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14 March 2018

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place on **THURSDAY, 22ND MARCH, 2018 at 6.00 PM IN THE COMMITTEE ROOM,** District Council House, Lichfield to consider the following business.

Access to the Committee Room is via the Members' Entrance.

Yours faithfully

Neil Turner BSc (Hons) MSc
Director of Transformation & Resources

To: Members of Audit and Member Standards Committee

Councillors Tittley (Chairman), Awty (Vice-Chair), Mrs Boyle, Marshall, Mosson, Rayner, Strachan, Mrs Tranter and Mrs Woodward

AGENDA

AUDIT AND MEMBER STANDARDS COMMITTEE

22 January 2018

PRESENT

Councillors Tittley (Chairman), Awty (Vice-Chairman), Mrs Boyle, Marshall, Mosson, Rayner, Strachan, Mrs Tranter and Mrs Woodward

Observers – Councillor Mrs Baker and Councillor Spruce (Cabinet Member for Finance and Democracy)

Officers in attendance: Ms B Nahal, Mrs A Struthers, Mr A Thomas, Mr G Davies, Ms C Tims, Ms D Tilley, Mr N Turner and Ms W Johnson

Also Present: Mr J Gregory and Ms L Griffiths from Grant Thornton (External Auditors)

176. APOLOGIES FOR ABSENCE

There were no apologies for absence.

177. DECLARATIONS OF INTEREST

There were no declarations of interest.

178. MINUTES

The Minutes of the Meeting held on 26 September 2017, as printed and previously circulated, were taken as read and approved as a correct record.

179. LOCAL AUDIT UPDATE

Members considered the Local Audit Update from Mr Thomas (Head of Finance & Procurement). Mr Thomas advised that following the PSAA decision to appoint Grant Thornton as Lichfield District Council's External Auditors, the audit procurement had now indicated the scale of fees for 2018/19 which were 23% lower to the 2017/18 fees. However, Lichfield District Council needed to make arrangements for the housing benefit subsidy certification work which had not been included in the audit legislation. Discussions were currently taking place and members were asked to note the extra Audit and Member Standards Committee meeting on Wednesday 9 May at 6pm where Grant Thornton would be delivering a Presentation for this additional piece of work. The appointment was favoured by the committee as there was already a good working relationship with Grant Thornton.

> **RESOLVED:** That the Committee note the appointment of Grant Thornton as the Council's External Auditors for the next 5 years from 2018/19 and note the scale of fees for 2018/19.

180. MID-YEAR TREASURY MANAGEMENT REPORT

Members considered the Mid-Year Treasury Management Report as at 30 September 2017 from Mr Thomas and he explained the report in more detail verbally. (Mr Thomas explained that the report excluded changes related to the Leisure Facilities Outsource project recommended for approval to Full Council on 19 December 2017 and the Property Investment Strategy). Discussions took place around the main elements of the report including affordable housing projects and the capital receipts relating to Friarsgate. The liquidity of our investments were explained and the yield. Mr Thomas confirmed that Lichfield District Council had recently reappointed Arlingclose as its Treasury Management advisors after a tender process and advised that this contract was due to run from June 2017 – June 2020 with an option of two further one year extensions. Mr Thomas said there were a number of regulatory changes coming in to force and explained them in more detail. He confirmed that it was the Council's intention to be classed as a "professional" client under MiFID II (the differences were illustrated in the report).

RESOLVED: The Committee:

(1) Note the report and issues within;
(2) Note the reappointment of Arlingclose as the Council's Treasury Management Advisors and the forthcoming Regulatory changes;
(3) Note the projected 2017/18 Prudential Indicators in the report.

181. TREASURY MANAGEMENT STRATEGY

Members considered the Treasury Management Strategy Statement from Mr Thomas and members were asked to highlight any changes for recommendations to Cabinet. Mr Thomas said the bold text on page 1 of the report highlighted some changes which may mean a revised TMSS will need to be adopted during 2018/19 to take into account of the new guidance and revised codes. Discussions took place around the implications of fluidity/Friarsgate/Brexit/Capital Programme and Property Investments. Mr Thomas stated that to deliver the Property Investment Strategy we will need to engage External Advisors to undertake more robust financial modelling.

RESOLVED: The Committee:

(1) Noted the Capital Strategy and Capital Programme outlined in Appendices A & B;
(2) Noted the Balance Sheet Projections and Borrowing Requirement and Strategy 2017-22, contained within Appendix C;
(3) Noted the Minimum Revenue Provision Statement 2018/19, contained within Appendix D, which sets out the Council's policy of using the asset life method as the basis for making prudent provision for debt redemption;
(4) Noted the Treasury Management Policy Statement and The Annual Investment Strategy 2018/19 and the detailed criteria – Appendix E;
(5) Noted the use of Specified and Non-Specified Investments – Appendix F;
(6) Noted the Prudential Indicators and limits for 2017-22 contained within Appendix G of the report;
(7) Noted the Authorised Limit Prudential Indicator shown within Appendix G.

182. INTERNAL AUDIT PROGRESS REPORT – AUGUST – NOVEMBER 2017

Members considered the Internal Audit Progress Report August 2017 - November 2017 from Mrs Struthers (Audit Manager). Mrs Struthers advised that a total of 41 recommendations were made with 39 of the recommendations being accepted by management. Only 2 recommendations that were not accepted relating to Building Control and the limited assurance levels were discussed. Gareth Davies, Head of Regulatory Services, Housing & Wellbeing attended to explain why the Health & Safety Enforcement service had received limited assurance and gave some background. He explained that the Health and Safety rules are complicated as some Inspections are carried out by the HSE yet some are to be carried out by the Council. Mr Davies said one of the main issues was the lack of a computer database in Regulatory Services; the service has relied entirely to date upon its own spreadsheets/database records which is not satisfactory. Mr Davies therefore said he intended to procure a Regulatory Services database and a paper was going to the next Cabinet meeting for approval. This, however, would take 18 months to implement. Mr Davies stated that all other high priorities on their Internal Audit Report had now been met. Members were concerned especially as public safety was at stake and wondered how long it was going to take to rectify this situation. It was questioned if the Committee should write to the MP. The Chairman agreed in the first instance to write to the Portfolio Holder on Cabinet and express concern and see if enough resources were available to address this issue. This was agreed.

Ms Tims, Head of Corporate Services attended to explain to the committee what was being done about the Customer Promise/Complaints Process which had also been reported as only having limited assurance. She explained that the majority of the recommendations had now been addressed and implemented however, she was still looking at our performance management systems - as to how we can embed the learning from the complaints received and translate it into service improvement. The two stage complaints process is being launched and work is progressing on developing a mechanism to undertake lessons learned reporting, which is the final recommendation relevant to complaints. There are still some issues to be resolved in relation to Customer Promise and Ms Tims is working with Mrs Leybourne to identify how these can be measured corporately. An update to our telephony system is due to be completed by the end of January and this, in conjunction with the roll-out of our customer forms package, will enable us to assess the delivery of our customer promises. Ms Tims is also responsible for the mobile computing item which also had limited assurance in the report. She was able to confirm that there is a facility to block memory sticks and other removable media, however, these are having to be addressed on a case by case basis in a roll out programme that will take until April 2018. She assured members that we had improved our level of awareness and protection for mobile computing with the majority of actions completed and only 2 issues remaining outstanding, which were linked to our plans for GDPR and will be resolved by May 2018 at the latest.

The Chairman thanked both Officers for their attendance and explanations.

> **RESOLVED:** The Committee considered the Internal Audit Progress Report August 2017 to November 2017 and the Chairman agreed to write to the Cabinet Member for Regulatory Services, Housing & Wellbeing with regard to Health & Safety Enforcement.

183. RISK MANAGEMENT UPDATE

Members considered the Risk Management Update from Mrs Struthers (Audit Manager). The corporate risk register and the significant risk on the project risk register were presented to the members of the Committee. The updated Risk Management Policy was presented to the Committee, which detailed the required changes – which were minor changes.

> **RESOLVED:** That Members:
>
> (1) Note the work being undertaken to ensure the Risk Management Policy is adhered to and the actions taking place to manage the Council's most significant risks;
> (2) Consider the updated corporate risk register and project risk register.
> (3) Approve the updated Risk Management Policy.

184. MEMBERS CODE OF CONDUCT/EQUALITIES TRAINING FEED BACK – VERBAL REPORT

Ms Nahal (Head of Legal, Property & Democratic Services) advised the Committee that 4 sessions of Member Code of Conduct/Equalities Training had been hosted at Lichfield District Council offices on different days to capture all and there had been a positive member attendance rate – 80%. She confirmed that the Members who had not attended had either done Equalities training elsewhere or at Staffordshire County Council or they had had other health and/or caring responsibilities which meant they could not attend. Only 3 members had not had valid reasons for non-attendance. Discussions took place around member training generally and if penalties for non-attendance should be a way forward.

RESOLVED:

Ms Nahal is to meet with the Leader, the Leader of the Minority Group and the Chairman of Employment Committee about Member attendance at Members Code of Conduct/Equalities Training and Training generally.

185. THE ANNUAL AUDIT LETTER FOR LICHFIELD DISTRICT COUNCIL

Members were asked to consider the Annual Audit Letter for Lichfield District Council year ended 31 March 2017 which had to be provided by the External Auditors, Grant Thornton, following the Audit Opinion being issued. The findings had already been reported to September's meeting in the Audit Findings Report so the letter was just for sign-off.

RESOLVED: That the report be noted.

186. CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2017

Members were asked to consider the Certification work for Lichfield District Council for year ended 31 March 2017 which reports the outcome of the External Auditor's work for this year. It was noted that the fees charged included an additional fee for additional work delivered as a higher error rate than expected was received.

RESOLVED: That the report be noted.

187. INFORMING THE AUDIT RISK ASSESSMENT, LICHFIELD DISTRICT COUNCIL

Members considered the Informing the Audit Risk Assessment Lichfield District Council 2017/18 Report from the External Auditors - Grant Thornton which was a report sharing questions and the responses received from management. The Committee were asked to consider the responses and comment. Page 12 quoted a question about whether there was sufficient staff in post and this was queried by the members as the Planning Department seemed to be under increasing pressure. Mr Thomas highlighted that the Government had recently confirmed that Councils will be able to increase planning fees by 20% as long as the additional income is reinvested in the Planning Service. The results of the Internal Audit Report also showed, there were problems with Customer Promise/Complaints Process/Mobile Computing and H&S Enforcement. Discussions took place as to whether the Committee should feedback to IRP in relation to Members non-attendance at mandatory training sessions and the importance of the Chair and Vice-Chair roles of the Committee. Ms Nahal advised that she had done a report to IRP last year which would cover the next 4 years but had a meeting booked with the Leader of the Council and a couple of members to look at what we would want the IRP to look at.

