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6 November 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 **WEDNESDAY, 14TH NOVEMBER, 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

A handwritten signature in black ink, appearing to read 'Neil Turner'.

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

To: Members of Audit and Member Standards Committee

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



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AGENDA

- | | | | |
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AUDIT AND MEMBER STANDARDS COMMITTEE

25 JULY 2018

PRESENT:

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

Observer: Councillor Spruce (Cabinet Member for Finance & Democratic Services)

Officers In Attendance: Ms Jane Irving, Ms B Nahal, Mrs A Struthers, Mr A Thomas and Ms W Johnson

Also Present: Mr John Gregory (Grant Thornton UK LLP) (External Auditor) and Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor) and Ms Kirsty Lees (Grant Thornton UK LLP) (External Auditor)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rayner and Councillor Mosson.

2 DECLARATIONS OF INTEREST

Councillor Tittley and Councillor Mrs Woodward declared disclosable pecuniary interests in relation to Friary Grange Leisure Centre (Agenda item no. 8 – Risk Management Update) as both are Members of Staffordshire County Council and left the room when this item was discussed.

3 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 22 March 2018, as printed and previously circulated, were taken as read and approved as a correct record.

4 ANNUAL TREASURY MANAGEMENT REPORT

Mr Thomas delivered a Presentation on the Annual Treasury Management report and explained that this was the end of year report covering all treasury activity and prudential indicators for 2017/18. A summary of the capital programme performance from the original budget to the actual was explained and reasons were given for the budget reductions from Original to Approved budget together with actual performance to Approved Budget – Affordable Housing projects, Friarsgate projects and the Leisure outsourcing. The Burntwood Leisure sinking fund had now been superseded by the Leisure outsourcing and members were advised the Approved Budget reflected more current circumstances - £759,515 less than the Approved Revised Budget of £3,368,000. The capital receipts comparisons were presented and Mr Thomas explained that the turmoil in the financial markets in May 2018 caused by the results of the Italian election meant we were able to borrow the £1.395m to be used to fund the capital works at Burntwood Leisure Centre at a rate lower than had been provided in the Approved Budget. The level of investments had been pretty consistent to previous years. The Capital Financing Requirement (Borrowing Need) was in line with the Approved Budget, however, this was likely to increase in future years due to the Property Investment Strategy being funded by borrowing and the new leasing standard where more leases will appear on the Council's Balance Sheet. The liquidity of our investments were

highlighted as we had not had to temporarily borrow during 2017/18 to ensure there is sufficient cash available to pay for goods and services and the investments by type were illustrated. Mr Thomas said there were new accounting procedures (IFRS9) that had come in to force on 1 April 2018 whereby the new standard would see us having to set money aside to reflect any reduction in value of the investment and there was a difference of opinion between the Council and its Treasury Advisors (Arlingclose) and the External Auditors in relation to the accounting treatment for the Property Fund Investment under the new standard. The balance sheet and cash flow statements were presented and explanations provided for significant differences between 31 March 2017 and 31 March 2018.

Concerns were raised around the right to buy receipts in relation to reducing the access to affordable housing by people within the district. Mr Thomas explained that the Council had transferred the former Council Housing in 1997 to a Housing Association and therefore it no longer had any control over the policy on sales. However, the Council still had a role in terms of Strategic Housing through the Local Plan.

The LDC Average Yield figure of 4.8% was questioned as it looked quite high and it was explained that this related solely to the investment in the Property Fund.

The risk section of the report detailed the Council's plans to dispose of the Bore Street Shops yet it was assumed this was an error and it was agreed to amend this statement because the Council had decided to retain this asset.

Discussions then took place and reassurance was sought about the impact of IFRS9. Mr Thomas said there was a difference of opinion at the moment although it should have no impact in 2018/19 due to the possibility of a Statutory Override (subsequent to the meeting a consultation has been issued). Revised guidance clarifying the accounting treatment and the earmarked reserve that had been set up previously to manage this type of risk. If the standard is applied in a way that is different to that the Council has assumed then any impact on the 18/19 financial position will be mitigated by the earmarked reserve. However, the election in our accounts this year is a prudent measure that keeps all options open moving forward. The External Auditor advised that this came in to effect on 1 April 2018 and in her opinion the issue has no impact on the Council's position for the 2017/18 financial year and so has not affected their opinion.

It was asked if the impacts of the outsourcing of the Burntwood Leisure Centre were presumed for 18/19 and Mr Thomas advised that it was decided to invest in the Burntwood building and to use public sector borrowing to improve the building i.e. improve energy efficiency/expand the size of the health spa. A question was raised regarding why the Council's average credit score at 31 March 2018 was higher than other Arlingclose clients. Mr Thomas confirmed that Lichfield's position has always been quite prudent/conservative when comparisons are made with other Authorities but always these figures are done at a spot in time and things could always change the very next day. He said our objective was always where we approve a relatively higher risk investment to have risk mitigation in place as was the case with the Property Fund having an earmarked reserve in place. This was reassuring the members felt.

It was asked what the level of external borrowing was now and Mr Thomas said due to the funding of the capital investment in Burntwood Leisure Centre it would be £1.4m higher than that quoted at 31 March 2018 on page 16.

- RESOLVED:** (1) The report was reviewed and issues raised within discussed;
- (2) The actual 2017/18 prudential indicators contained within the report were also reviewed and discussed.

5 STATEMENT OF ACCOUNTS

Members considered the Statement of Accounts 2017/18 and Mr Thomas delivered a Presentation to explain the report in more detail. Mr Thomas explained that The Accounts and Audit (England) Regulations now require a Local Authority to certify its set of Accounts by 31 May and publish an Audited set by 31 July each year and the Council's Constitution assigns responsibility for considering and approving the Statement of Accounts to the Audit & Member Standards Committee to enable the Chairman to sign them off. Mr Thomas explained that part of the findings were in Agenda item no. 6 – External Auditors Audit Findings Report but Mr Thomas said there were no significant issues of concern for the Committee to consider.

Mr Thomas summarised the main reasons why the general fund deficit (expenditure greater than income) of £450,000 becomes greater deficit on provision of services in the comprehensive income and expenditure statement (CIES) of £3,181,000. He explained that the Council prepared its Money Matters Reports during the year on a Statutory Funding Basis (excluding items such as depreciation and the full cost of pensions) and the CIES was prepared using accounting standards as if the Council was a Company. The movement in the reserves statement showed how usable unusable (accounting reserves such as the pensions reserve) reserves has changed during the financial year. The balance sheet for 2017/18 was explained as being a snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date. The major changes in the balance sheet during the financial year were explained and the cashflow statement shows why the level of cash and cash equivalents had increased by £864,000 during the financial year.

Members asked questions on the Annual Governance Statement including the statement “we ensure that communication methods are effective and that members and officers are clear about their roles with regards to community engagement” – this was challenged as a member said they had never been asked within their role to take place in any community engagement. It was agreed that this was interpretation - it related to the training members were offered which enabled them to engage within their constituents in their wards – the statement was more aspirational than mechanical.

Comments were made that the budget consultation was far too short;

The triangulation meetings with Cabinet members was queried as some members were not aware of these and had not been invited to any. Councillor Spruce said he was aware of 3 members of Cabinet who did have triangulation meetings and it was felt this needed to be more visible to Chairmen and Vice-Chairmen. Ms Bal Nahal explained to the committee that if triangulation meetings are required by an Overview & Scrutiny Chairman then it is an option and these meetings had taken place in the past but Chairmen did not always feel them necessary.

Members queried why the Council had spent £103,000 more on additional bin purchases in the joint waste service. Mr Thomas explained that this was due to the joint waste service arrangements with Tamworth Borough Council – he explained that it was not unbudgeted – it was included in the revenue budget. However, from an accounting perspective these were related to the purchase of assets and needed to be shown on the Council's balance sheet and therefore the cost and funding had been transferred to the Capital Programme.

Members congratulated Mr Thomas and his team for the well-presented Statement of Accounts 2017/18 and report and his clear explanation.

RESOLVED: The Committee:

- (1) Noted the External Auditor's Audit Findings Report at Agenda item no 6;
- (2) Approved the Letter of Representation at Appendix A; and
- (3) Approved the Council's Statement of Accounts for 2017/18 at Appendix B.

6 AUDIT FINDINGS REPORT FOR LICHFIELD DISTRICT COUNCIL 2017/18

Mr John Gregory, External Auditor, presented Grant Thornton's Audit Findings Report for year ending 31 March 2018 and explained that under the International Standards of Auditing they were required to report whether in their opinion the Council's financial statements give a true and fair view of the Council's position and Council's expenditure and income for the year have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. Also, whether other information published is materially inconsistent with the financial statements or their knowledge obtained in the audit or otherwise to be materially misstated.

Mr Gregory said this was the first year that all local authorities have been asked to publish their Statement of Accounts with Auditor's findings by 31 July and only 85-90% will have met this deadline but Lichfield District Council had met this deadline which was a good thing. Mr Gregory focussed on the key points within the report. Minimal amendments had been made to the financial statements as a result of the audit. Work had still been ongoing at the time of writing the report to determine whether the Council's approach to accounting for the pension liability relating to the staff that transferred under TUPE for the outsourcing of the Leisure Services was appropriate. Mr Gregory explained that the Statement of Accounts had been prepared on the basis that the actuarial risk for the individuals had transferred to the provider along with the employees and so it was no longer the Council's risk and so no longer a Council liability for their pension. Mr Gregory was now able to confirm to the committee that after very careful consideration of this, the External Auditor's view was that this had been treated correctly in the Statement of Accounts and no changes were to be made, the issue had been satisfactorily resolved and they were happy with how this matter had been recorded.

The Value for Money key findings was discussed as the Friarsgate Development had now been discontinued and the External Auditors had reported that they were satisfied that the Council had a clear chain of reporting and governance in place regarding the Friarsgate development and that regular updates had been provided. They felt the Council's forward financial planning was not reliant on the success of this and so the decision to not continue had no detrimental effect on the Council's financial plans. They therefore concluded that for the 2017/18 year the risk had been sufficiently mitigated and Lichfield District Council had proper arrangements to secure value for money.

Members were relieved on this opinion and asked if the report would be updated to reflect this new verbal opinion around pensions. Mr Gregory said the neatest way to deal with this update would be to update the Annual Audit Letter to reflect these new findings and opinion and this was noted.

