 Does the MRP policy charge the CFR to the general fund over a prudent period? For example, if the length of time is excessive (more than 60 years, say) then the policy is unlikely to be prudent: tax-payers will be funding the cost of assets long after they have been scrapped.
 - 3 Are there are any warning signs? For example, has the MRP policy changed? If so, why? Is this part of a well-thought out capital financing strategy or a knee-jerk reaction to short-term financial pressures? Borrowing to invest in capital projects at historically low interest rates may very well be the right approach for the authority but has the authority received advice from external consultants? If so, have officers critically assessed the advice received or have recommendations been accepted without scrutiny?

How we can help?

As the leading provider of external audit to local authorities, we see part of our role as supporting members to make the best financial decisions on behalf of local residents. Not all aspects of capital accounting and financing are simple, but this guide should have helped to explain some of the principles. We hope this is useful for members looking to gain sufficient understanding to discharge their responsibilities.

Who should I contact?

For more information about local government finances, contact your usual Grant Thornton contact in the first instance or, alternatively:

Paul Dossett

Partner

T 020 7728 3180

E paul.dossett@uk.gt.com



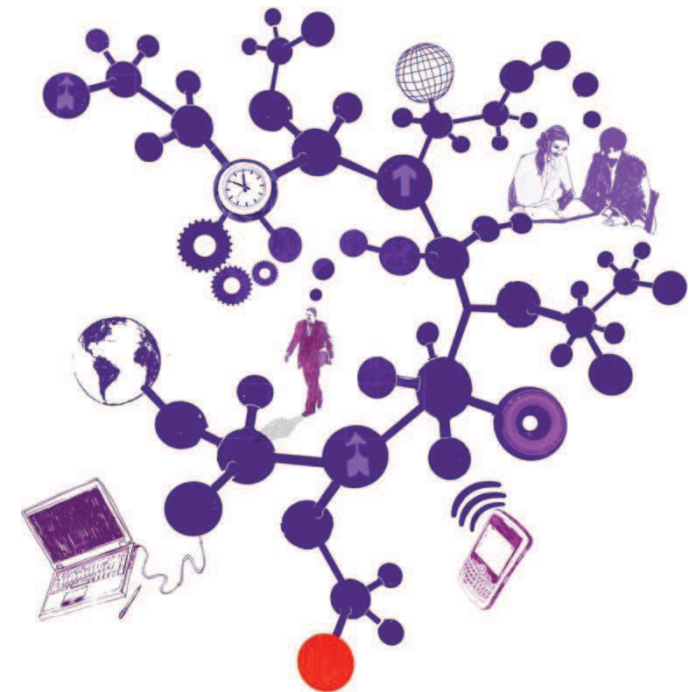
Benchmarking your arrangements for Securing Financial Resilience – Bath and North East Somerset Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Page 104
February 2014

Barrie Morris
Director
T 0117 305 7708
E barrie.morris@uk.gt.com

Kevin Henderson
Manager
T 0117 305 7873
E kevin.j.henderson@uk.gt.com



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.

Introduction

1 Introduction **Page 3**

2 Your financial resilience performance **Page 4**

3 How do you compare for 2012-13? **Page 5**

Your financial resilience history

Value for Money conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of statutory external audits, includes a review to determine if Councils have proper arrangements in place for securing financial resilience.

In so doing we consider whether Councils have robust financial systems and processes in place to manage their financial risks and opportunities, and to secure a stable financial position that enables them to continue to operate for the foreseeable future

The definition of foreseeable future for the purposes of these financial resilience review is 12 months from the date of our reports to clients.

Benchmarking for Bath and North East Somerset

We are providing this benchmarking pack as further information on your financial resilience in 2012-13. and in the light of the recent issue of our national report on financial resilience in the sector "*2016 tipping point? Challenging the current*".

The benchmarking requested relates to:

- the national data set of all Councils;
- the other Somerset Councils that we have reviewed;
- the national data set of Unitary Authority clients.

For the first two years of our reviews (relating to the 2010/11 and 2011/12 VfM conclusions) we audited 7% of English local authorities. For the third year of our reviews (relating to the 2012/13 VfM conclusions) we audited 40% of English local authorities.

Our findings are set out over the following pages.

Our Financial Resilience Ratings

We use a red/amber/green (RAG) rating with the following definitions

Green	Arrangements meet or exceed adequate standards. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	Potential risks and/or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

How did you perform?

What is the picture for 2012-13?

We have reviewed:

- key indicators of financial performance;
- strategic financial planning;
- financial governance; and
- financial control.