RESOLVED: That the report be noted.

188. AUDIT PLAN FOR LICHFIELD DISTRICT COUNCIL 2017/18

Members were asked to consider the External Audit Plan year ending 31 March 2018 prepared by our External Auditors - Grant Thornton.

RESOLVED: That the report be noted.

189. WORK PROGRAMME

Members considered the Work Programme and it was noted that there had been an additional meeting for the External Auditors Presentation on 9 May 2018 and a change of meeting date from 4 April to 22 May 2018.

(The Meeting closed at 7.53 pm)

CHAIRMAN

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PROPOSED ACCOUNTING POLICIES FOR THE 2017/18 STATEMENT OF ACCOUNTS

Cabinet Member for Finance and Democracy

Date:	22 March 2018
Agenda Item:	4
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	anthony.thomas@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	All wards.

Lichfield district council
www.lichfielddc.gov.uk

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 Best practice recommends that the proposed Accounting Policies to be used to prepare the Council's Statement of Accounts, should be approved by Audit and Member Standards Committee.

1.2 This report, therefore, sets out the Council's proposed Accounting Policies to be adopted in completing the 2017/18 Statement of Accounts.

1.3 The report also details any changes that have been made to the Council's 2016/17 Accounting Policies to ensure that they are relevant to the preparation of the Council's 2017/18 Statement of Accounts.

2. Recommendations

2.1 It is recommended that the Audit and Member Standards Committee approves the Council's proposed Accounting Policies that will form part of the 2017/18 Statement of Accounts.

3. Background

3.1 The preparation of the Statement of Accounts is governed by the Accounts and Audit Regulations 2015. The format of the Accounts reflects the requirements of the Code of Practice in Local Authority Accounting in the United Kingdom 2017/18 published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is supported by the International Financial Reporting Standards (IFRS), which is a set of evolving accounting rules used internationally to guide the formation of financial statements in the public and private sector. The evolving state means that new accounting standards are formed on a regular basis along with reinterpretations of existing standards. The Accounting Policies are therefore reviewed annually to ensure that they remain current and relevant

3.2 Under Section 151 of the Local Government Act 1972, the appointed Chief Finance Officer is charged with the proper administration of the Council's financial affairs and as such must select suitable Accounting Policies and make judgements and estimates that are reasonable and prudent. However, it is considered good practice for the Audit and Member Standards Committee to have a chance to consider these Accounting Policies that are going to be applied to the Accounts in advance of their use.

3.3 The Council's Accounting Policies are the specific principles, conventions, rules and practices that that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed by way of a note to the Accounts. Only those policies that are directly relevant and material to the Council have been included.

3.4 The full list of Accounting Policies as produced in the Code of Practice for 2017/18 is shown in a table at Appendix A. For those Policies that are not adopted by the Council, a reason is provided within that table.

3.5 The Council's proposed Accounting Policies list for the 2017/18 Statement of Accounts is shown at Appendix B.

3.2 The Council has reviewed these Accounting Policies in line with the 2017/18 Code of Practice (changes are tracked for ease of reference). The following key changes have been made:

- The removal of the policy on prior period adjustments as there are no such items related to changes in accounting policies or fundamental errors within the 2017/18 accounts.
- The Business Rates Appeal provision related to the 2017 valuation list will be calculated using the Government's allowance in the multiplier (rate in the pound) for appeals of 2.1p due to the lack of robust information on appeal numbers following the introduction of the Check, Challenge and Appeal process.
- The policy on Fair Value Measurement is now shown correctly in the alphabetical sequence.

Alternative Options	The alternative options that the Audit and Member Standards Committee may consider are either not to approve any of the proposed Accounting Policies or not to approve some of the proposed Accounting Policies.

Consultation	Consultation has taken place with the Council's external auditors, Grant Thornton.

Financial Implications	The adoption of relevant Accounting Policies ensures that the Statement of Accounts is fit for purpose and is underpinned by sound financial management that helps us to spend wisely, attract financial funding and become more efficient. This in turn contributes to the Fit for the Future transformation programme designed to help us achieve our financial challenges.

Contribution to the Delivery of the Strategic Plan	By achieving our financial challenges we are able to target our resources to the priorities set out in the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications	There are no equality, diversity and human rights implications.

Crime & Safety Issues	There are no crime and safety issues.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The Accounting Policies are not produced in line with best practice, the CIPFA code and IFRS.	The Accounting Policies form part of the Statement of Accounts that is audited by our external auditors.	Green

Background documents

Code of Practice on Local Authority Accounting 2017/18.

Relevant web links

Accounting Policies Listed in the Code of Practice for Local Authorities 20~~16~~7/1~~7~~8

Accounting Policy	Adopted by the Council	Explanation if not Adopted
General Principles	Yes	
Accruals of Income and Expenditure	Yes	
Acquisitions and Discontinued Operations	No	No such transactions have taken place
Cash and Cash Equivalents	Yes	
Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors	~~Yes~~ No	No such transactions have taken place
Charges to Revenue for Non-current Assets	Yes	
Council Tax and Non-Domestic Rates	Yes	
Employee Benefits	Yes	
Events After the Reporting Period	Yes	
Financial Instruments	Yes	
Foreign Currency Translation	No	No foreign currency transactions
Government Grants and Contributions	Yes	
Heritage Assets	Yes	
Intangible Assets	No	Intangible assets are immaterial
Interests in Companies and Other Entities	No	No such interests
Inventories and Long-term Contracts	Yes	Inventories only
Investment Property	Yes	
Joint Operations	Yes	
Leases	Yes	
Overheads and Support Services	Yes	
Property, Plant and Equipment	Yes	
Highways Network Asset	No	Not relevant for district councils
Private Finance Initiatives (PFI) and Similar Contracts	No	No such contracts
Provisions, Contingent Liabilities and Contingent Assets	Yes	Provisions and contingent liabilities only
Reserves	Yes	
Revenue Expenditure Funded from Capital Under Statute	Yes	
Vat	Yes	
Fair Value Measurement	Yes	

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 201~~6~~7/1~~7~~8 financial year and its position at the year end of 31 March 201~~7~~8. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 201~~6~~7/1~~7~~8 and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS) and Statutory guidance issued under Section 12 of the 2003 Local Government Act.

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

Accruals of Income and Expenditure

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

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as Expenditure when the services are received rather than when payments are made.
- Interest receivable on Investments and payable on Borrowings is accounted for respectively as Income and Expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where Revenue and Expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Therefore, our policy is to treat all instant access bank accounts and money market funds as cash equivalents and all other investments for less than one year (including any investments with notice periods) are treated as short term investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

~~Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors~~

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

~~Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events~~

~~and conditions on the authority's financial position or other financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.~~

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

Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from Revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance known as the Minimum Revenue Provision (MRP). Our MRP policy is:

- For finance leases, the MRP will match the annual principal repayment for the lease, and;
- For all other assets, the MRP is based on the initial estimated life of the asset.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund by way of an adjusting transaction between the General Fund and the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Council Tax and Non-Domestic Rates

Accounting for Council Tax
While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non-Domestic Rates (NDR)
The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from NDR payers belongs proportionately to all the major preceptors and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 201~~4~~7/1~~5~~8 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 201~~6~~8. The estimate for the 2005 and 2010 valuation lists have~~s~~ been calculated using the Valuation Office (VO) ratings list of appeals and the analysis of successful appeals to date. The appeals for the 2017 valuation list under the new Check, Challenge and Appeal process are based on the Government's allowance for appeals included in the multiplier of 2.1p ~~when providing the estimate of total provision up to and including 31 March 2016.~~

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, eg. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Staffordshire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

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

- The liabilities of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **3.2%** (based on the indicative rate of return on high quality corporate bonds).
- The assets of Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities professional estimate.
  - Unquoted securities current bid price.
  - Unitised securities current bid price.
  - Property market value.
- The change in the net pensions liability is analysed into the following components:

  Service cost comprising:

  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Net interest on the net defined benefit liability (asset), ie the net interest cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by apply the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  Re-measurements comprising:

  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains or losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Staffordshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

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

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

Fair Value Measurement

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial assets, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, for example, the authority's loans borrowed, the authority measures the fair value of the liability from that party's perspective.

Financial Instruments

Financial Liabilities

Financial liabilities are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

The Council has two types of financial asset - Loans and Receivables and Available for Sale. Loans and Receivables are assets that have fixed or determinable payments but are not quoted in an active market. These are initially measured at fair value and subsequently at their amortised cost.
Available for Sale include Certificates of Deposit and Money Market Funds that are quoted in an active market and are measured at fair value.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Government Grants and Contributions

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

- The Council will comply with the conditions attached to the payments; and
- The Grants or contributions will be received.

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

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

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

<u>Heritage Assets</u>

The Council's Heritage Assets are located at various Council properties. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's Heritage Assets are accounted for as follows:

Statues:

- These statues are located in various parks and open spaces and a library within the District. These items are reported in the Balance Sheet at insurance valuation and estimated market value. Insurance valuations are updated on an annual basis.
- The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.

Art Collection:

- The art collection includes paintings and is reported in the Balance Sheet at estimated market value. The art collection is deemed to have indeterminate lives and hence the Council does not consider it appropriate to charge depreciation.
- Acquisitions are made by purchase or donation. Acquisitions initially are recognised at cost and any donations are recognised at valuation with valuations provided by external valuers and with reference to the appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Other Items:

- The Council has a number of items of civic regalia and trophies and these are reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.
- The Council has a grand piano and this is reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis.

Heritage Assets - General

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets eg where an item has suffered physical deterioration of breakage or where doubts arise over its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment - see page 57 (Impairment) and pages 55 to 58 (Property, Plant and Equipment) in this Summary of Accounting Policies. Any disposals are accounted for in accordance with the general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see pages 55 to 58 (Property, Plant and Equipment) in this Summary of Accounting Policies).