Members felt a lot was to be learnt from the Northamptonshire Report distributed some time ago about visibility of audit and audit trails. The Chairman said he was very keen to examine anything with limited assurance so something can be done before it is too late. The Minutes of the Audit & Member Standards meetings were felt to be very important to show the lines of accountability and it was confirmed that the Minutes were now more detailed and presented to Council as well as on the website for the general public. Councillor Spruce commented that the reduced timescales within which to produce this detail had been very demanding and congratulated Mr Thomas and his team who had dealt with a lot of change so late in the day. Councillor Spruce felt the clean Audit Statement was something everyone should be incredibly proud of and the committee wholeheartedly agreed.

RESOLVED: The Committee noted the External Auditor's Audit Findings Report.

7 ANNUAL REPORT FOR INTERNAL AUDIT

Members considered the Internal Audit Annual Report and Progress Report December 2017 to March 2018 from Mrs Struthers (Audit Manager). Mrs Struthers said the report showed activity and performance for the 2017/18 financial year and the outcome of the Internal Audit's Review of the internal control, risk management and governance framework for the period December 2017 to March 2018. Mrs Struthers explained that the Internal Audit section had made good progress in the year in relation to its targets, achieving all of the targets and no limited assurances were given to the Audit Reviews completed during December 2017 to March 2018. The Chairman said this was pleasing and gave credit to Mrs Struthers and her team for achieving this. The overall opinion was discussed and the committee were happy with the progress made and there being no high priority actions outstanding.

RESOLVED: (1) The Annual Report of Internal Audit for 2017/18 be noted;
(2) The performance report for Internal Audit activity from December 2017 to March 2018 be noted.

8 RISK MANAGEMENT UPDATE

Members considered the Risk Management Update from Mrs Struthers (Audit Manager). Mrs Struthers advised that the corporate risks are reviewed by Leadership Team and updated regularly and two new project risks had been identified – Friary Grange Leisure Centre (planned or unplanned closure) and the forthcoming end of the ICT Support Contract. Both Heads of Service had been asked to attend to explain to the committee the reasons why these risks had been added:-

Mr Richard King (Director of Place & Community) was introduced to speak on behalf of Mr Christopher Cook who was Head of Leisure & Operational Services responsible for the Friary Grange Leisure Centre.

Mr King explained that the 45 year old building at The Friary Grange Leisure Centre was in a poor state of repair and in urgent need of remedial works including a roof replacement. However, at the moment Lichfield District Council had a different view to Staffordshire County Council about the responsibility of the building. Mr King advised that members and officers were currently meeting to try to agree a maintenance programme and so Mr Cooke had felt it necessary to add this on to the corporate risk register as if no investment was given to the building it could result in closure. Mr King said Lichfield District Council had already commissioned a condition survey to determine the level of investment required and the survey had identified an investment of £1.7m was required to enable the short term serviceability of the building.

Ms Christie Tims (Head of Corporate Services) was then introduced to the committee as she was responsible for managing the end of the ICT support contract. Ms Tims explained that the ICT support contract had been outsourced 14 years ago and the current contract was due to expire 1 October 2018. Ms Tims said it was felt to be a risk as we move to in-house support, bringing in-house three existing employees who deliver the contract for Northgate and recruit two new members of LDC staff to help facilitate this. She said the existing contract with Northgate was no longer fit for purpose to support our digitalisation agenda and our move towards cloud based systems. The contract has been split into several smaller support contracts alongside the development of a support desk and the project was currently progressing well and on-track. Ms Tims said she was confident the risk would decrease once new staff were employed and in her opinion this risk would be bridged quite quickly.

Members discussed the first risk of "failure to respond to changing demographics" at length as it was known that Lichfield had a more rapidly ageing population than other areas. Councillor

Spruce (Cabinet Member for Finance & Democratic Services) was asked if there was any way we could add “active planning” to our assessments, plans and policies. The committee felt a failure to respond to changing demographics was hard to quantify as it was the unknown yet everyone agreed the means testing of older people was inevitable.

The inadequate office support was also a concern when discussing the Financial Sustainability of the Council risk. Councillor Spruce confirmed that the Cabinet were spending a lot of time discussing how to take commercialisation forward and were again meeting on 24 August 2018. Councillor Spruce said they were concentrating on non-property streams of income rather than the property ones. Members asked if all councillors could feed in to this meeting as it was recognised that the government had lessened funding and we needed to either find new streams of income or reduce services. Councillor Spruce advised that the meeting on 24 August was to look at the legal pitfalls and strategic side of commercialisation and it would be open to everyone in due course. He was asked if he could perhaps brief this committee at the next meeting on 14 November and this was agreed.

The Government had recently issued a consultation on the Local Government Finance Settlement for 2019/20 that included a preferred approach for removing Negative Support Grant and the prospect of changes in the New Homes Bonus regime for both 2019/20 and 2020/21 onwards. In addition the prospectus for groups of authorities wishing to be a Business Rates Pilot for 2019/20 had also been issued and it was likely that the Council would be part of a pilot bid for Staffordshire and Stoke on Trent.

9 RIPA REPORTS POLICY AND MONITORING

Members considered the RIPA (Regulation of Investigatory Powers Act 2000) Report from Ms Bal Nahal, Head of Legal, Property & Democratic Services, Solicitor and Monitoring Officer together with the Office of Surveillance Commissioner (OSC) Inspection Report and findings. Ms Nahal advised that over the last 7 years there has been no RIPA Investigations at Lichfield District Council but the OSC had recently carried out an inspection. The inspection report was tabled for members’ comments and Ms Nahal highlighted that the only recommendations made were for refresher training for all key personnel (including both the Senior Responsible Officer and Authorising Officers) and a small amendment to the RIPA Policy and Procedure only. The OSC had felt that despite the fact that Lichfield District Council had not been the subject of an inspection for a long period, there was in place a comprehensive RIPA Policy and Procedure which provided a helpful guide for any Council Investigator considering the use of covert surveillance or CHIS. Ms Nahal explained that the only amendment to the RIPA Policy and Procedure recommended was the amendment on the top of page 5 of the policy (page 262 of the agenda pack) which referred to “covert profiles” being used to undertake surveillance. Discussions took place around observations on line and utilising social media and other sites and it was agreed that Lichfield District Council does not really do enough to reach the magistrates’ threshold now as Benefit Fraud Investigations have been moved to the Department of Works & Pensions.

RESOLVED: That the Audit & Member Standards Committee:

- (1) Endorse the recommendations of the Office of Surveillance Commissioner;
- (2) Note the findings of the report and changes to the RIPA Policy to Council for ratification;
- (3) Endorse the RIPA monitoring report for the last financial year.

10 PLANNED AUDIT FEE 2018/19

Grant Thornton (External Auditors) presented the Planned Audit fee letter for 2018/19 which the committee agreed to sign off as the scale fee for 2018/19 had been set by PSAA at

£35,412. It was confirmed that there were no changes to the overall work programme and the scale fee covered:-

- Grant Thornton's audit of financial statements;
- Grant Thornton's work to reach conclusions on the economy, efficiency and effectiveness in Lichfield District Council's use of resources (the value for money conclusion); and
- Grant Thornton's work on Lichfield District Council's accounts return (if applicable).

It was explained that the scale fee excludes any work requested by Lichfield District Council that may be agreed to be undertaken outside of the Code Audit and each additional piece of work will be separately agreed.

11 WORK PROGRAMME

A revised Work Programme was circulated as an additional meeting on 24 April 2019 had been added for the Annual Governance Statement to be discussed.

(The Meeting closed at 7.40 pm)

CHAIRMAN

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Mid-Year Treasury Management Report

Cabinet Member for Finance and Democracy

Date:	14 November 2018
Agenda Item:	4
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	Anthony.thomas@lichfielddc.gov.uk
Key Decision?	YES
Local Ward Members	Full Council



AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 The report covers the projected mid-year Treasury Management performance in 2018/19.
- 1.2 Capital expenditure is projected to be **£9,024,500** and this is **(£3,544,000)** less than the Approved Revised Budget of **£12,568,500**. This projected reduction is principally due to the lower projected spend of **(£3,000,000)** for the Property Investment Strategy.
- 1.3 There is projected to be **(£482,000)** capital receipts received in 2018/19 compared to the Approved Budget of **(£300,000)**.
- 1.4 The funding of the Capital Programme in 2018/19 reflects the projected actual expenditure of **£9,024,500**.
- 1.5 The Balance Sheet projections indicate investment balances at the 31 March 2019 will be **£22,186,000¹** and these are **£1,275,000** higher than the Approved Budget of **£20,911,000**. This is due to higher than projected earmarked reserves from 2017/18.
- 1.6 The borrowing need of **£7,529,000** and its financing is projected to reduce by **(£3,023,000)** compared to the Approved Budget of **£10,552,000**. This is principally due to the lower projected spend for the Property Investment Strategy of **(£3,000,000)**.
- 1.7 The Council's investments achieved a risk status of **AA-** that was more secure than the aim of **A-** and yield exceeded all four of the industry standard London Interbank (LIBID) yield benchmarks.
- 1.8 The Council will, under the revised Prudential Code, be required to approve a more comprehensive Capital Strategy.
- 1.9 The report confirms the Council was compliant with all Treasury Limits and Prudential Indicators for 2018/19.

2. Recommendations

- 2.1 To review the report and issues raised within.
- 2.2 To review the projected 2018/19 Prudential Indicators contained within the report.
- 2.3 To note the requirement to produce a Capital Strategy that will need to be approved by Full Council.