Within these thematic areas we have looked at 22 different categories and the graph below shows your performance on these categories. To the left are the overall ratings for the four themes, and to the right are the 22 categories.

The overall financial resilience performance for Bath and North East Somerset Council is green rated for all areas with no category of concern in the areas of Key Indicators, Strategic Financial Planning and Financial Governance.

With regard to Financial Control, the Council is assessed as amber for Internal and External Audit arrangements which suggest the need for more robust arrangements in both categories. These findings did not affect the overall rating for Financial Control.

Specifically in relation to Internal Audit, the Council was assessed as amber due to a significant reduction in the number of internal audit staff. We concluded that the Council needed to ensure that it continues to have a robust and resilient internal audit service. Since our review, in order to help to build this resilience, the Council has joined forces with North Somerset Council to share staff.

With regard to external audit, the Council was assessed as amber as the Council's asset register needed to be improved, particularly the reporting modules on the system. Some improvements had been made, but further work was required.



How do you compare?

Benchmarking against all Councils

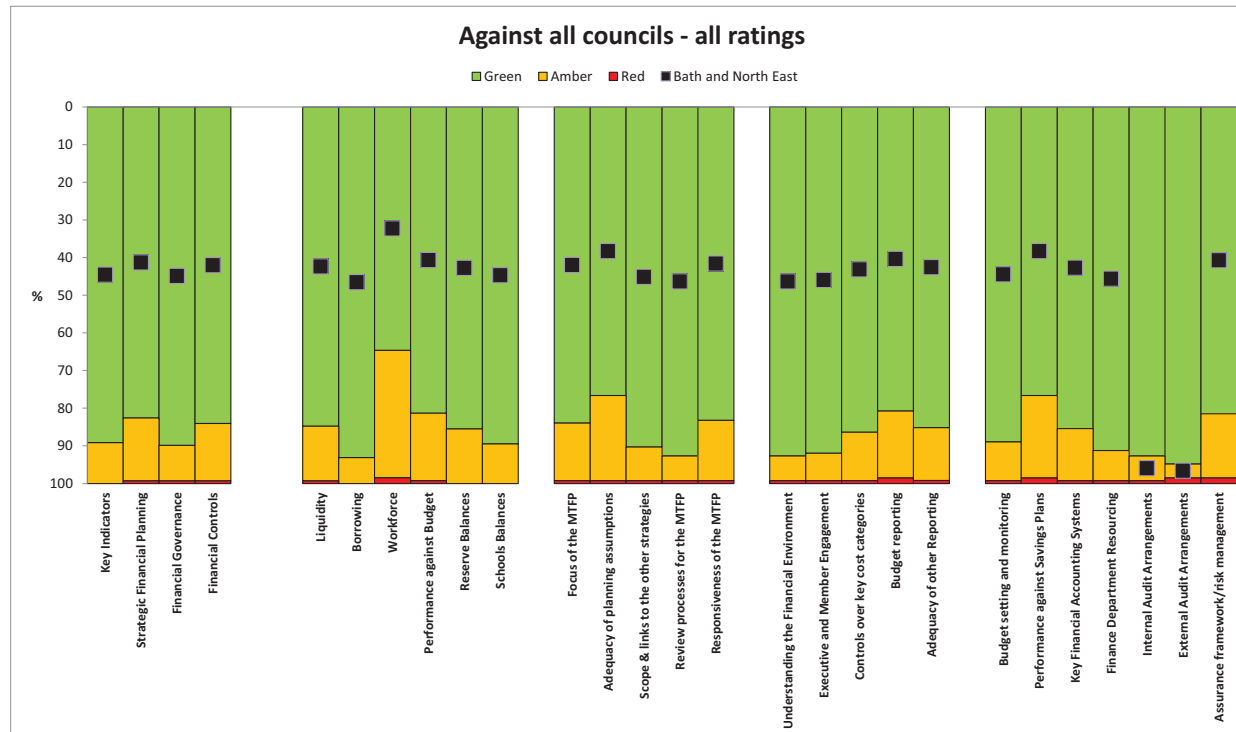
The graph below shows how the Council performs against the results for all Councils in 2012-13. Your scores are plotted as the black squares overlying the population performance: the colour that your black square lies in indicates the level you achieved.

Overall Conclusion

- All councils perform well in all areas with the weakest being the area of strategic financial planning. The Council's cumulative financial resilience performance across all four areas is rated consistently high in comparison to all other councils which shows relatively good performance.

Relative Performance

- However, the Council's performance in the categories of Internal and External audit is relatively weak. Less than 10% of councils were assessed as amber in these areas and this council falls within this category. The factors contributing to this assessment are outlined on page 4.