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than **£10,000**) the Capital Receipts Reserve.

Joint Operations

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

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- Any charge for services (charged to the relevant service line of the Comprehensive Income and Expenditure Statement). Where this charge cannot be separately identified, it is assumed to be the difference between the lease payment and the total of the charges for acquisition of the interest in the property, plant and equipment and the finance charge.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).
The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements (known as Minimum Revenue Provision or MRP). Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the

Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement and also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 201~~6~~7/1~~7~~8 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

Property, Plant and Equipment

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

Recognition

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

De Minimis Level

Expenditure below **£10,000** is not capitalised and therefore is charged to the Comprehensive Income and Expenditure Statement.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

- Infrastructure, community assets and assets under construction - depreciated historical cost.
- All other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

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

Component Accounting Policy for Property, Plant and Equipment

International Accounting Standard 16 (IAS 16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and de-recognition of parts of assets (referred to as componentisation). Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1 April 2010.

All historical cost based assets with short lives, land and investment properties will be excluded from our Component Accounting Policy.

Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation.

Policy for Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be group together for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.

- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a carrying value of **£500,000** and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of **15%** in relation to the overall value of the asset or over **£500,000** will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

To enable a structured approach to component accounting the following principles are applied:

To be considered for componentisation an individual asset (or a group of similar assets) must:

(i) Have a carrying value of at least **£500,000**, or
(ii) Have been acquired, or
(iii) Have undergone revaluation, or
(iv) Undergo a change in category classification

A component must:

(v) Have a cost of at least **£100,000**, or
(vi) Cost at least **15%** of the overall asset (whichever is higher), and
(vii) Have a useful life which is at least **plus or minus five years** from other components of the overall asset.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Valuation

The five year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio in excess of the **£500,000** threshold.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be considered in terms of this component accounting policy and enhancement spend (at cost) will be added to the relevant assets. These assets will then be subject to revaluation as part of our normal revaluation cycle.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

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

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

Where a revaluation takes place all accumulated depreciation and impairment is eliminated because these are accounting estimates of changes in value whose value is confirmed by a formal valuation reflecting the actual condition of the property at the valuation date.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is reversed subsequently the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss adjusted for depreciation that would have been charged if the loss had not been recognised. With our valuer we will continue to complete a desktop Impairment review on an annual basis.

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life as estimated by Managers.
- Infrastructure – straight-line allocation over the useful life as estimated by Managers.
- A full year's charge is made in the year of acquisition and no charge is made in the year of disposal or decommissioning.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.
When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of **£10,000** are categorised as capital receipts.

Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

<u>Provisions and Contingent Liabilities</u>

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital Under Statute

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

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Lichfield District Council is in a VAT receivable position at year end; the balance outstanding is included in **Note 15** Short Term Debtors.

~~**Fair Value Measurement**~~

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

- ~~In the principal market for the asset or liability, or~~
- ~~In the absence of a principal market, in the most advantageous market for the asset or liability~~

~~The authority measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.~~

~~When measuring the fair value of a non-financial assets, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.~~

~~The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.~~

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

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

~~When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, for example, the authority's loans borrowed, the authority measures the fair value of the liability from that party's perspective.~~

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INTERNAL AUDIT CHARTER & PROTOCOL

Report of the Audit Manager

Date:	22 March 2018
Agenda Item:	5
Contact Officer:	Angela Struthers
Tel Number:	01543 308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To advise Members of the proposed Internal Audit Charter and Protocol for the 2018/19 financial year.

2. Recommendations

2.1 That the Committee considers the attached performance report and raises any issues it deems appropriate.

3. Background

3.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

3.2 The consideration and approval of an appropriate Internal Audit Charter is an important element in providing assurance to the organisation that adequate arrangements are in place to provide the expected independent, objective opinion. The Charter must be reviewed and approved on an annual basis. The Charter complies with the Public Internal Audit Standards. Changes to the Charter are minor and are shown in the revised Charter. The revised Charter is attached as **Appendix 1**.

3.3 The Internal Audit Protocol supports the charter and gives detail as to the protocol of Internal Audit. It ensures that a consistent approach is applied to all audit work – including follow ups, establishes a timetable for management to respond to audit reports, and details reporting protocol within the Authority. The Internal Audit Protocol is attached as **Appendix 2**. There are no significant changes to the protocol.

Alternative Options	1. None.
Consultation	1. The report has been discussed and agreed with the Council's S151 Officer.
Financial Implications	1. None arising from this report.

Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations

Equality, Diversity and Human Rights Implications	1. None arising from this report.

Crime & Safety Issues	1. None arising from this report.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Non-compliance with the Public Sector Internal Standards and International Professional Practices Framework	Continuous review of Charter and Protocol to ensure that the Standards and Framework are complied with	Green (tolerable)

Background documents

Relevant web links

APPENDIX 1

INTERNAL AUDIT CHARTER

Angela Struthers Audit Manager	March 2018~~7~~

INTERNAL AUDIT CHARTER

Document Status: Draft

Originator: A Struthers

Updated: A Struthers

Owner: A Struthers

Version: 01.01.0~~2~~3

Date: ~~06/03/17~~29/01/2018

This information can be produced on request in other formats and languages

Document Location

This document is held by Lichfield District Council, and the document owner is Angela Struthers.

Printed documents may be obsolete. An electronic copy will be available on Lichfield District Councils Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1st draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review

Approvals

Name	Title	Signature	Date
~~Audit Committee~~Audit & Member Standards Committee	Committee Approval		
Diane Tilley	Leadership Team Approval		
Anthony Thomas	Head of Finance & Procurement		
Angela Struthers	Audit Manager		

Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

Distribution

The document will be available on the Intranet and the website.

CONTENTS PAGE

1 Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (IIA – UK & Ireland)

The internal audit service will comply with the Public Sector Internal Auditing Standards(PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF)as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, ad risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

This Charter will be periodically reviewed in consultation with senior management and the board. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The following posts will be designated as shown below in order to comply with the PSIAS.

Post	Designation
~~Audit Committee~~Audit & Member Standards Committee	Board
Leadership Team	Senior Management
Chief Executive	Head of Paid Service
Audit Manager	Chief Audit Executive

The Chief Audit Executive will report conformance to the PSIAS in the annual report to the Board.

2 Mission Statement of Internal Audit

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

3 Purpose and Statutory Requirements

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the board, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Head of Finance & Procurement to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective ~~i~~Internal ~~a~~Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

4 Objectives

The Chief Audit Executive's responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

It does this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).
- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

5 Role and Scope of Work

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;

- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

With regard to Risk ~~m~~Management, internal audit will carry out individual risk based engagements to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

Internal audit operate in an advisory capacity to:

- Report upon the level of risk maturity and scope for improvement;
- Facilitate the identification and assessment of risks;
- Coach management in responding to risks.

The CAE is responsible for:

- Developing the corporate risk management strategy in liaison with the Leadership Teams and Service Units;
- Promoting support and oversee its implementation across the Council;
- Monitoring and review the effectiveness of the risk management strategy;
- Assisting with the identification and communicate risk management issues to Units;
- Advising Corporate and Unit management teams on strategic and operational implications of risk management decisions;
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

With regard to Counter fraud activity, internal audit will carry out the following activities:

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy
- Evaluate preventative and detective controls
- Review control weaknesses that led to the fraud
- Review of the fraud risk assessment

- Provide support in the ethical and anti-fraud and corruption culture
- Share learning
- Champion the development of counter fraud capability
- Receive whistleblowing referrals
- Use data analytics to identify fraud
- Review of NFI matches
- Lead on a fraud and corruption risk assessment
- Develop the counter fraud and corruption strategy
- Undertake investigations

6 Proficiency and Due Professional Care

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the formation of internal audit plans, the CAE can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

7 Authority

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Lichfield District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

8 Organisation

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Head of Finance & Procurement.

The Board will receive performance reports on the internal audit function on a quarterly basis.

9 Independence and Objectivity

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Head of Paid Service and the Board.

The Chief Audit Executive will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

10 Internal Audit Plan

At least annually, the Chief Audit Executive will submit to Senior Management and the Board an internal audit plan for review and approval.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Board.

Approval will be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits ~~remaining~~ required a~~nd~~re deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated eg allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

11 Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued to the ~~Chief Finance Of~~Head of Finance & Procurement~~ficer~~ & Head of Paid Service . A summary of the internal audit results will be communicated to the Board.

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up the recommendations made to ensure that management have implemented them in the agreed timescales. This will be completed within six months from the finalisation of the audit. An additional implementation review will be carried out where high priority recommendations remain outstanding or a significant number of recommendations remain outstanding. Internal Audit will not complete any additional implementation reviews on recommendations that remain outstanding at this stage. It is management's responsibility to ensure that the agreed actions are implemented. All outstanding recommendations will remain open on the ~~Covalent~~ Pentana system for management to complete.

Results of implementation reviews will be communicated as appropriate with copies to the ~~Chief Finance Officer~~Head of Finance & Procurement & Head of Paid Service. A summary of the results will be reported to the Board.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Board.

12 Quality Assurance and Improvement Programme

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will periodically report to the Board on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

In addition, the Chief Audit Executive will communicate to Senior Management and the Board on the internal audit service's quality assurance and improvement programme, including results of ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Board.

Signed by

Chief Audit Executive (Audit Manager)

Chairman of the Board (Chair of the ~~Audit Committee~~Audit & Member Standards Committee)

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APPENDIX 2

INTERNAL AUDIT PROTOCOL

Angela Struthers **Audit Manager**	**March 2018~~7~~**

LICHFIELD DISTRICT COUNCIL

INTERNAL AUDIT PROTOCOL

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INTERNAL AUDIT PROTOCOL

Introduction

The purpose of this protocol is to:

- Ensure a consistent approach is adopted to undertaking audit work;
- Establish a guide for management on timescales and responsibilities for dealing with internal audit reports issued;
- Ensure a consistent approach is adopted when dealing with internal audit reports within the Authority;
- Document the way in which reports are discussed with managers and the action required when replies are not received;
- Demonstrate to the Authority's external auditors that managers deal with Internal Audit work in an appropriate manner; and
- Ensure all necessary monitoring and reporting of Internal Audit work against the Annual Audit Plan is carried out.

The responsibilities of Officers and Members mentioned in this protocol are detailed in Appendix A.