3. Background

The Capital Programme and Treasury Management

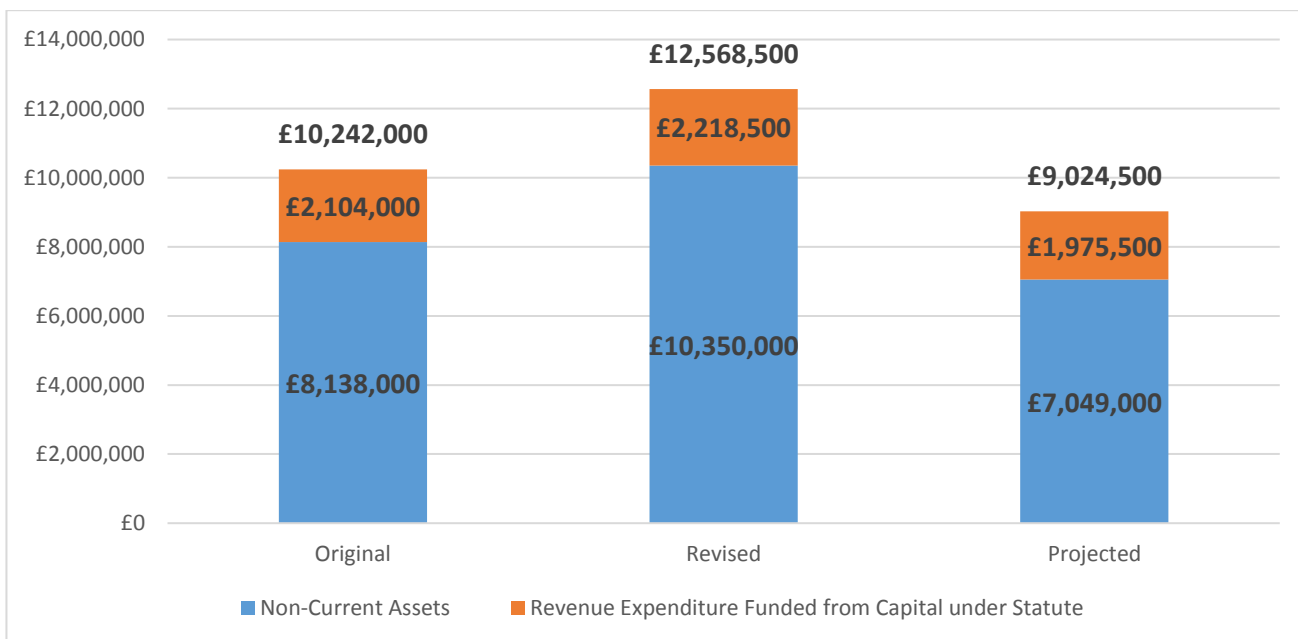
- 3.1. This Mid-Year Treasury Report is a requirement of the Council's reporting procedures. It covers the Treasury activity during 2018/19 and the projected Prudential Indicators for 2018/19.

¹ Investments are projected to be £22,085,000 and the Available for Sale Reserve related to the Property Fund investment is projected to be £101,000.

- 3.2. Treasury Management is defined as: *“The management of the local authority’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.”*
- 3.3. Overall responsibility for Treasury Management remains with the Council. No Treasury Management activity is without risk; the effective identification and management of risk are integral to our Treasury Management objectives.
- 3.4. Our Treasury Management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members be informed of treasury management activities at least twice a year.
- 3.5. We report quarterly to the Cabinet and Strategic Overview and Scrutiny Committee on Treasury activity and this report to Audit and Member Standards will provide more information on capital financing, Balance Sheet projections and Prudential Indicators.
- 3.6. This report is prepared in accordance with the CIPFA Treasury Management Code and the Prudential code and
- a) presents details of capital spend, capital financing, borrowing and investment transactions;
 - b) reports on the risk implications of Treasury decisions and transactions;
 - c) gives details of the mid-year position on Treasury Management transactions in 2018/19;
 - d) confirms compliance with Treasury limits and Prudential Indicators
- 3.7. The performance of the Treasury Management function should be measured against the hierarchy of investment objectives of **Security** (the safe return of our monies), **Liquidity** (making sure we have sufficient money to pay for our services) and **Yield** (the return on our investments).
- 3.8. In addition, external borrowing is considered against the objectives of it being affordable (the impact on the budget and Council Tax), prudent and sustainable (over the whole life).

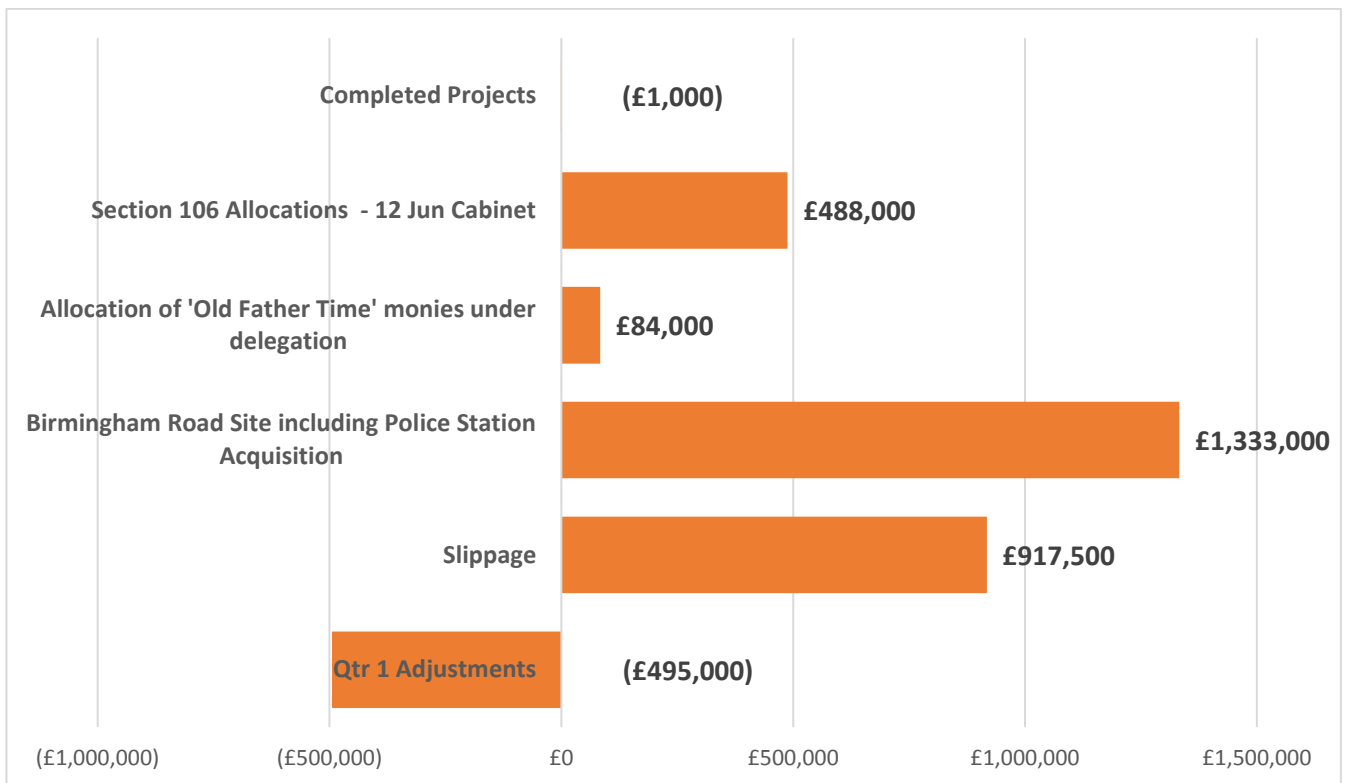
The Capital Programme

- 3.9. A summary of the Capital Programme performance from the Original Budget to the Projected Actual for 2018/19 is shown in detail at **APPENDIX A** and in the chart below:

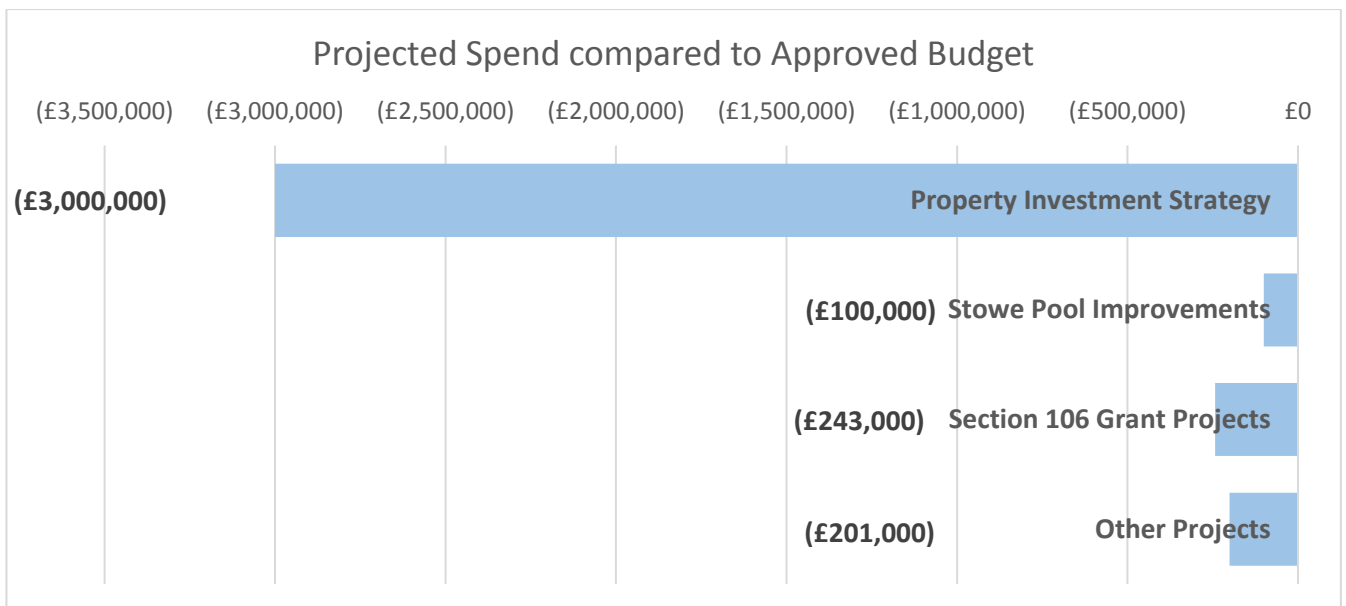


- 3.10. Capital expenditure is projected to be **£9,024,500** and this is **(£3,544,000)** less than the Approved Revised Budget of **£12,568,500** and **(£1,217,500)** less than the Original Budget of **£10,242,000**.