How do you compare?

Benchmarking against GT Somerset audit clients

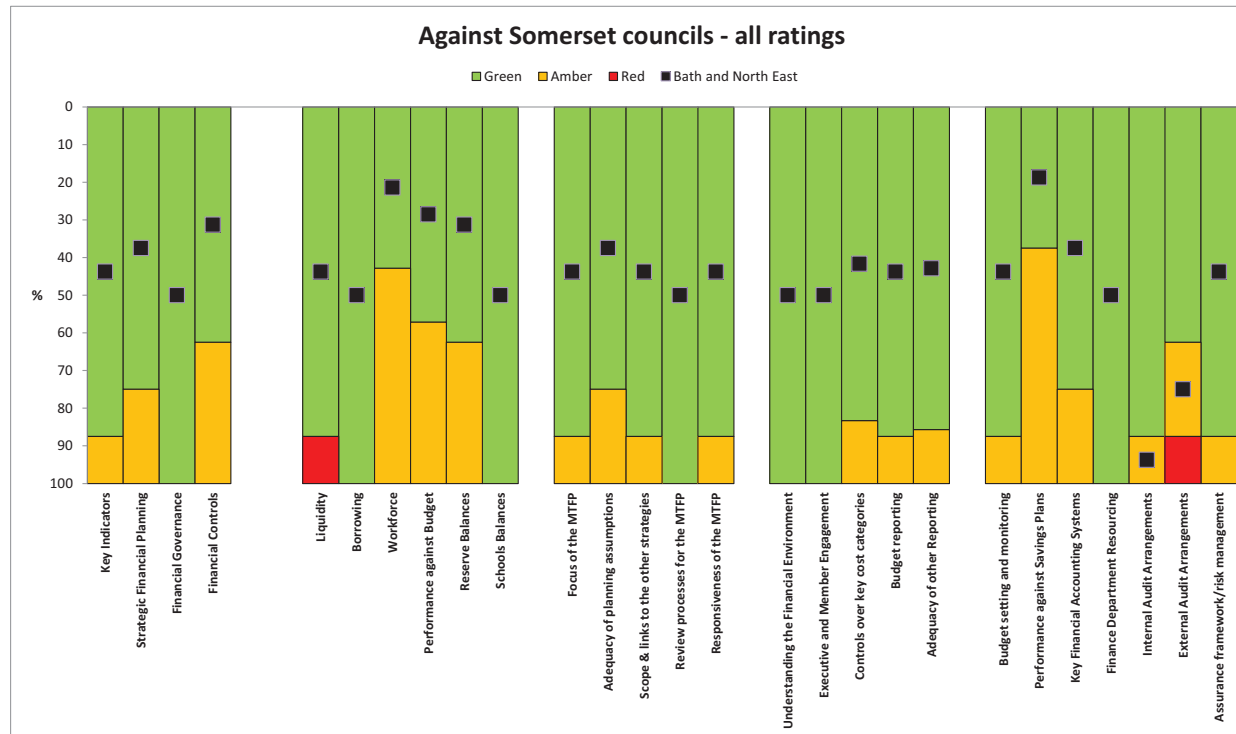
The graph below shows how you perform against the results for the Somerset councils that we audit.

You can draw the following conclusions about this new population:

- Somerset councils perform well in all areas with the weakest being the area of strategic financial planning. The Council's cumulative financial resilience performance across all four areas is rated consistently high in comparison to other councils which shows relatively good performance. The population of Somerset councils appears particularly weak in the area of financial control with significant weakness in External Audit arrangements.

You can draw the following conclusions about your performance:

- Again, the Council's performance in the categories of Internal and External audit is relatively weak in comparison with other councils. The proportion of councils that are weak in these categories is greater especially in the area of external audit arrangements in which 40% of councils are not assessed as green. This may reflect a general issue faced by Somerset councils regarding external audit arrangement e.g. not adequately responding to external audit recommendations.