Planning an Audit

Each year an annual Audit Work Programme is produced based on an Internal Audit Risk Assessment detailing the audit areas to be reviewed during the year. The Audit Work Programme, including timings, will be discussed and agreed with the relevant Head of Service~~ Manager~~/Director at the commencement of the new financial year.

For each audit, a brief should be prepared, discussed and agreed with relevant manager. This will normally require discussion with the relevant ~~Director~~Head of Service, unless otherwise instructed, to ensure attention is focussed on areas of greatest risk or concern. Managers are encouraged to raise areas of concern/additional areas with the Auditor, but cannot dictate which areas will or will not be reviewed, as this responsibility lies with the Audit Manager.

The brief should establish the objectives, scope and timing of the assignment and its resource and reporting requirement and agreed with the relevant manager/director.

Where agreement cannot be reached, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Director, the Chief Executive or the S151 Officer.

If agreement is still not forthcoming, the matter will be raised with the Audit & Member Standards Committee Chairman.

Audit Approach

Audit work should be undertaken using a risk-based audit approach.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to support an independent and objective audit opinion.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the reporting stage.

All audit work will be subject to an appropriate internal quality review process.

Interim Reports

Interim reports are sent at the discretion of the Audit Manager.

An interim report on an assignment may be sent where appropriate, for example:-

a) where a matter arises which requires immediate action by management (e.g. serious weakness in control, evidence of fraud);

b) where an assignment is unusually lengthy or extends over a long time period.

Any interim report made verbally to management shall be confirmed as soon as possible by a written report/memo.

Report Presentation

Assignments will be reported in the method considered by the Audit Manager to be the most appropriate, i.e. formal report or memo/letter:

a) Formal report with an executive summary - used for routine or major audits.

b) Memorandum or letter - used when the report is relatively short, or the matters raised are of a minor nature.

Report Content

The Public Sector Internal Audit Standards (PSIAS) state that:

"The basic aims of every internal audit report should be to:

- *Give an opinion on the risk and controls of the area under review, building up to the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;*
- *Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance: and*
- *Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales."*

The final internal audit report should be supplemented by the agreed Action Plan, which details the audit recommendations, priority, management response, officer responsible and timescale for implementation.
All reports will contain a scope and objectives and the internal audit observations of the assignment, together with the overall opinion on the adequacy of the internal control environment.

For each audit carried out Internal Audit arrives at a conclusion that assesses the level of assurance that can be placed on the system of internal control being reviewed in one of four categories. The category reflects the assessment of the robustness of the internal control environment with an opinion on whether the actual controls in place are being consistently applied. The categories of assurance are detailed in the table below.

Category	Category Description
Substantial Assurance	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.
Adequate Assurance	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.
Limited Assurance	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.
No Assurance	It is with some concern that Audit has to report no assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are not in place or are failing.

In addition, the recommendations made in internal audit reports (action plans) have been placed into one of three categories, namely:

High (Red) priority recommendations will be made if one of the following criteria is met:

1. Adversely affects the Annual Governance Statement;
2. Results in significant loss of funds or assets;

3. May lead to service delivery failures which could adversely affect the Council's reputation;

4. Shows non-compliance with statutory requirements, the Council's Constitution, Codes or Policies and or any Cabinet approved initiatives;

5. Changes the effectiveness of key controls;

6. Significant opportunity exists for real gains in processing efficiency;

7. Poor cost controls or potential for significant savings and/or revenue generation;

8. Significant impact environmentally, socially or economically.

All other recommendations that do not meet the above criteria will be classed as Medium (amber) priority recommendations unless they are low risk (green). Low risk recommendations will be included as discussion points in the draft report but excluded from the final report.

In this context 'risk' may be viewed as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.

Consultations

Findings may be discussed 'informally' with managers, during the course of the audit, where it is appropriate to do so. Although alterations to procedures may be made as a result of these discussions, the finding and recommendation will still be included in the internal audit report.

When an audit assignment has been carried out, the auditor shall draft a report showing the matters arising. Draft reports should be reviewed and their findings discussed with the Audit Manager/Principal Auditor.

Following conclusion of the Audit Managerial Review, the draft report will be submitted to the relevant ~~Director~~ Head of Service and Manager of the Service.

A meeting will be arranged between the Auditor and the Manager. (The relevant ~~Director~~ Head of Service will be notified of the exit meeting date and they may attend if they so require).

The purpose of such meetings is to discuss the report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.

NB Recommendations made will not be amended unless further information has been provided which satisfies the auditor that this is appropriate.

The final decision regarding the content of the report lies with the Audit Manager.

The Action Plan should be updated with the results of the manager meeting (i.e. timescale for implementation, management response and officer responsible).

Any areas of disagreement between the Auditor and Management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those areas giving rise to significant risks that are not agreed should be brought to the attention of the relevant Director, the Chief Executive or the S151 Officer, and if necessary with Audit & Member Standards Committee.

Finalisation of Report

The final report shall be prepared after management consultation and a final Managerial review will be undertaken.

Management Sign Off Of Report

It must be stressed that no amendments to the detail of the report will be made at this point, as it is assumed that these would have been identified at the consultation stage. The exception to this would be amendments to the management responses.

If management require any amendments to the management responses included in the audit report, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all audit reports.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the following timetable:

No response after 1 week	Written reminder to Manager by auditor
No response after 2 weeks	Final written reminder to Manager by the Principal Auditor / Audit Manager, (copy to relevant Director)

Where management responses are not forthcoming after a further week, despite reminders having been issued, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Director, the Chief Executive or the S151 Officer.

If a response is still not forthcoming after a further week, the matter will be raised with the Audit & Member Standards Committee Chairman.

Customer Satisfaction Questionnaire

The purpose of the Customer Satisfaction Questionnaire (CSQ) is to seek the Manager's view/perceptions of the quality of audit work carried out.

A CSQ shall be sent by the Audit Manager to Managers for all planned audit work

The CSQ will be sent electronically, following the issue of the final audit report, to the Manager.

The CSQ should be completed and returned to the Audit Manager.

The Audit Manager shall review all completed CSQs received and shall arrange for any appropriate action to be taken following liaison, as necessary, with the auditor and/or manager.

Report Distribution

Reports will be distributed electronically as follows:

- the relevant Manager
- the appropriate Head of Service
- the appropriate Director
- the Chief Executive
- the S151 Officer – executive brief only unless there are financial implications or limited/no assurance, then the whole report
- the appropriate Cabinet member
- the Chairman of Audit & Member Standards Committee
- the Vice-Chairman of Audit & Member Standards Committee
- the External Auditor

The Audit Manager is copied into the e-mail of all final reports issued to ensure that performance information is recorded.

Where it is felt, by the Audit Manager, that the findings pose significant risks to the Council, the covering email to the Audit & Member Standards Committee Chairman/Vice-Chairman would indicate a potential need for Audit & Member Standards Committee involvement.

Occasionally, Internal Audit is required to undertake investigations of fraud or corruption within the Council or other work commissioned by the Chief Executive as Head of Paid Service. In these instances the distribution of reports, as detailed above will not apply. Instead, only the Chief Executive, the Monitoring Officer, the S151 Officer and the ~~Personnel~~ HR Manager will receive a copy of the report.

Risk Registers

Any findings/recommendations identified as 'high risk' should be added to the relevant service/departmental risk register.

Follow Up Reviews

Follow up reviews ordinarily will be carried out by audit staff approximately 6 months after the final audit report was issued. The purpose of this work is to establish the implementation of key recommendations (high and medium risk) as per the final audit report/action plan. The follow up will deal with those items expected to have been implemented in-line with proposed timescales indicated by the Auditee when the report was originally finalised.

On the basis of this work it is planned to provide management with a short report on the action taken since the final report was issued. It will also provide a summary of the action taken based on the following:

- Fully Implemented
- Partially Implemented
- Not Implemented
- On-going
- Recommendation Superseded

A draft memo will be issued to the Manager and ~~Director~~ Head of Service detailing the outcome of the follow up review together with an updated action plan.

If management require any amendments to the management responses included in the follow up, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all follow ups.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the final report timetable for responses.

Implementation review reports will be distributed as per the finalised audit reports.

Where it is found that there are High Priority recommendations still outstanding at the first follow up (6 months), this may be pursued at a more senior level including raising the matter with the relevant Director, Chief Executive or the S151 Officer, and if necessary with the ~~Audit~~ Audit & Member Standards Committee. In addition these issues will be reported in the quarterly progress report of Internal Audit, which will be presented to the Audit & Member Standards Committee. A report of high risk recommendations not implemented will be reported to the Leadership Team on a quarterly basis.

Where it is found that some recommendations are outstanding, a second and final follow up review will be undertaken in 3 months time. Management will be expected to accept the risk of any outstanding recommendations at this time. Any recommendations still outstanding will be included in the quarterly progress report of Internal Audit, which will be presented to the Audit Committee.

Progress Report to the Chief Executive, S151 Officer and Audit & Member Standards Committee

The Audit Manager shall produce a progress report on the work of Internal Audit, as a whole, which will tie in with the Audit & Member Standards Committee meeting cycle. This will be a summary of performance against annual audit plan objectives.

The purpose of the report is to highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.

Performance indicators shall be calculated and noted in the report. These are:

a) % of plan achieved:
b) % of recommendations made in audit reports that have been agreed:
c) % of recommendations implemented at the time of follow up:
d) Customer Satisfaction on Customer Satisfaction Questionnaires;

Regular meetings will be held between the Chief Executive, S151 Officer and the Audit Manager to discuss the progress report, corporate audit matters arising and significant areas of risk.

Annual Report to the Audit & Member Standards Committee

The Audit Manager shall prepare a written report to those charged with governance timed to support the Annual Governance Statement.

The Audit Manager's Annual Report to the Audit & Member Standards Committee must: -

a) include an opinion on the overall adequacy and effectiveness of the Council's control environment;
b) disclose any qualifications to that opinion, together with the reasons for the qualification;

c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
d) draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;
e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

A copy of the Annual Audit Report will be sent to the External Auditor and Leadership Team for information.