3.11. The reasons for the budgetary increase of **£2,326,500** from the Original Budget of **£10,242,000** to the Approved Revised Budget of **£12,568,500** are shown in the graph below:



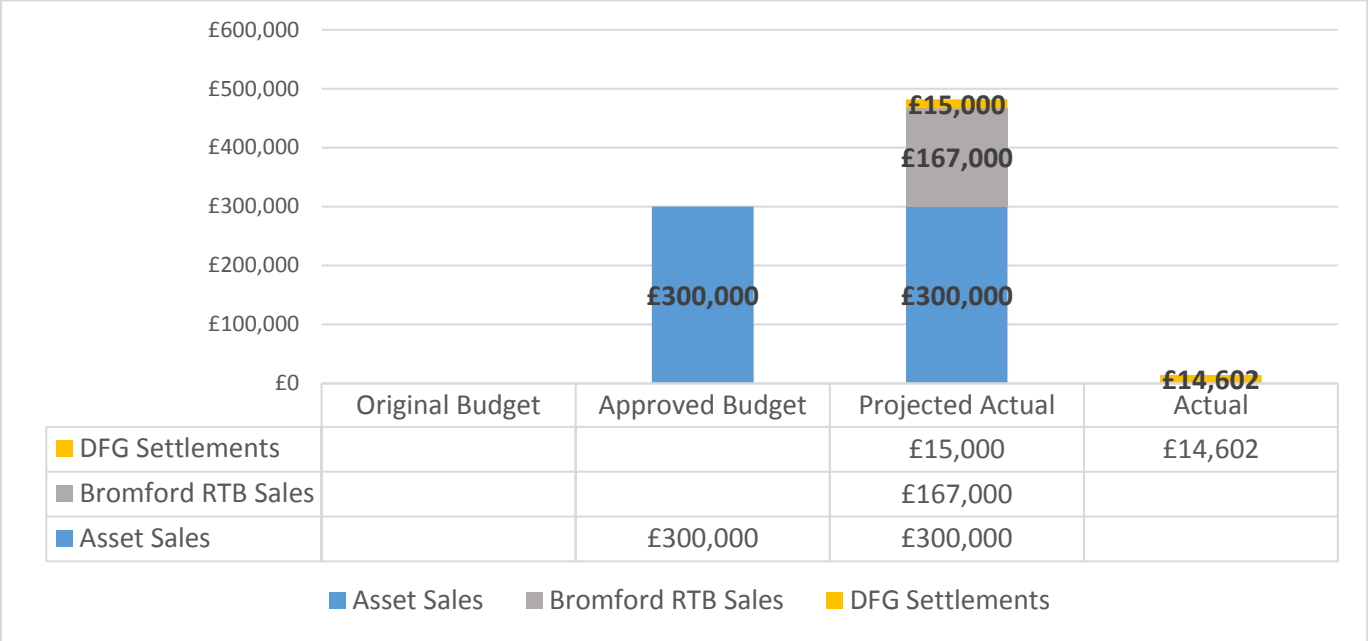
3.12. The main reasons for the variance to the Approved Revised Budget are shown in the graph below:



- **Property Investment Strategy** – The Property Investment Strategy was approved by Council on 16th October 2018 and at present the Council is in the process of recruiting an estates management team that will be integral to the delivery of this strategy. As a consequence it is prudent to assume that **£3,000,000** of the **£6,000,000** budget will be spent in 2018/19.
- **Stowe Pool Improvements** – This project is on hold whilst a review of future leisure provision is undertaken.
- **Section 106 Grant Projects** – Two projects have site start dates after winter and the other is in planning pre-application discussions.

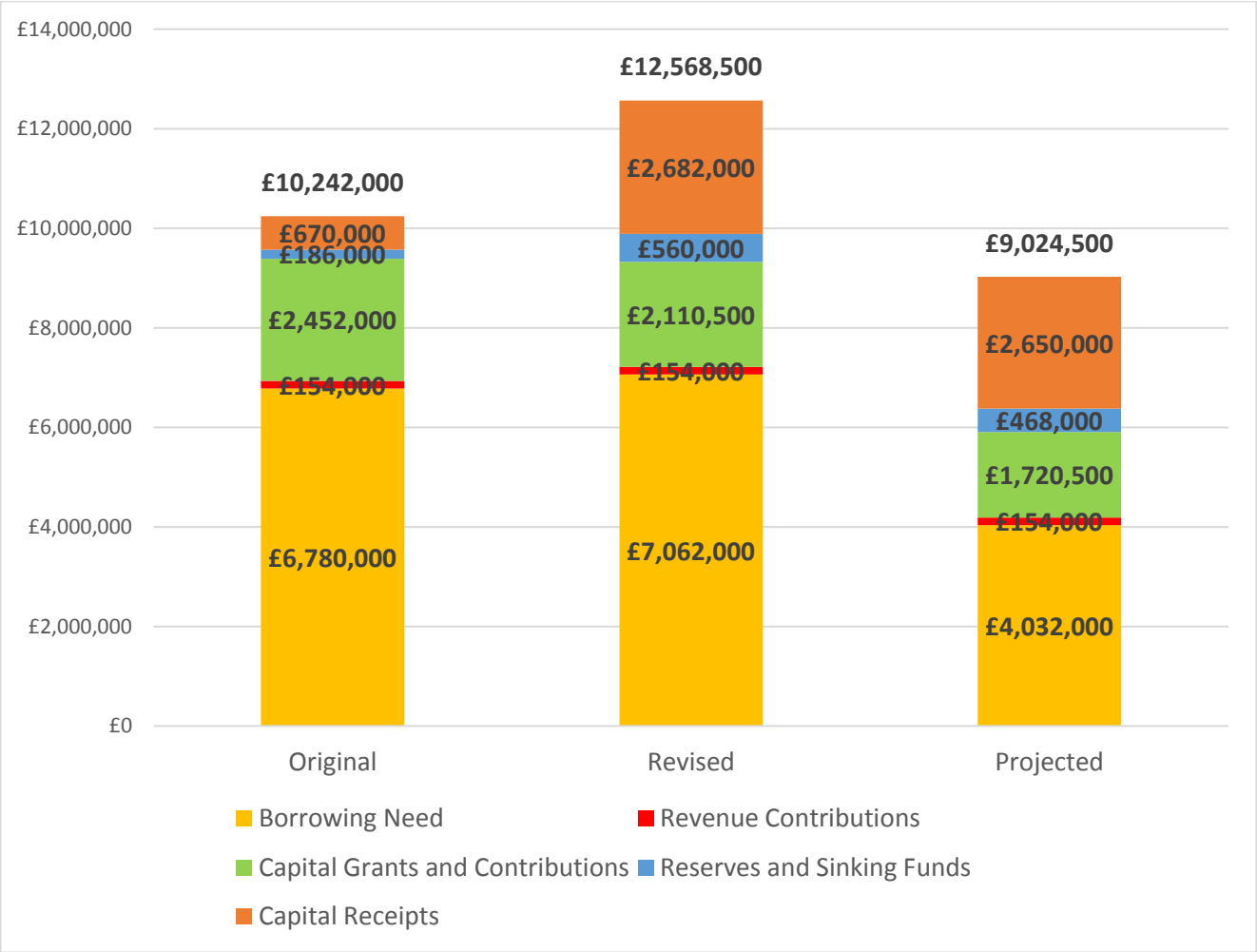
Capital Receipts

3.13. The Original Budget, Approved Budget (asset sales relate to the Mill Lane Link and Beacon Park Cottage), projected capital receipts and actual capital receipts received in the first six months are shown below:



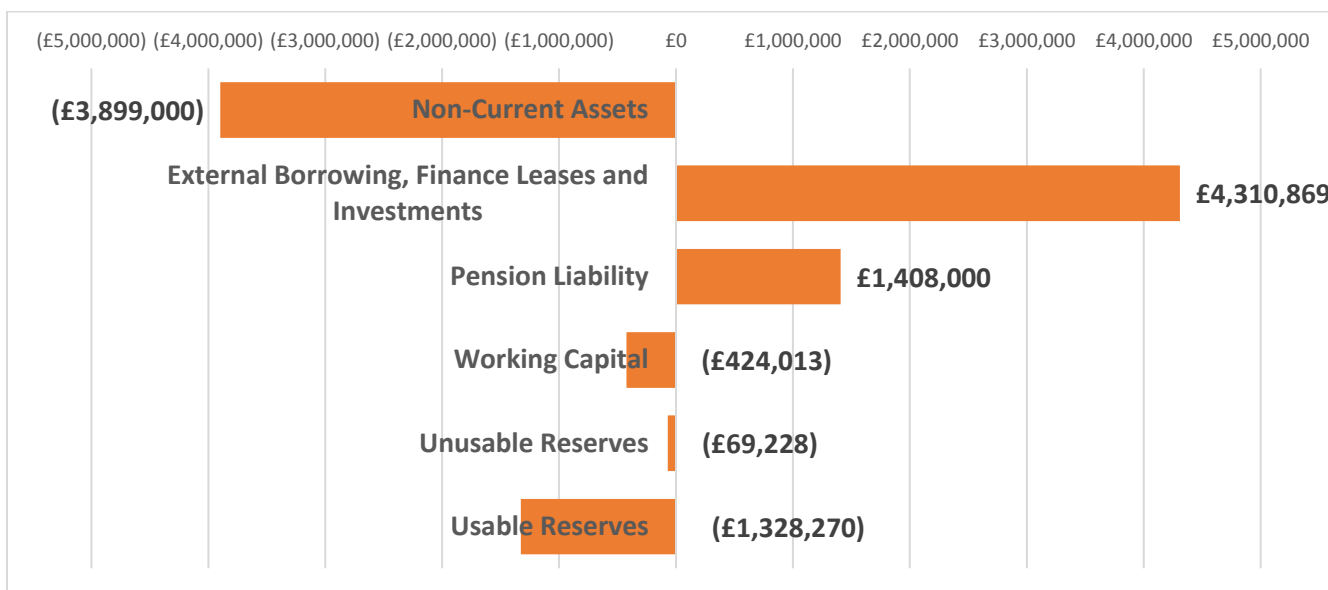
Capital Funding

3.14. The budgeted and actual sources of funding for the Capital Programme are shown in detail at **APPENDIX A** and the graph below:



Balance Sheet Projections.