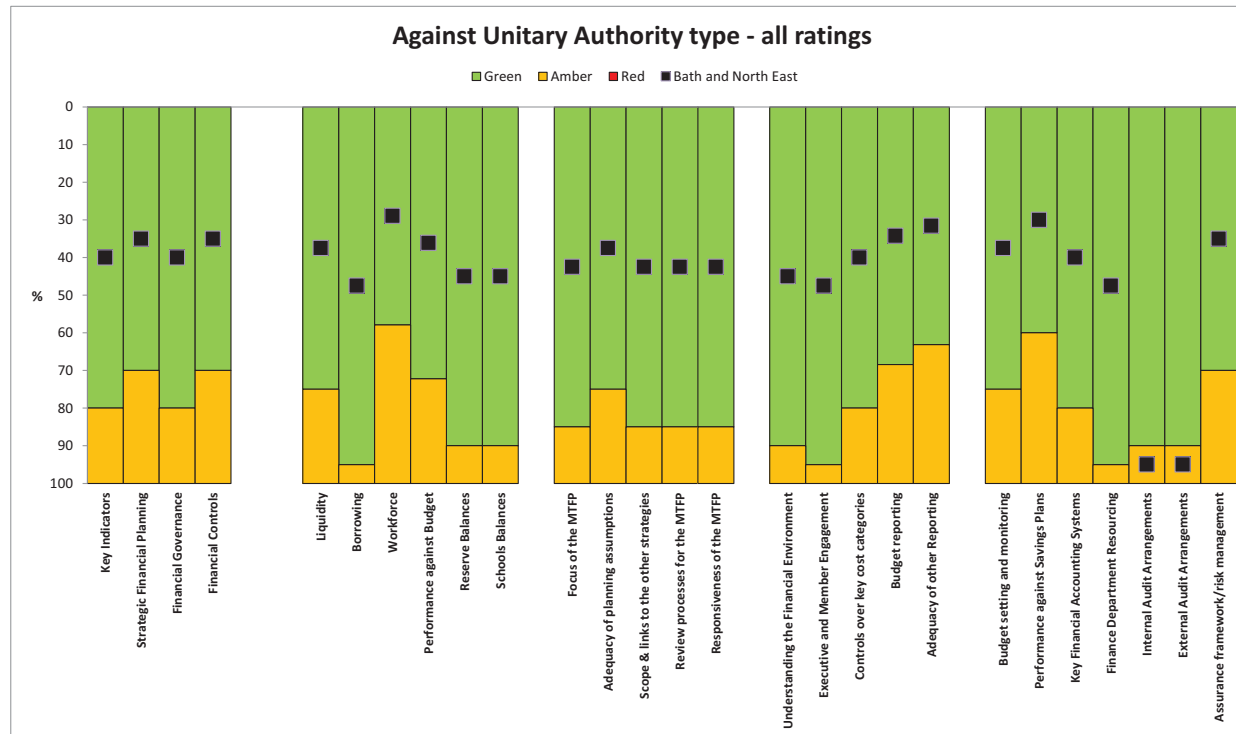
How do you compare?

Benchmarking against GT Unitary Authority audit clients

The graph below shows how you perform against the results for our Unitary Authority clients.

You can draw the following conclusions about this new population:

- Unitary authority clients perform well in all areas with the weakest being the areas of strategic financial planning and financial control. The Council's cumulative financial resilience performance across all four areas is rated consistently high in comparison to all other councils, the only exceptions being Internal and External Audit arrangements as outlined on pages 4-6.



How do you compare?

Benchmarking comparing the different client type

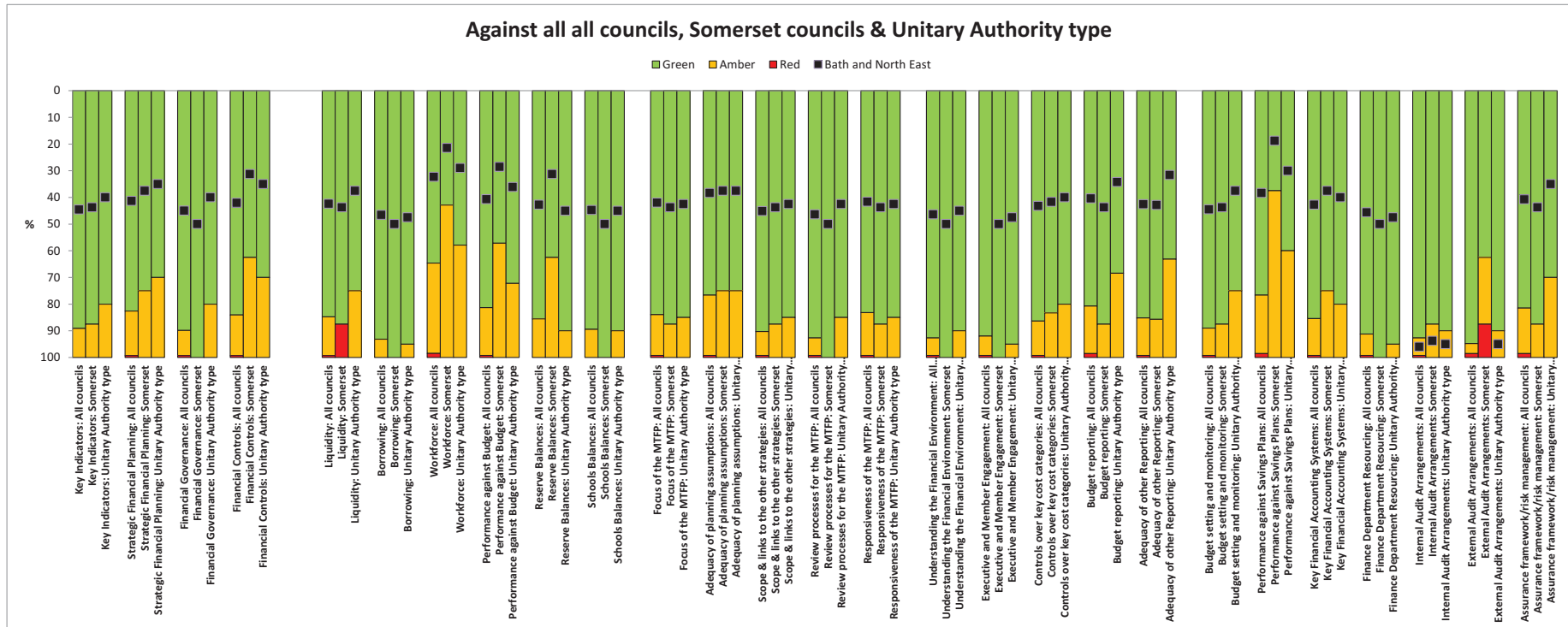
The graph below summarises the previous three slides in a single chart.