APPENDIX A

RESPONSIBILITIES OF OFFICERS AND MEMBERS IN RELATION TO THE INTERNAL AUDIT PROTOCOL

Managers

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Confirm agreement to the action plan, which details management's response and timescales for recommendations to be implemented within 5 working days.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan and where appropriate, update on ~~Covalent~~Pentana.
- Complete and return the Customer Satisfaction Questionnaire to the Audit Manager detailing their view/perception of the quality of audit work carried out.
- Update service/departmental risk registers with high risk recommendations.
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Heads of Service

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor and manager, if they deem it necessary, to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive final internal audit report
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification, during the year, of any major service issues arising. Examples of such issues are those, which the Audit Manager considers to be significant, i.e. frauds, irregularities or fundamental problems in their service area.
- Attend annual audit meeting with Audit Manager, if required. The purpose of these meetings is to discuss the audit work carried out, to ascertain client satisfaction with the audit service and maintain good relations between the service area and audit.
- To attend the Audit & Member Standards Committee where finalised audit reports are being reported where the assurance levels limited or below, in order for the Committee to ask any questions it may deem appropriate.

Chief Executive/Directors

- Receive copy of the relevant final internal audit reports.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review.
- Receive progress reports, which highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out. The report should be received within one month of the end of the quarter.
- Attend regular meetings with the Audit Manager.
- Receive annual audit report.

S151 Officer

- Receive copy of final internal audit reports – executive brief only unless there are financial implications or limited/no assurance, then the whole report.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review.
- Receive progress reports, which highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.
- Attend regular meetings with the Audit Manager.
- Receive annual audit report.

Monitoring Officer

- Receive copy of the final internal audit report where it is felt that the findings pose significant governance risks to the Council.

~~Personnel~~ HR Manager

- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service which involve employees.

External Auditor

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive annual audit report.

Leader

- Receive copy of the final internal audit report where it is felt that the findings pose significant risks to the Council, or where findings relate to more than one service.

Cabinet Members

- Receive copy of final internal audit reports relating to their portfolio.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Audit & Member Standards Committee Chairman and Vice-Chairman

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Audit & Member Standards Committee

- Receive notification if management do not respond to internal audit reports.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review and the second follow up review.
- ~~Receive notification of any high risk recommendations that have not been completed at the second follow up review.~~
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Director/designated officer would attend in order to answer any questions that may be raised.

- Opportunity to use the audit report as a catalyst to a specific piece of work to be undertaken
- Receive progress reports, based on the individual audit reports issued within the period.
- Receive annual audit report.

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AUDIT PLAN 2018/19

Councillor CJ Spruce

Date:	22 March 2018
Agenda Item:	6
Contact Officer:	Angela Struthers
Tel Number:	01543308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To consider the 2018/19 Work Programme of the Internal Audit Section.

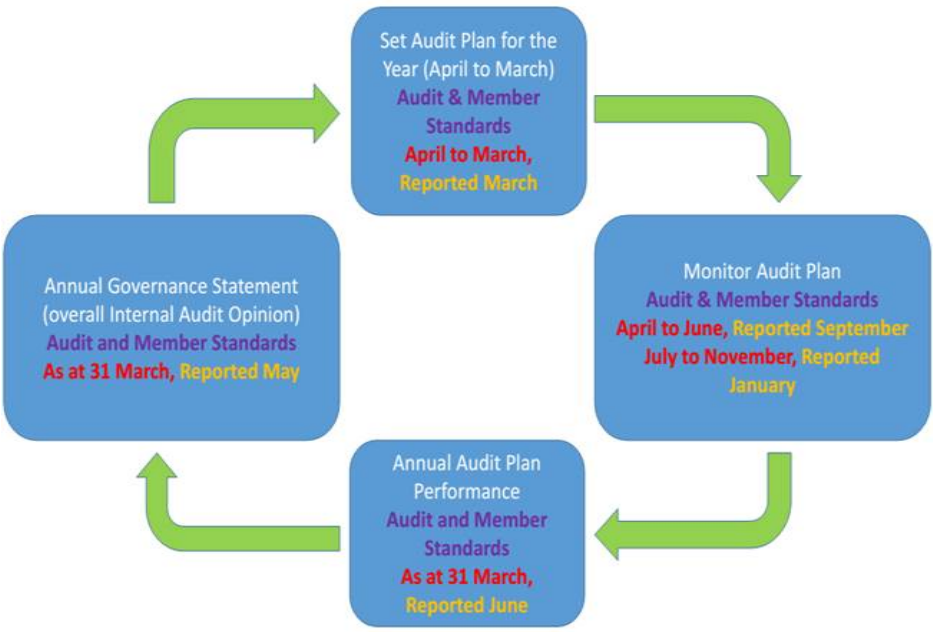
2. Recommendations

2.1 To approve the Annual Planned Audit Work Programme as detailed at **Appendix 1**.

3. Background

3.1 As part of its responsibilities the Internal Audit Section is responsible for conducting independent reviews of the Council's internal control systems as a contribution towards the proper, economic, efficient and effective use of the Council's resources and feeds in to the Annual Governance Statement. The diagram below shows how the setting of the plan forms part of this process.

3.2 The Internal Audit Section's duties are laid out in legislation, the Accounts and Audit Regulations 2015 and the Council's Financial Procedure Rules.



3.3 This year, as in previous years, we are proposing to take a hybrid approach. A review of the Audit Universe (all possible audits that can be done) has been undertaken, considering the risk rating assigned, the frequency of review and also the previous audit opinion given. Also included in the work programme are new or emerging areas and areas which we feel would benefit from audit attention. The aim is to move away from routine audit and focus on high risk, new and emerging areas in order to provide a responsive service which can inform and guide council and service response to the challenges of Local Government and support continuous improvement.

3.3 In order to produce the Annual Planned Audit Work Programme **(Appendix 1)**, we need to work out the resources available to undertake planned audit work, taking into account all the other demands on the audit team with a full time equivalent (FTE) of 2.7(including an Apprentice), we have identified that we have 297 days available. This will assist in ensuring an efficient, cost effective service whilst still delivering audit work programme which gives annual assurance on the soundness of the governance, risk management and control arrangements to be given to the Council.

3.4 Having calculated that we have 297 days available, we then took the following into account: -

- What we were already committed to do, e.g. Key Financial Systems work, Fraud Awareness/Proactive Fraud work, Pensions Assurance work, National Fraud Initiative, Annual Governance Statement and Follow Up Reviews.
- Areas identified by Internal Audit, using their understanding of the Council and their own risk assessments.

3.5 The Annual Planned Audit Work Programme has been discussed and agreed with the Leadership Team, but separate meetings will be held with Directors & Heads of Service to ensure the right focus for the allocated days is maintained as the year progresses.

3.6 By delivering this Planned Audit Work Programme, Internal Audit will either provide senior managers with the necessary assurance that internal controls are in place and are operating effectively, or will be able to point to key areas of weakness for their consideration, in relation to the key risk areas of the Council.

3.8 At the conclusion of each audit review, an audit report will be issued to Officers and appropriate Members, as per the Internal Audit Protocol, detailing the findings of the review together with any recommendations required to be implemented in order to achieve the required level of control.

3.9 A progress report of the work undertaken by the Internal Audit Section is presented to the Audit & Member Standards Committee on a regular basis

Alternative Options	1. None.

Consultation	1. Leadership Team has been consulted regarding the inclusion of the audit reviews in the Annual Planned Work Programme.

Financial Implications	1. Aspects of the internal audit process are concerned with value for money.

Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an adequate and effective system of internal control in accordance with the proper practices in relation to internal control. .

Equality, Diversity and Human Rights Implications	1. None.

Crime & Safety Issues	1. None

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Audit Plan becomes unachievable	Continuous review to ensure the plan is achieved	Green (tolerable).
B	Audit Plan becomes irrelevant	Continuous review to ensure that any issues that become high risk during the year are included in the Plan	Green (tolerable)

Background documents

Accounts and Audit Regulations 2015
Financial Procedures Rules

Relevant web links

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Appendix 1

Audit Plan 2018/19	Plan No of Days	Comment
Key Financial Systems		
Accounting & Budgetary Control	10	System based
Treasury management	10	System based
	20	
Other work committed		
Fraud Awareness/Proactive Fraud Work	20	
Pensions Assurance work	5	
National Fraud Initiative	6	
Annual Governance Statement	1	
Follow up Reviews	32	
Risk Management	12	
	76	
Finance & Procurement		
Income Management	10	System based
BACs	10	System based
	20	
Legal, Properrty & Democratic Services		
Data Protection/Data Quality	12	System based
Property leases & charges	15	System based
Elections	12	Risk based
Scheme of delegation	10	
	49	
Corporate Services		
Service desk	10	System based
Application controls(all systems)	20	System based
PSN	8	System based
Mobile phones	8	System based
GIS	8	System based
Allowances & expenses	8	Risk based
	62	
Revenues, Benefits & Customer Services		
Lichfield Connects	10	Risk based
	10	
RegulatoryServices, Housing & Wellbeing		
Stategic Housing	10	Risk based
Homelessness	10	Risk based
Taxi Licences	10	System based
	30	
Development Services		
Land charges	10	System based
	10	
Leisure & Operational Services		
Grounds MaintenanceParks - business growth impr	10	Risk based
	10	

Economic Growth		
Car parking/civil parking enforcement	10	System based
	10	
Total number of days	**297**	

PUBLIC SECTOR INTERNAL AUDIT STANDARDS/QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

Councillor CJ Spruce

Date:	22 March 2018
Agenda Item:	7
Contact Officer:	Angela Struthers
Tel Number:	01543 308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To report on the Internal Quality Assessment completed to ensure compliance with the Public Sector Internal Audit Standards and the Quality Assurance & Improvement Programme as required by the Public Sector Internal Audit Standards.

2. Recommendations

2.1 That Members endorse:

- The Internal Quality Assessment; and
- The Quality Assurance & Improvement Programme.

.

3. Background

3.1 The Public Sector Internal Audit Standards (PSIAS) came in to force on the 1st April 2013. The Standards require that Internal Audit comply with professional best practice and assess themselves against the requirements on an annual basis and that an External Quality Assessment (EQA) should be completed at least every five years. The EQA was completed last year. The report identified some issues and recommendations to enhance the service. An update on progress against the recommendations made is detailed at **Appendix 1**. The current internal annual assessment against the standards is detailed at **Appendix 2**.

3.2 Part of the requirement of the PSIAS is for the Audit Manager to develop a Quality Assurance & Improvement Programme (QAIP). Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at the broader internal audit level. A well-developed QAIP will ensure that quality is built in to rather than on to, the way internal audit activity operates. In essence, Internal Audit should not need to assess whether each individual engagement conforms to the Standards, but that engagements should be undertaken in accordance with an established methodology that promotes quality and, by default conforms to the Standards.