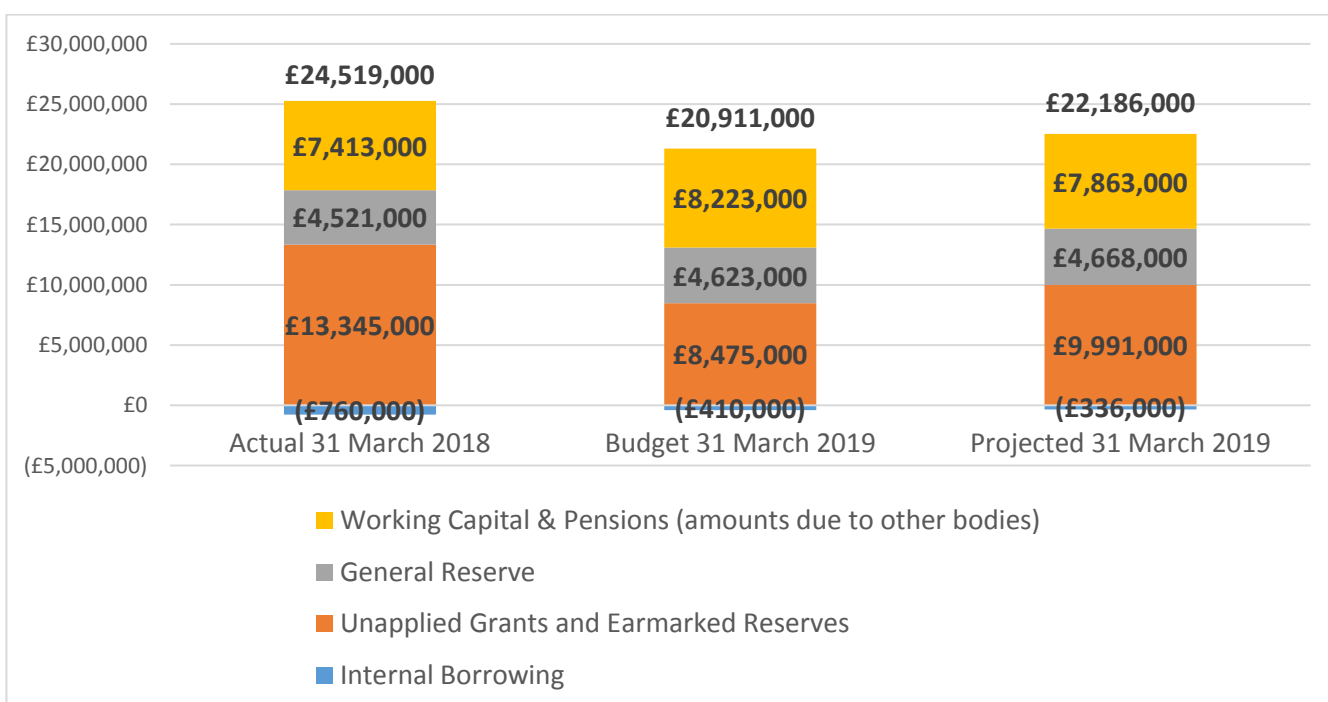
3.15. The Balance Sheet Projections for 2018/19 compared to the Budget are shown in detail at **APPENDIX B** and in summary below:



3.16. The main reasons for the variances are:

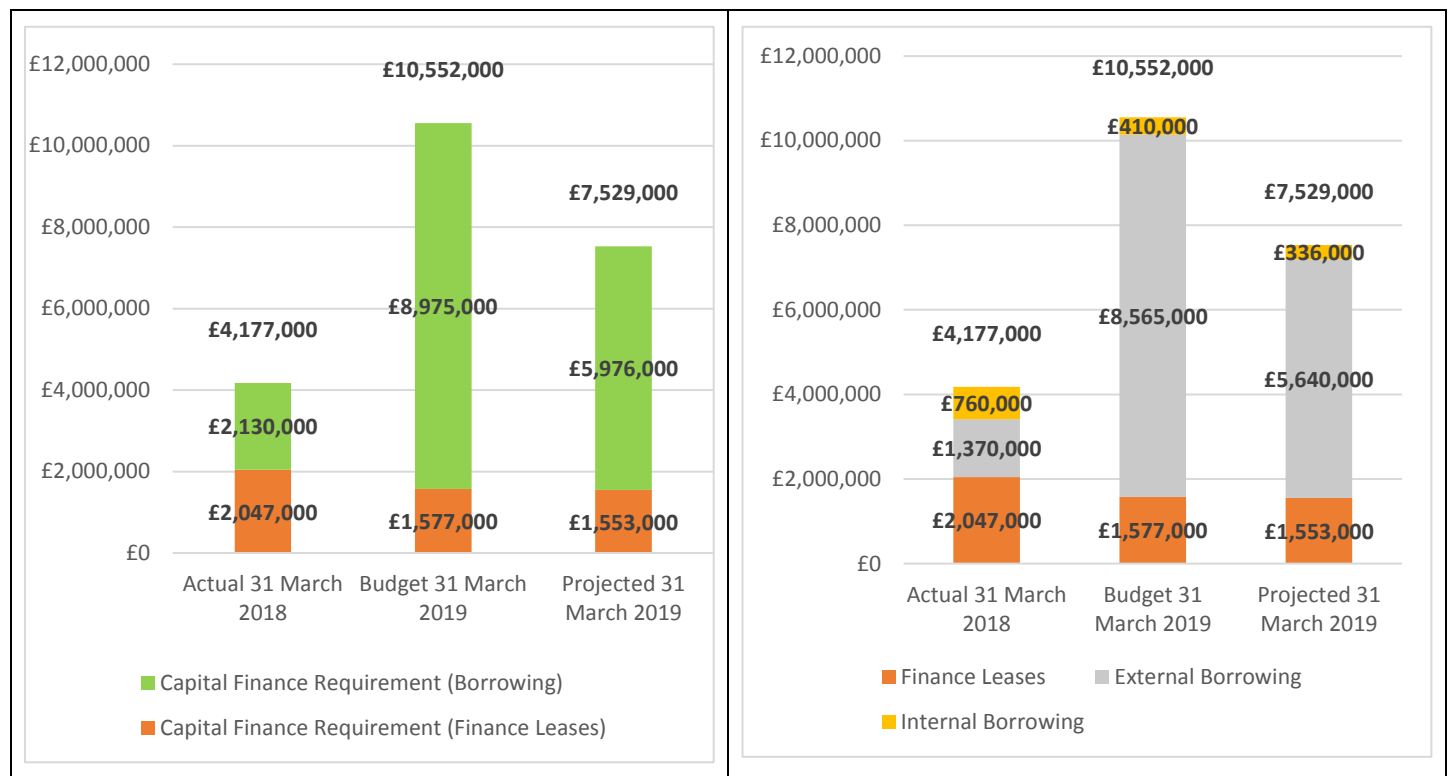
- **Non-Current Assets and External Borrowing:** The single largest item is the projected slippage of **(£3,000,000)** of the Property Investment Strategy budget and consequent projected lower external borrowing of **£3,000,000**.
- **Pensions Liability:** There are two elements to this projected variance of **(£1,408,000)**, the reduction in the Pension Fund Actuary's valuation at 31 March 2018 of (£534,000) compared to the Budget and the early payment of past year service pensions for 2019/20 of (£874,000).
- **Usable Reserves:** Earmarked reserves are projected to increase by **(£1,497,000)** compared to the Budgeted Balance Sheet. The single largest increase is related to a transfer in 2017/18 of **(£630,000)** to the Business Rates earmarked reserve to manage the volatility and risks around the current and future Business Rates regimes.

3.17. The level of investments and the sources of cash are shown in the chart below:



Borrowing Need (Capital Financing Requirement) and its Financing

3.18. The actual for 2017/18 and Budgeted for 2018/19 Borrowing Need together with its financing is shown in the graphs below:

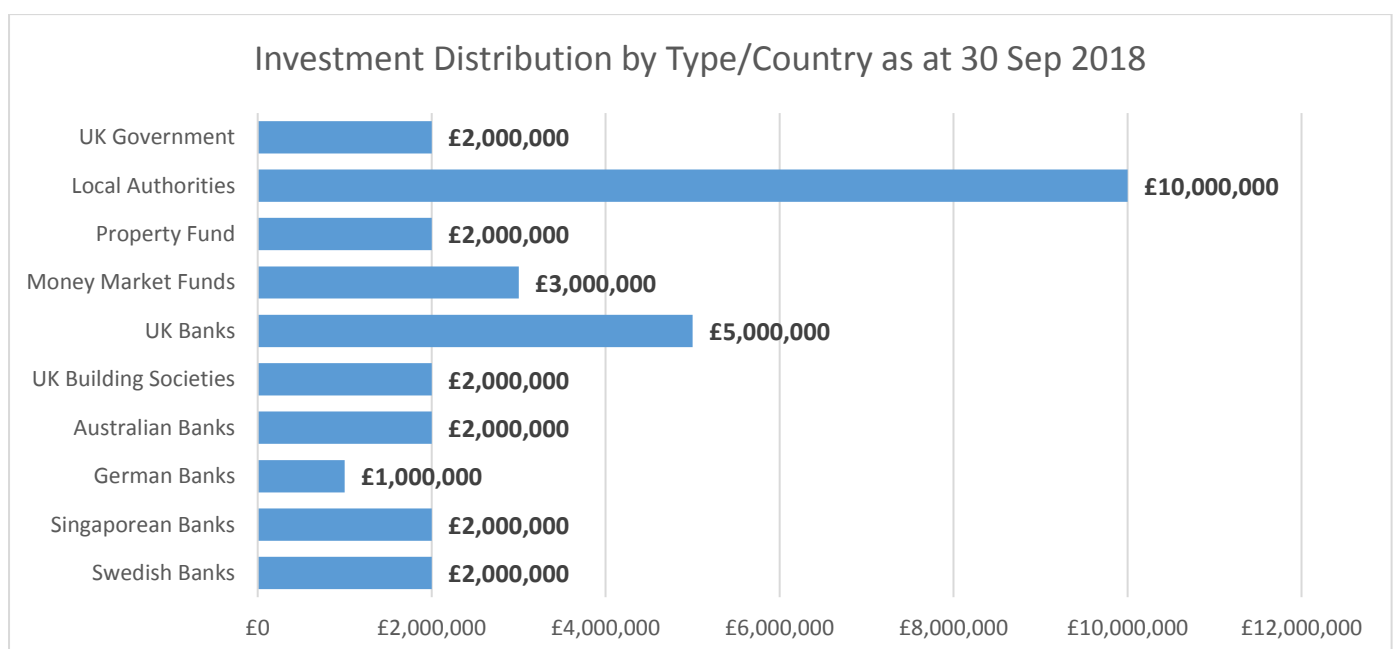


3.19. In line with the Approved Medium Term Financial Strategy, the Council externally borrowed from the Public Works Loans Board **£1,395,000** on 31 May 2018 for a ten year period.