Overall message

This report needs to be read in the context that our financial resilience reviews fell in the second year of the four-year SR10 period, where some of the potential risks and challenges over the medium term may have yet to materialise for the Council and the wider sector.

Overall, the Council demonstrates a high level of financial resilience across all areas in line with a majority of other councils. We will once again undertake a review of financial resilience as part of our 2013/14 audit. We will specifically follow up those areas assessed as amber in 2012/13 i.e. Internal and External Audit arrangements.

Against all all councils, Somerset councils & Unitary Authority type





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Agenda Item 13

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	13 th May 2014	AGENDA ITEM NUMBER
TITLE:	Annual Report of the Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Existing Terms of Reference for the Corporate Audit Committee		

1 THE ISSUE

1.1 An annual report of the committee's work in 2013/14 is required to be submitted to Council at its September meeting and this report asks for Members views on the effectiveness of the committee during this time. This will be the ninth annual report of the Committee since it was established by the Council on 12th May 2005

1.2 The current terms of reference of the committee are attached at Appendix 1.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- a) Delegate responsibility to the Chairman of the Committee and the Chief Internal Auditor to prepare an annual report for submission to Council in September;
- b) Comment on the effectiveness of the committee in carrying out its role during 2013/14.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 The Committee's work is carried out to give assurance to the Council over its governance arrangements and meet its terms of reference which are attached at Appendix 1.

4.2 During the year the following areas have been covered by the committee –

- Approval of the 2012/13 Accounts
- Review of the Treasury Management Strategy and Outturns
- Review of the plans and work of Internal Audit
- Review of options for service delivery for Internal Audit
- Review of new Public Sector Internal Audit Standards
- Review of the Annual Governance Review process for 2013/14
- Review of the Governance Reports for the Council & Pension Fund
- Review of External Audit Plans for the Council & Pension Fund
- Review of External Audit Update Reports
- Review of Financial Resilience Reports from the External Auditor
- Review of Grant Certification work from the External Auditor
- Review of the Council's Fraud & Corruption Arrangements
- Review of the Councils Risk Management Arrangements

4.3 As part of the process for preparing the annual report a desktop review will take place on the current terms of reference against best practice, particularly in light of the recent changes to the public audit regime. However at this time it is not considered that further changes are likely to be recommended, subject of course, to the comments of the members of the 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.

5.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7. CONSULTATION

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

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Appendix 1 – Corporate Audit Committee Terms of Reference

The Council delegates to the Corporate Audit Committee the following responsibilities:

1. To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance;
2. To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year;
3. To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations);
4. To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement (including the list of significant issues for action in the ensuing year), as prepared in accordance with the statutory requirements and guidance; and to monitor progress on the significant issues and actions identified in the Statement;
5. To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements;
6. To review periodically the Council's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments;
7. To consider the annual Audit & Inspection Letter from the External Auditor and to monitor progress on accepted recommendations;
8. To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance and in any such other ways as the Committee may consider expedient (within the budget agreed by the Council);
9. To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
10. To make an annual report to council on the work [and findings] of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

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