3.5 The QAIP should conclude on the quality of the Internal Audit activity and lead to recommendations for appropriate improvements. It enables an evaluation of:

- Conformance with Definition of Internal Auditing, the Code of Ethics and the Standards;
- The adequacy of the Internal Audit activity's charter, goals, objectives, policies and procedures;
- The contribution to the organisation's governance, risk management and control processes;
- Completeness of coverage of the entire audit universe;
- Compliance with applicable laws, regulations, and government or industry standards to which the Internal Audit activity may be subject;
- The risks affecting the operation of the Internal Audit activity itself;
- The effectiveness of continuous improvement activities and adoption of best practices; and
- Whether the Internal Audit activity adds value, improves the organisation's operations, and contributes to the attainment of objectives.

3.6 To achieve comprehensive coverage of all aspects of the Internal Audit activity, a QAIP must effectively be applied at three fundamental levels:

- Internal Audit Engagement Level – self assessment at the Audit Engagement or Operational Level;
- Internal Audit Activity Level – self assessment at the Internal Audit activity or Organisational Level; and
- External Perspective – independent external assessment of the entire Internal Audit activity including Individual Engagements.

3.7 Attached as **Appendix 3** is the Quality Assurance & Improvement Programme (QAIP) for the Authority's Internal Audit Service. This gives an overview of the QAIP in place.

Alternative Options	1. None.
Consultation	1. Leadership have been consulted on the PSIAS Assessment and the QAIP.
Financial Implications	1. Risk management processes consider value for money at all times of the process. Failure to manage risks could lead to the Council being faced with costs that could impact on its ability to achieve its objectives

Contribution to the Delivery of the Strategic Plan	1. Internal Audit supports the delivery of priorities in the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. None.
Crime & Safety Issues	1. None.

	Risk Description	How We Manage It	Severity of Risk (RYG)

A	Non-compliance with the Public Sector Internal Audit Standards leading to none compliance to the Accounts & Audit Regulations 2015	Regular review of the Quality Assurance & Improvement Programme(QAIP) to ensure full compliance with the Public Sector Internal Audit Standards	Green (tolerable)
		External Quality Assessment against the standards every 5 years and annual self assessment	Green (tolerable)

Background documents

Public Sector Internal Audit Standards

Relevant web links

Expected Control	Findings	Recommendation	Priority	Management Response	Implementation Date	Assigned To	Implementation Review
Internal Audit Planning	**Audit Planning** Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which the Council relies. In turn this should drive the preparation of the terms of reference for each assignment. The focus for assignments can	Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management.	Medium Priority	Agreed. Where risk registers are in place, they are included in the audit needs assessment. It is recognised that this is the correct way to assess the audit needs, but until all risk registers are in place, this cannot be achieved. This is a long term objective to improve risk registers.	31-Mar-2019	Angela Struthers	This is still a long term objective and work continues to be completed.

	therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.						
Internal Audit Planning	**Audit Planning** Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally approved should focus on the perceived needs of all parties for independent	The internal audit planning process should further identify and document other sources of assurance that are available and upon which Councils can place reliance, which may be available if formally recorded within the annual Governance process.	Medium Priority	Agreed. Other assurance sources identified are recorded on the audit needs assessment. Will review the assurance gathering process for the Annual Governance Statement to ensure that additional sources of assurance are identified.	31-Mar-2018	Angela Struthers	Completed Annual Governance Statement reviewed - no other sources of assurance identified

	assurance regarding key policies, procedures, controls and assurances upon which the Council relies. In turn this should drive the preparation of the terms of reference for each assignment. The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.						
Internal Audit Planning	**Audit Planning** Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal	The starting point for the development of the Terms of Reference is a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. This process could be more robust. It may aid assignment planning, if the management objectives for the area under review were also identified.	Medium Priority	Agreed. Risks are identified on the prelim audit assessment and the audit pre meet document. Whilst some risk based audits are being completed, it is recognised these need to increase. The audit templates will be changed to show the risks to the area being audited rather than control objectives	31-Mar-2018	Angela Struthers	This is ongoing

	audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which the Council relies. In turn this should drive the preparation of the terms of reference for each assignment. The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.	This should result in the formation of a direct link with the Authority's risk register and the key mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.					
Approval of internal audit plans	**Approval of Internal Audit Plans** Current arrangements provide for the Audit Committee to 'receive, but not direct' the internal audit plan; this importantly retains the independence of internal audit.	The HoIA should continue to observe priorities that are discussed at Audit Committee and reflect on the degree to which attention should be given to these within the developing risk based	Medium Priority	Agreed. Already in place		Angela Struthers	Completed

		planning process.					
Audit Manual	**Audit Manual** The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS. Instruction regarding the use of Covalent also exists in a form which reflects a user guide. The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of the client local authorities would be beneficial.	The internal audit manual should be updated to reflect greater alignment with the risk management policies of the client authorities particularly in relation to the various aspects relating to planning and reporting (grading of recommendations and opinions) that have been identified within the EQA.	Low Priority	Agreed The manual will be updated to reflect the risk management policy	31-Mar-2018	Angela Struthers	Completed
Performance and Development Review (PDR)	**Performance and Delivery Review (PDR)** The annual performance review of the Head of Internal Audit Services is to be undertaken by the line manager as S151 Officer at Tamworth Borough Council in accordance with the approved policy.	The PDR process should be informed by inviting the S151 Officer at Lichfield District Council and the Chairs of the two Audit Committees to provide input to the process.	Low Priority	Not agreed This will be too complicated to complete		Angela Struthers	Contract review/PDR process completed
Assignment Planning	**Assignment Planning** The service currently initiates each audit through engagement with management which provides for creation of Terms of Reference; this is then shared with management as an agreed	Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee; this should include an	Medium Priority	Agreed The terms of reference will be updated to reflect this	31-May-2017	Angela Struthers	Completed

	basis for the audit. At present red priority recommendations are determined and laid in down in the pre meet document , albeit these are not necessarily aligned directly to the Councils risk management system. The assignment is then structured around a framework of expected controls and which is loosely related to risks which have been considered with management.	assessment of the inherent risks in each area (regardless of whether these are specifically recorded with the risk management system). Terms of Reference should be constructed based upon the principal risks identified and not expected controls. This will allow the audit to naturally reflect assurance regarding the risks identified within the 'Control Matrix'. The service should also seek to identify and record the other assurances available at an early stage in each assignment as this will aid staff when formulating an overall opinion. An example template is provided at Appendix A.					
Focus on pre-identified controls	**Focus on Pre-identified Controls** Assignments are currently undertaken by reference to controls; there is a tendency for	The use of risk as a basis for the control matrix will allow auditors to focus on the key controls and assurances which	Medium Priority	Agreed Development in this area will continue	31-May-2017	Angela Struthers	Completed Significant risks and key controls are identified

	these to reflect KLOE based controls or those from previous audit work rather than be generated to reflect the materiality of the current risk involved. The service has more recently commenced consideration of wider risk aspects relating to the area subject to review.	reflect the most material control risk to the area under review. The service should continue to develop pre-audit communication with management to focus on significant risk and key controls.					
Control Matrix Templates	**Control Matrix Templates** Assignments commence with meetings with officers at which information is gathered relating to how the system works. The control matrix then contains a record of the information including actual controls. The manner and detail in which these notes are made varies considerably from 'brief' to 'comprehensive'. Recording sufficient evidence is an important aspect of internal audit work however extremes are to be avoided if both professional standards and expectations regarding efficiency/effectiveness are to be realised.	Recording the system in note form and the essential detail of interviews is regarded as good practice. The managed service should discuss what is expected in terms of best local practice and provide appropriate instruction to staff regarding required practices.	Medium Priority	Agreed This will be reviewed to ensure that the most efficient and sufficient detail is recorded	31-Aug-2017	Angela Struthers	Completed
Supervision	**Supervision** Demonstration of effective supervision is necessary in order to both ensure the quality of the	The managed services should utilise the functionality of the Covalent software to provide a	Low Priority	Agreed The current practice will be increased to take into account	31-May-2017	Angela Struthers	Completed

	review and provide appropriate instruction to staff regarding the delivery of the internal audit methodology. Whilst it is recognised that the staff can consult each other regarding progress on work a common, formal and consistent process should exist in order to demonstrate supervision as each audit progresses.	documented trail of supervision throughout the audit and cross reference to discussions and correspondence by email; in addition to the formal record that currently exists when approving the draft report.		intermediate supervision			
Closing Meetings	**Closing Meetings** At present the draft audit report is used as a basis for an exit meeting with management.	The HoIA should consider whether in using production of the draft report as the basis for the exit meeting, Auditors should scan in any notes taken as part of the exit meeting in order to support and evidence production and finalisation of the report.	Low Priority	Agreed The draft report is used as the basis for the exit meeting. The notes taken here will be scanned and attached to the audit file	31-May-2017	Angela Struthers	Completed
Audit Opinions - Recommendations	**Audit Opinions - Recommendations** These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations being made. Different grading structures are used by internal audit at the two Councils. The basis for grading of recommendations should	Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. Explanation of the use of these gradings should be included in all reports.	Medium Priority	Not Agreed The gradings of recommendations is included in the pre-audit brief. High, medium and low priority are built into the audit system. An enhancement request has been made to the software supplier to also include the RAG	31-Mar-2018	Angela Struthers	

	influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'. Aligning the grading of internal audit recommendations with the impact/likelihood gradings within the Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited. At present the service prefers to retain a basis which provides flexibility for the CIA to determine the grading of the recommendations being made and the overall opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions.	It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention and perhaps support this with RAG rated colours linked to the Council's risk management system. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting.		rated colours. The risk appetites within the risk management system are felt to be too far from the audit recommendations and as such the majority of the recommendations will be low and therefore not followed up. The risk management appetites will be reviewed in line with the audit recommendations assessment and aligned			
Audit Opinions - Recommendations	**Audit Opinions - Recommendations** These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations	Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports at Lichfield DC; alternatively	Low Priority	Agreed Already implemented	10-May-2017	Angela Struthers	Completed

	being made. Different grading structures are used by internal audit at the two Councils. The basis for grading of recommendations should influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'. Aligning the grading of internal audit recommendations with the impact/likelihood gradings within the Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited. At present the service prefers to retain a basis which provides flexibility for the CIA to determine the grading of the recommendations being made and the overall opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions.	reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.					
Audit Opinions - Overall	**Audit Opinions - Overall Opinions**	The grading of reports should be based upon the level of risk	Medium Priority	Not agreed The current practice		Angela Struthers	