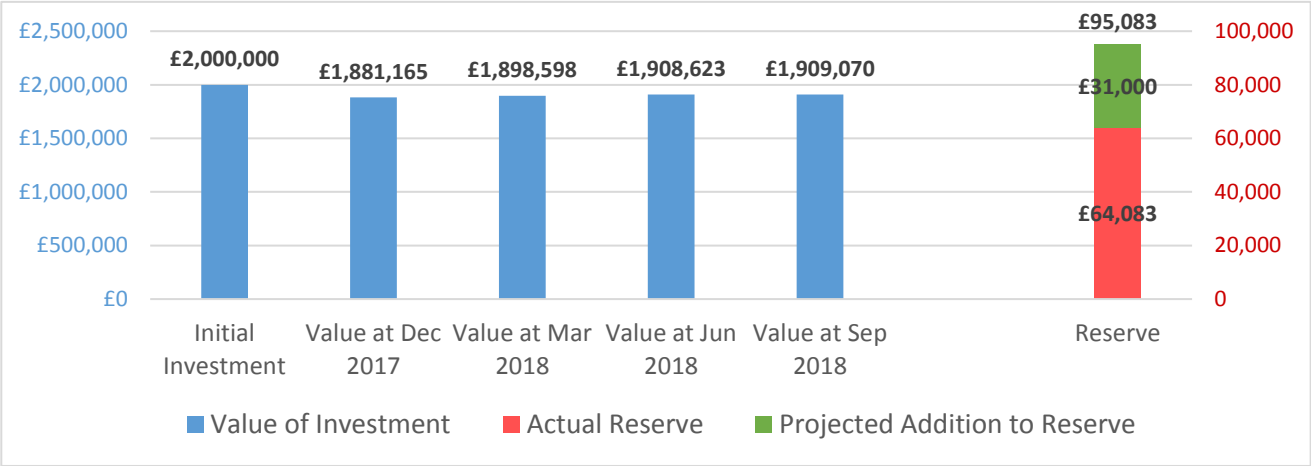
Investments

The Security of Our Investments

3.20. The investments the Council had at the 30 September 2018 of **£31.00m** (with the property fund valued at original investment of **£2.00m**) by type and Country are summarised in the graph below and in more detail at **APPENDIX C**:



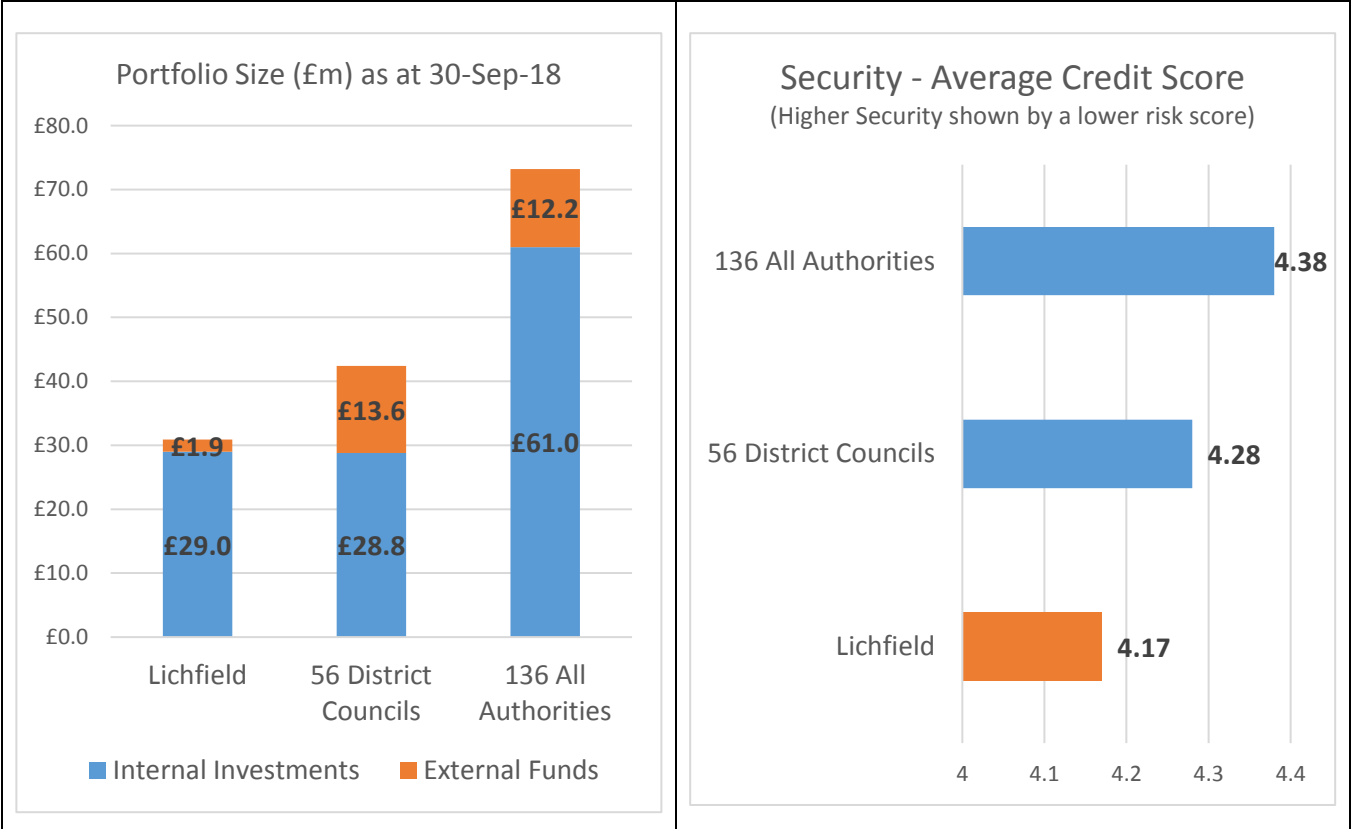
3.21. The current value of the Property Fund investment together with the value of the projected earmarked reserve at the end of 2018/19 intended to offset reductions in value is shown in the graph below:

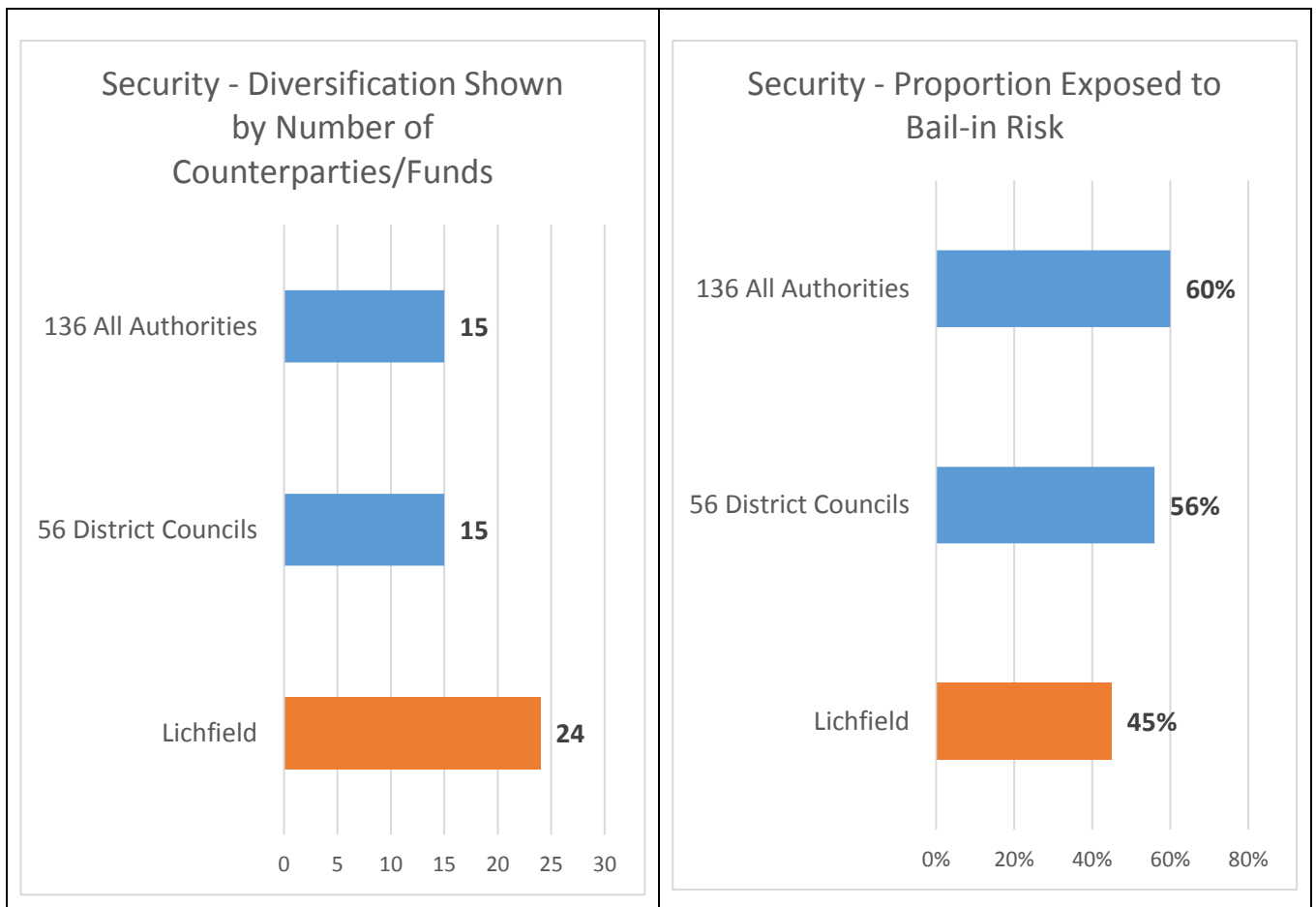


3.22. It is important to note that the ‘book loss’ on the investment is currently **£90,930** and the balance on the Volatility Reserve to offset any reduction in value is projected to be **(£95,083)**.