Opinions	These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release. The overall opinion is based on the aggregate of the opinions on the control objectives and not the level of risk identified. Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.	exposure identified within the review and reflect the highest ranked recommendation being reported upon. Best practice would reflect: - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given. Provide example as Appendix C.		reflects an acceptable approach			
Audit Opinions - Overall Opinions	**Audit Opinions - Overall Opinions** These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release. The overall opinion is based on	Reducing the levels of opinion to three at both Councils would provide a clearer indication of the assurance being provided and represent a more straight-forward and consistent approach for internal audit staff	Low Priority	Not agreed The four opinions are felt to be acceptable. Lichfield District Council's opinions have been reduced from 5 to 4		Angela Struthers	

	the aggregate of the opinions on the control objectives and not the level of risk identified. Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.	to administer.					
Annual Report	**Annual Report** The CIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion should reflect a format that takes account of all information and sources of assurance available to the AM and therefore: 'must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'. The report for Lichfield District Council in 2015/16 recorded: "Based on the findings of our work undertaken during the year, our overall opinion on the	In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available so that the AM is able to provide wider assurance to each Authority in support of the governance statement. Best practice is that the Annual Report should also contain reference to all significant risks and therefore co-ordination with and an understanding of	High Priority	Agreed The suggested opinion will be used	31-May-2017	Angela Struthers	Completed

	soundness of the governance, risk management and control arrangements is that it was adequately controlled. The overall opinion for each review conducted is given in Appendices C and D, attached to this report; areas for improvement were identified in a number of reviews and action plans agreed. At Tamworth Borough Council the opinion was expressed as: "Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion on the control environment for this quarter is the "reasonable" assurance can be given." Whilst this reflects a better position it could be beneficially structured to meet the requirements of the PSIAS.	issues being raised by the range of assurance sources available is essential in order to meet this broader scope. An example of the words which may be used has been provided in Appendix B					

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Appendix 2

Public Sector Internal Audit Standards Compliance Overview

Report Type: Scorecard Report
Report Author: Angela Struthers
Generated on: 26 February 2018

Definition of Internal Auditing and Code of Ethics	Complies
Definition of Internal Auditing	✓
Integrity	✓
Objectivity	✓
Confidentiality	✓
Competency	✓
Performance Standards	
1000 – 1322 Attribute Standards	
1000 – 1110 Purpose, Authority and Responsibility	
Organisational Independence	✓
Purpose, Authority, and Responsibility	✓
1110 – 1130 Independence and Objectivity	
Organisational Independence	✓
Independence and Objectivity	✓
Direct Interaction with the Board	✓
Individual Objectivity	✓
Impairment to Independence or Objectivity	✓
1210 – 1230 Proficiency and Due Professional Care	
Proficiency	✓
Due Professional Care	✓
Continuing Professional Development	✓
1300 – 1322 Quality Assurance and Improvement Programme (QAIP)	
Quality Assurance and Improvement Programme (QAIP)	✓
Requirements of the Quality Assurance and Improvement Programme	✓
Internal Assessments	✓
External Assessments	✓
Reporting on the Quality Assurance and Improvement Programme	✓
Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓

Disclosure of Non-conformance

2000 – 2600 Performance Standards

2000 – 2060 Managing the Internal Audit Activity

Managing the Internal Audit Activity

Planning

Communication and Approval

Resource Management

Policies and Procedures

Coordination

Reporting to Senior Management and the Board

2070 External Service Provider and Organisational Responsibility for Internal Audit

External Service Provider and Organisational Responsibility for Internal Audit

2100 – 2130 Nature of Work

Nature of Work

Governance

Risk Management

Control

2200 – 2240 Engagement Planning

Planning Considerations

Engagement Objectives

Engagement Scope

Engagement Resource Allocation

Engagement Work Programme

2300 – 2340 Performing the Engagement

Performing the Engagement

Identifying Information

Analysis and Evaluation

Documenting Information

Engagement Supervision

2400 – 2440 Communicating the Results

Criteria for Communicating

Qualities of Communications

Errors and Omissions

Use of "Conducted in Conformance with the ISPPIA"

Engagement Disclosure of Non-conformance

Disseminating Results

2450 Overall Opinions

Overall Opinions

2500 Monitoring Progress

Monitoring Progress

2600 Resolution of Senior Management's Acceptance of Risks

Communicating the acceptance of risk

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Internal Audit Services
Quality Assurance & Improvement Programme

1 Introduction

Internal Audit's Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders (the Board, Senior Management, the External Auditor and Operational Managers etc) that Internal Audit:

- Conforms with the Definition of Internal Auditing, the Code of Ethics and the Standards;
- Has an adequate Internal Audit Activity's Charter, Goals, Objectives, Policies and Procedures;
- Contributes to the organisations governance, risk management and control processes
- Has complete coverage of the audit universe
- Complies with applicable laws, regulations and other standards that the internal audit activity may be subject to
- Has identified the risks affecting the operation of the internal audit activity itself
- Has an effective continuous improvement activity in place and adopts best practice
- Adds value to improve the organisations operations and contributes the attainment of the organisations objectives.

The Chief Audit Executive (CAE) (Audit Manager at Lichfield District Council) is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consultancy. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

The QAIP is reviewed on an annual basis.

2 Internal Assessments

Internal Assessments are made up of both ongoing reviews and periodic reviews.

<u>Ongoing reviews</u>

Ongoing reviews provide assurance that the processes in place are working effectively to ensure that quality is delivered on an audit by audit basis. This includes continuous monitoring of:

- Engagement planning and supervision (preapproval of the audit scope, innovative best practices, budgeted hours, and assigned staff),
- Standard working practices (including working paper procedures, sign off, report review, checklists to ensure that the audit process has been followed)
- Feedback from other clients and stakeholders
- Analysing performance metrics to measure audit plan completion and stakeholder value.

<u>Periodic reviews</u>

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Auditing, the Code of Ethics, the quality of the audit work and supervision, policies and procedures supporting the internal audit activity, the added value to the organisation and the achieve of performance standards.

Periodic assessments will be conducted through:

- Working paper reviews for conformance to the definition of Internal Auditing, the Code of Ethics, the Standards, and internal audit policies and procedures
- Self-assessment of the internal audit activity with objectives established as part of the QAIP components – Governance, Professional Practice and Communication
- Review of internal audit performance measure and benchmarking of best practices. Periodic activity and performance reporting to the board and other stakeholders as deemed necessary.
- Annual self-review of conformance to the PSIAS.

The periodic self-assessment should identify the quality of ongoing performance and opportunities for improvement and to check and validate the objectives and criteria used in the QAIP. The self-assessment will be completed on an annual basis and the results reported to the Board and Senior Management.

External Assessment

The External Assessment will consist of a broad scope of coverage that includes the following.

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans, policies, procedures, practices, and any applicable legislative and regulatory requirements
- Expectations of Internal Audit as expressed by the Board and Senior Management
- Integration of the Internal Audit activity into the governance process
- The mix of staff knowledge, experiences, and disciplines, including use of tools and techniques, and process improvements
- A determination whether Internal Audit adds value and improves the Council's operations.

An external assessment will be conducted every five years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be agreed with the Board.

Assessment scale

The scale to assess the level of conformance of the Internal Audit activity with the standards is as follows:

Generally Conforms/Partially Conforms/Does Not Conform
(IIA Quality Assessment Manual Scale)

Reporting on the Quality Program

Internal Assessments – reported to the Board and Senior Management on an annual basis. The internal assessment report will be accompanied by a written action plan in response to significant findings and recommendation contained in the report.

External Assessments – reported to the Board and Senior Management. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

Follow up – The CAE will implement appropriate follow up actions to ensure that recommendations made in the reports and action plans developed are implemented in a reasonable timeframe.

Quality Assurance & Improvement Programme			
Ongoing Monitoring of Performance			
Activity	**Frequency**	**Responsibility**	**Reporting**
Review of the audit universe	Annual	Audit Manager	N/A
Identification of risks affecting the operation of the Internal Audit Service	Quarterly	Audit Manager	N/A
Review of audit engagements	Each engagement	Audit Manager /Principal Auditor	N/A

Progress against the audit plan	Monthly	Audit Manager /Principal Auditor	Quarterly report to Audit & Member Standards Committee
Progress against Key Performance Indicators	Quarterly	Audit Manager	Quarterly report to Audit & Member Standards Committee
Discuss performance of internal audit activity	Monthly	Audit Manager and Head of Finance & Procurement	Annual report to Audit & Member Standards Committee
Customer survey/questionnaire	After each audit	Audit Manager/Principal Auditor	Quarterly report to Audit & Member Standards Committee
Review of Internal Audit Charter, policies & procedures	Annual	Audit Manager	Annual report to Audit & Member Standards Committee
Personal Development Review	Annual	Appropriate line manager	Documentation to HR
Continuous improvement activity and adoption of best practice	Continuous	Audit Manager/Principal Auditor	Annual report to the Audit & Member Standards Committee
Identification of added value to the authority's operations	Continuous	Audit Manager /Principal Auditor	Annual report to the Audit & Member Standards Committee
Periodic Self Assessments			
Self-assessment against the Public Sector Internal Audit Standards (PSIAS)	Annual	Audit Manager	Annual report to the Audit & Member Standards Committee
Benchmarking review of Internal Audit Services	Every 3 years	Audit Manager	Report to Audit & Member Standards Committee
External Assessments			
Assessment against the PSIAS	Every 5 years	Audit Manager and external reviewer	Report to the Audit & Member Standards Committee

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Grant Thornton
An instinct for growth™

Audit Progress Report and Sector Update

Lichfield District Council

March 2018

Contents

Introduction

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

The paper also includes:

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

Members of the Audit & Member Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk .

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

Progress at March

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have issued our detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018. Our interim fieldwork visit includes:

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

The findings from our interim audit are summarised at pages 6 and 7.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on 4 June, with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

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

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

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

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

We completed our initial risk assessment to determine our approach in February 2018. The findings of our initial risk assessment are summarised at page 8.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with key staff and Officers in January and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit & Member Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Included in this report
Audit Findings Report The Audit Findings Report will be reported to the July Audit & Member Standards Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

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	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have 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.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.

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	Work performed	Conclusions and recommendations
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, namely operating expenditure, employee remuneration, and valuation of PPE and investment properties. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach. During our final accounts visit, we will undertaken detailed testing on journal transactions recorded for the financial year, by extracting 'unusual' entries for further review.
Early substantive testing	We have performed substantive testing in the following areas: • Operating expenditure (first 11 months of the year) • Fees and charges (first 11 months of the year) • Housing benefit expenditure (first 10 months of the year only) At the time of writing this report, work is ongoing in the following areas: • Employee remuneration • Revenues from significant grants	No issues have been identified in our early substantive testing. We will test the remaining part of the year during our final accounts visit. We will give the committee a verbal update regarding the areas of testing ongoing at the time of writing this report.

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Value for Money Initial Risk Assessment

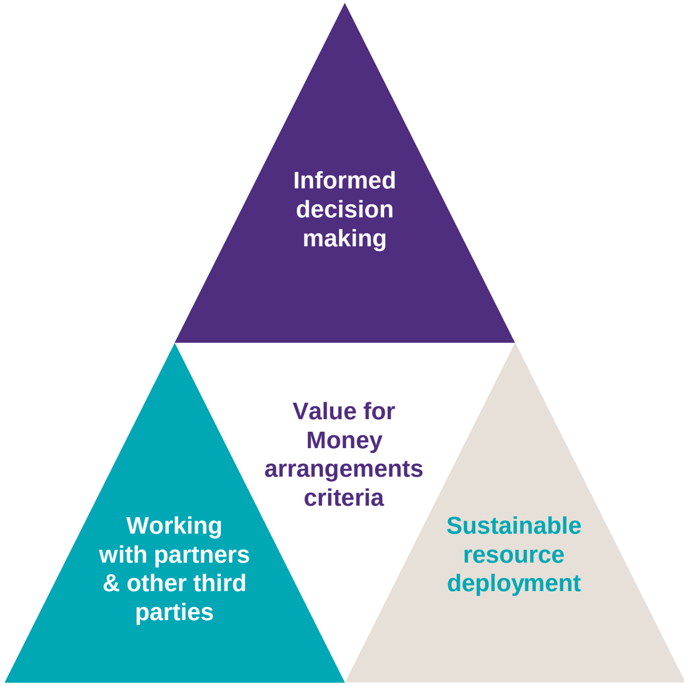
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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

Friarsgate development

Friarsgate is the Council's city centre regeneration project, which aims to improve the retail and leisure offerings in the City, as well as replace existing Council infrastructure including the Bus station, Public toilets and the Multi Storey Car Park.

The infrastructure requires considerable updating and investment. Projects within the programme need to be effectively managed to ensure they are completed to time, budget and quality.

We will review the project management structure and governance structure for the projects, and the processes and controls in place to monitor them. We will consider how these processes and controls feed in to Member scrutiny by the Environment and Development (Overview and Scrutiny) Committee.

We will update our understanding of the progress made on the projects, any issues faced by the Council, and how these have fed in to future plans. We will discuss with management how they are ensuring that the Council attains Value for Money on the development.

Sector Update

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

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website.

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

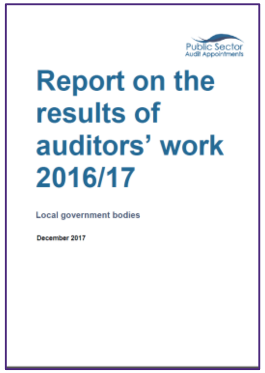
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.


Public Sector Audit Appointments

Report on the results of auditors' work 2016/17

Local government bodies

December 2017

Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance "Changing methods for calculating MRP", which applies from 1 April 2018.

Key changes are noted below.

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Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities' core objectives include 'service delivery objectives and/or placemaking role.' This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

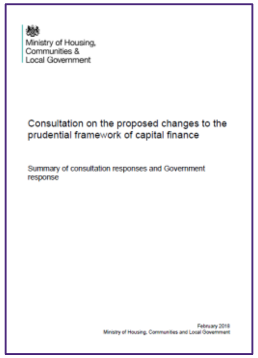
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.


Ministry of Housing, Communities & Local Government

Consultation on the proposed changes to the prudential framework of capital finance

Summary of consultation responses and Government response

February 2018

Ministry of Housing, Communities and Local Government

Changes to capital finance framework

Challenge question:

Has your Head of Finance briefed members on the impact of the changes to the prudential framework of capital finance**?**

CIPFA publications - The Prudential Code and Treasury Management Code

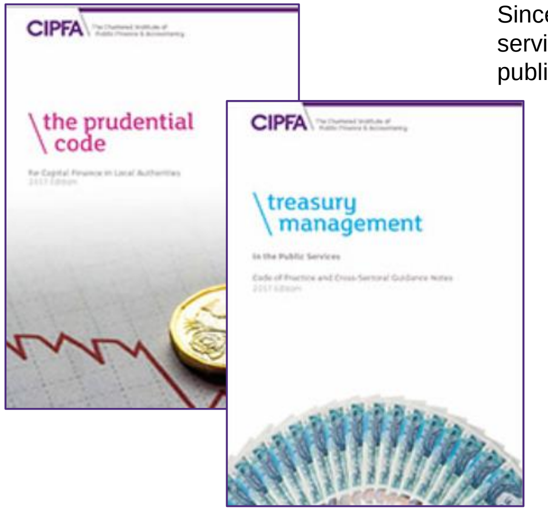
CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

> The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn.

.The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Head of Finance briefed members on the impact of the changes to the prudential code?

The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care’s role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users’ needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country’s growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

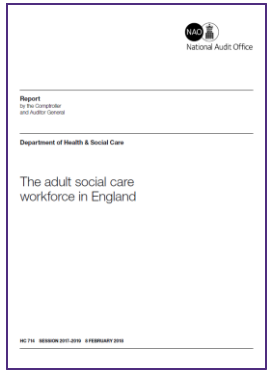
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7% However, demographic trends suggest that demand for care will continue to increase and people’s cares needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities’ ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers’ income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data.

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

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Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?

You can see and hear what delegates thought on our website

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is the not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

Click on the report cover to download and read more

Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?

Supply Chain Insights tool helps support supply chain assurance in public services

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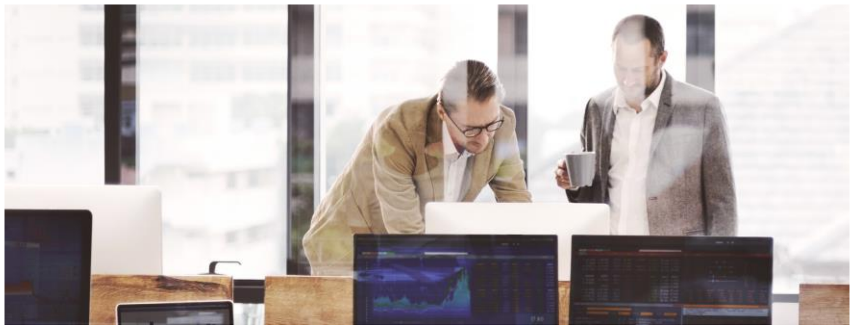
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?

Cost Assurance

Did you know….

40
Number of Public Sector engagements to date

£125m
Annual spend analysed

£3.55m
Rebate opportunities identified

£1.1m
Fee income identified

2.84%
Error rate – rebates versus spend volume

55%
Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton **Challenge question:**

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

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

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

http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/

http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/

http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/

http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/

http://www.cfoinsights.co.uk/

http://supplychaininsights.grantthornton.co.uk/

PSAA website links

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

MHCLG website links

https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition

https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition

CIPFA website link

http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book

National Audit Office link

https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2017/18

Item	11 Jan 17	27 Mar 17	10 May 17	27 Jun 17	26 Sept 17	22 Jan 18	22 March 18	9 May 18	Deferred Reason
FINANCE									
Local Audit Update	√			√	√	√			
Annual Governance Statement		√	√					√	
Annual Treasury Management Report				√					
Mid-Year Treasury Management Report						√			
Review of Accounting Policies		√					√		
Statement of Accounts					√				Needs to be July Meeting
Treasury Management Statement and Prudential Indicators		√				√			
Overview of the Council's Constitution in respect of Financial Procedure Rules	√								
INTERNAL AUDIT									
Annual Report for Internal Audit				√					
Internal Audit Charter and Protocol		√					√		
Internal Audit Plan		√					√		
Internal Audit Progress Report	√			√	√	√			
Quality Assurance and Improvement Programme				√			√		
Review of Internal Control including Public Sector Internal Audit Standards Self-Assessment Summary				√			√		

Agenda Item 9

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2017/18

Item	11 Jan 17	27 Mar 17	10 May 17	27 Jun 17	26 Sept 17	22 Jan 18	22 Mar 18	9 May 18	Deferred Reason
Risk Management Update	√	√		√	√	√			
Risk Management Update to include Risk Management Policy and Corporate Risk Register					√				
Counter Fraud Update Report including Counter Fraud & Corruption and Whistleblowing Policies				√					
LEGAL, PROPERTY AND DEMOCRATIC									
Annual report on Exceptions and Exemptions to Procedure Rules				√					
Overview of the Council's Constitution in respect of Contract Procedure Rules		√							
Results of the Questionnaire relating to the Effectiveness of Audit Committee		√							
GDPR/Data Protection Policy		√							
RIPA reports policy and monitoring									Due for Inspection May 2018
Terms of Reference									Changes to Constitution due to go to Full Council on 15 May 2018
EXTERNAL AUDITOR									
Presentation re: costs of Benefits work								√	
Certification Work for Lichfield District Council for Year Ended 31 March	√					√			
Informing the Audit Risk Assessment Lichfield District Council	√					√			
Planned Audit Fee	√				√				

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2017/18

Item	11 Jan 17	27 Mar 17	10 May 17	27 Jun 17	26 Sept 17	22 Jan 18	22 Mar 18	9 May 18	Deferred Reason
Audit Plan for Lichfield District Council 2017/18		√				√			
The Annual Audit Letter for Lichfield District Council	√					√			
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2018	√						√		

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