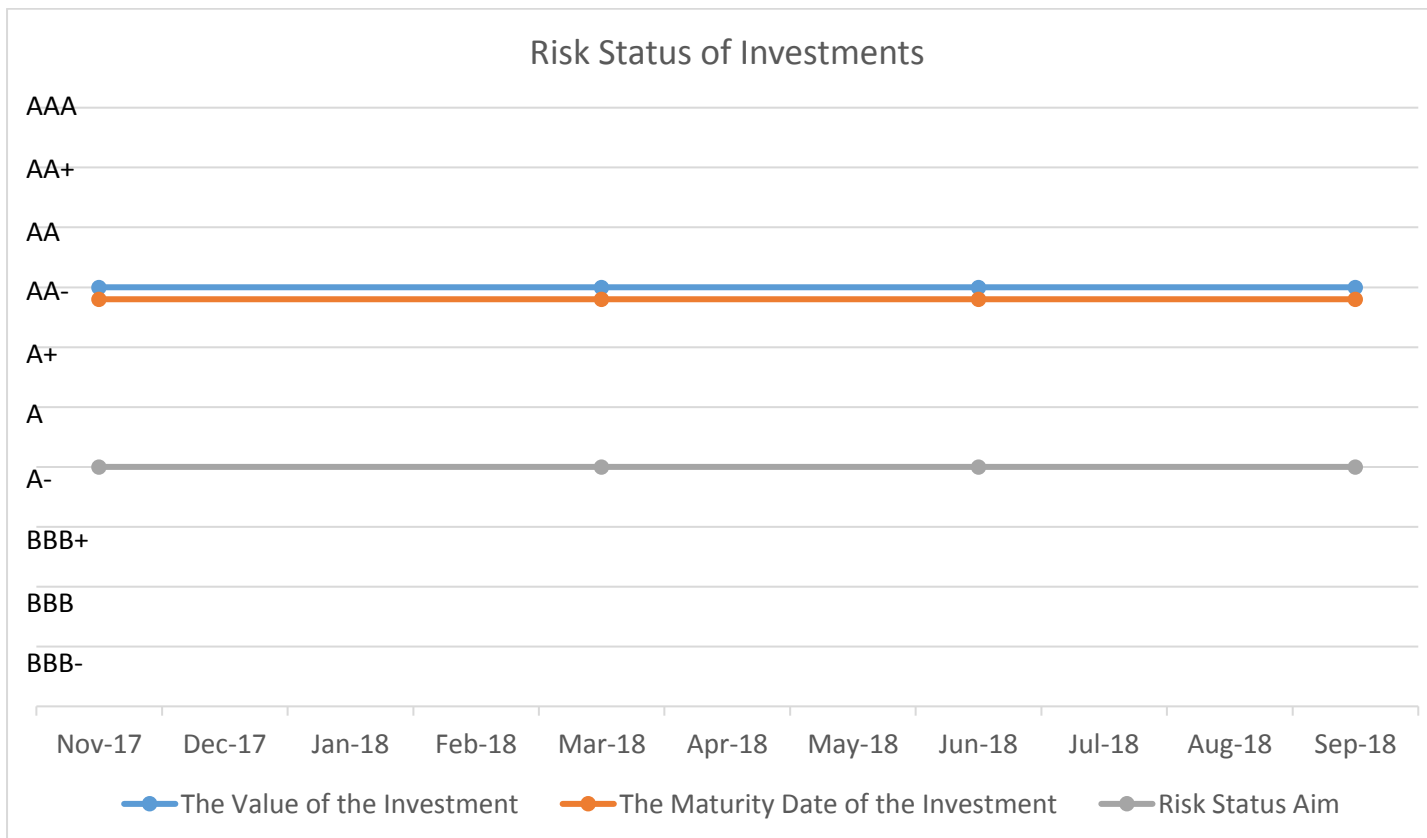
3.23. The Ministry of Housing, Communities and Local Government (MHCLG) consulted on statutory overrides relating to the International Financial Reporting Standard (IFRS) 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce “more income statement volatility” which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds. The Authority responded to the consultation which closed on 28th September 2018.

3.24. A comparison of the Council’s portfolio size of **£30.909m** (with the property fund valued at its current value of **£1.909m**), average credit score, level of diversification and level of exposure to ‘Bail in’ risk compared to all Arlingclose Clients is shown in the charts below:



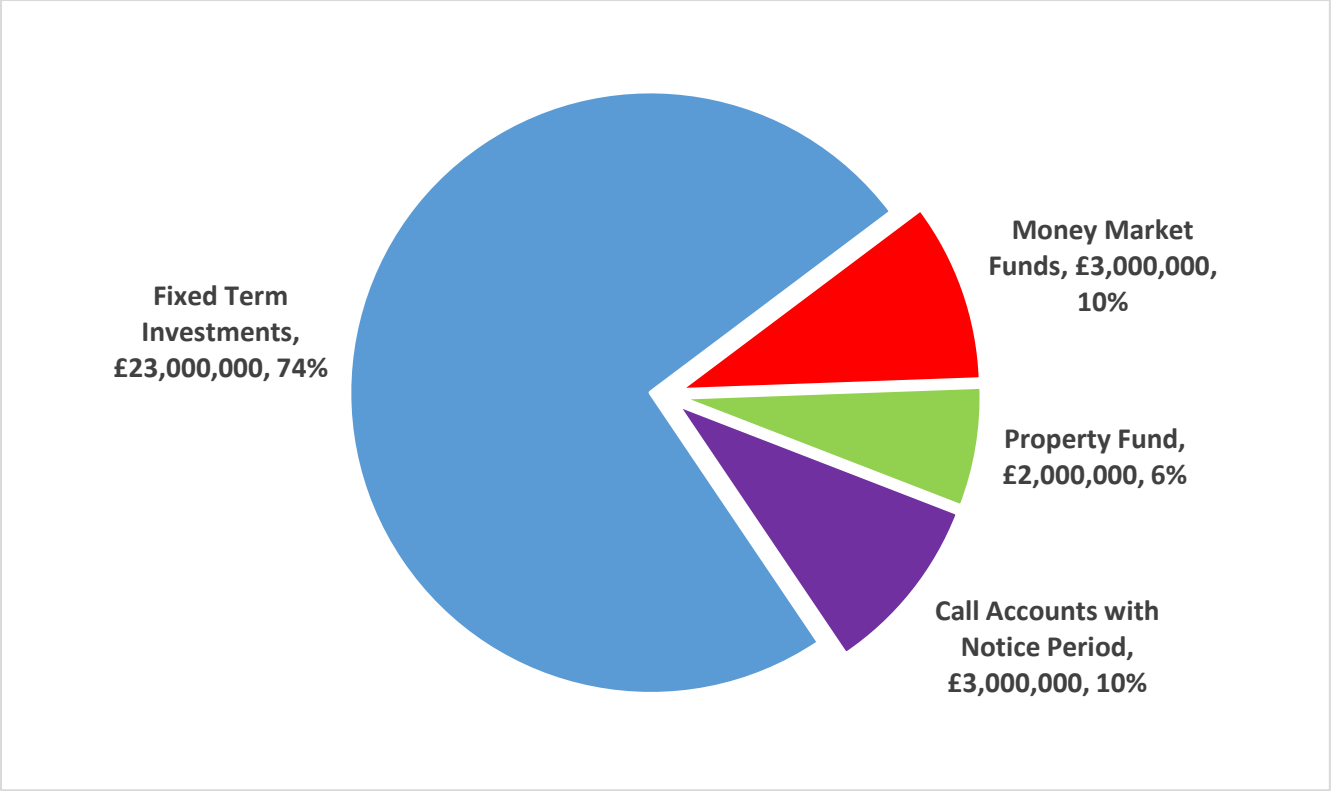


3.25. Our aim for the risk status of our investments was **A-**. The risk status based on the length of the investment and the value for a 12 month period is summarised in the graph below:

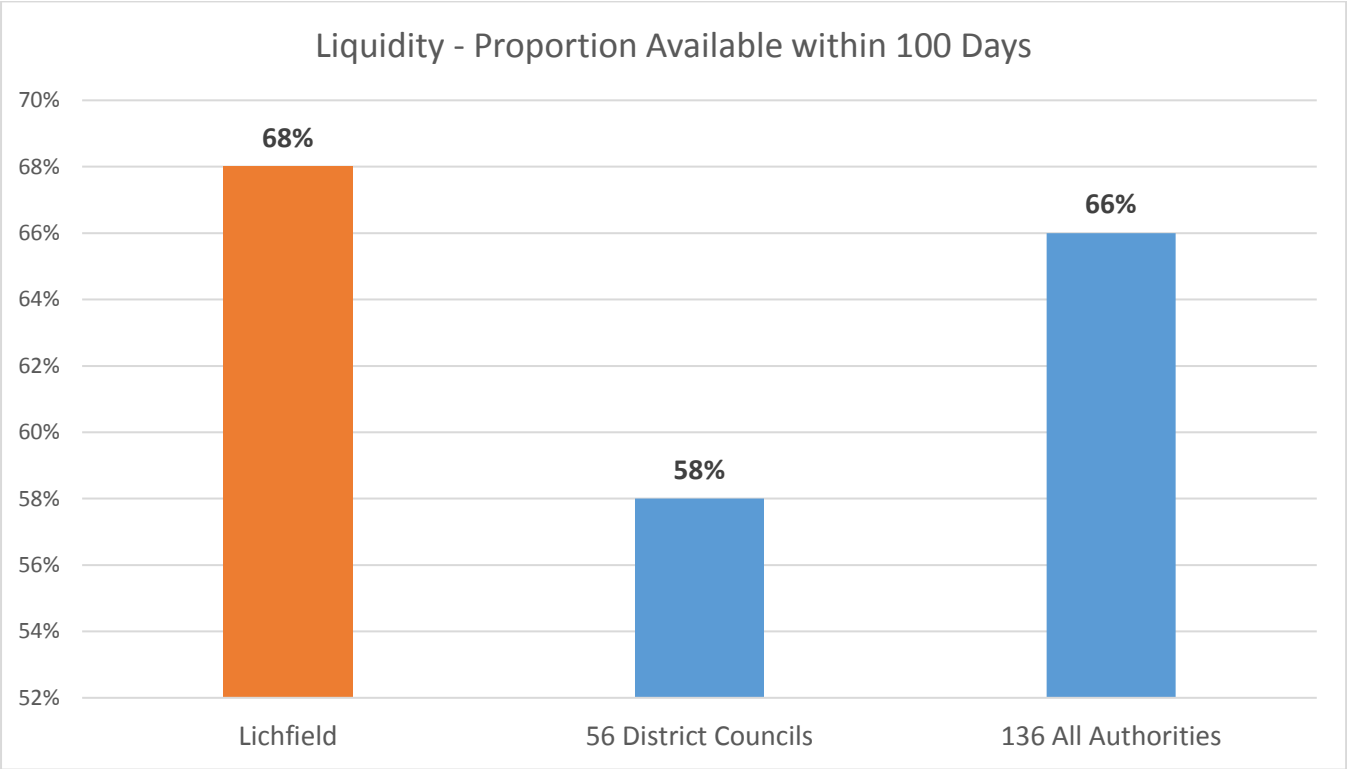


The Liquidity of our Investments

3.26. The Council has not had to temporarily borrow during 2018/19 and retains a proportion of its investments in instant access Money Market Fund investments to ensure there is sufficient cash available to pay for goods and services. The investments by type (with the property fund at its original value of **£2m**) are shown in the graph below:

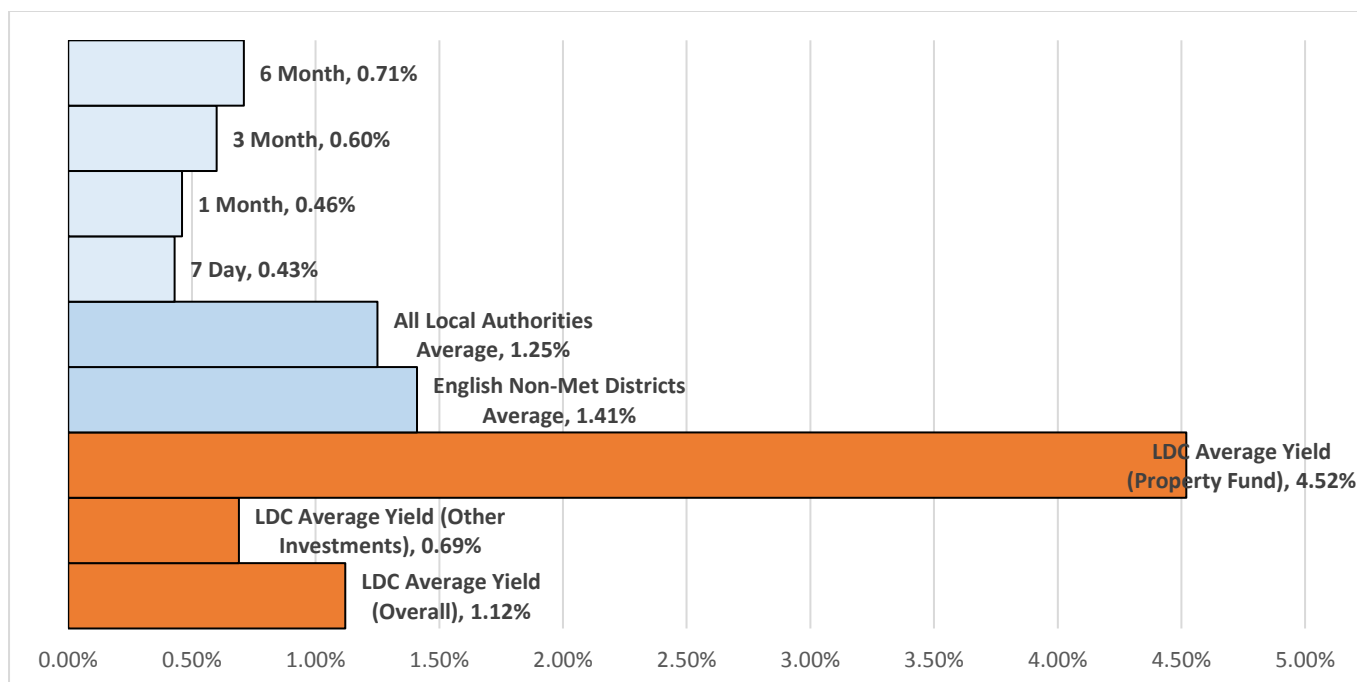


3.27. The proportion of the investment portfolio available within 100 days compared to all Arlingclose clients is shown in the graph below:



The Return or Yield of our Investments

3.28. The yield the Council was achieving as at 30 September compared to a number of industry standard benchmarks (including our preferred benchmark of the seven day LIBID rate) and all Arlingclose clients is shown in the graph below:



3.29. The gross investment income is projected to be **(£270,000)** during the financial year and this is **(£87,000)** higher than the Approved budget of **(£183,000)**.

3.30. This projection includes income related to the property fund investment and this is projected to achieve income of **(£81,000)** at a yield of **4.23%**. The budget assumes **(£31,000)** will be transferred to the volatility reserve and **(£50,000)** will be retained in Revenue.

3.31. However, **(£67,350)** has already been committed by Council on 16 October 2018 to fund the one year extension to the Assistant Chief Executive post.

The new Requirements of the Treasury Management Code and Prudential Code

3.32. CIPFA published updated Treasury Management and Prudential Codes just before Christmas 2017 although this was too late to be incorporated into the Medium Term Financial Strategy.

Treasury Management Code

3.33. The Treasury Management Code now includes reference to non-financial assets which an organisation holds primarily for financial returns, such as investment property portfolios. All investments require an appropriate investment management and risk management framework under the Code.

3.34. In addition, whilst overall responsibility for Capital Strategies and Treasury Management remains with Full Council it will be possible to delegate responsibility for detailed Treasury Management Policies to the Audit and Member Standards Committee in addition to their current responsibility for implementation and regular monitoring of Treasury Management Policies and practices.

Prudential Code

3.35. The updated Prudential Code requires the completion of a Capital Strategy that will need to be approved by Full Council.

3.36. The Council includes within its Medium Term Financial Strategy a Capital Strategy based largely on the approach where Asset Management Plans and Capital Strategies were required to be viewed and graded by Government.

3.37. The new Code introduces more comprehensive requirements:

“In order to demonstrate that a Council takes capital and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, and affordability, Councils should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.”

3.38. The objectives of the Capital Strategy are:

“The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.”

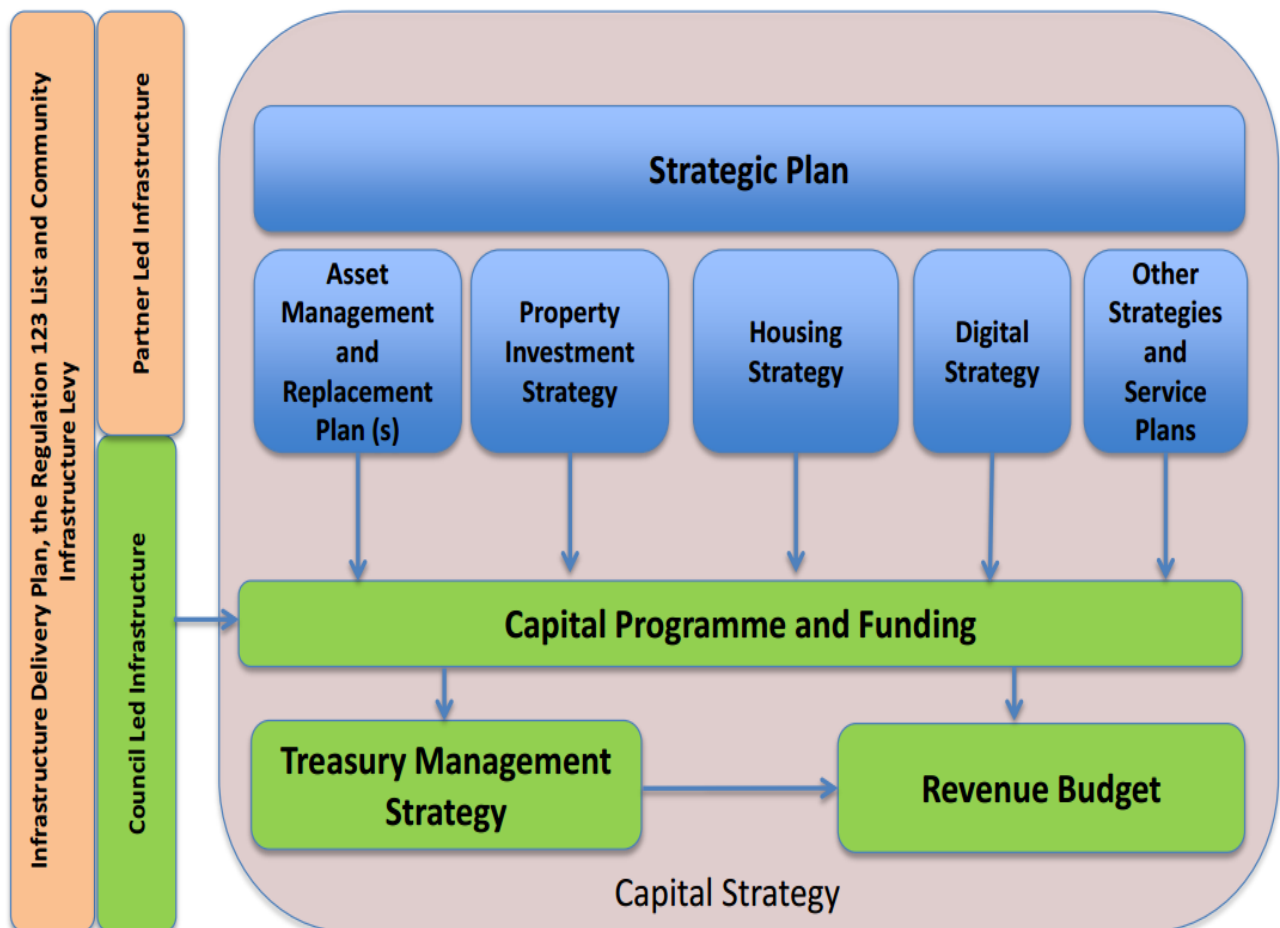
3.39. The Capital Strategy should also:

“Include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.”

3.40. The Capital Strategy should form part of the Councils integrated revenue, capital and balance sheet planning. It will be a long-term plan of capital investment and how it will be delivered:

- A document that will consider all aspects of capital expenditure which relates to corporate objectives.
- Asset planning and asset management plans.

3.41. The Council already undertakes elements of the new requirements although some areas such as the Asset Management Plan will need further development. The Prudential Code now requires all of this information to be all brought together in a single place as shown below:



- 3.42. The Prudential Code states that a Capital Strategy should cover the following topics:
- Capital expenditure, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
 - Debt management, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority’s approach to treasury management.
 - Commercial activities, including due diligence processes, the authority’s risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
 - Other long-term liabilities, such as financial guarantees.
 - Knowledge and skills, including a summary of that available to the authority and its link to the authority’s risk appetite.
- 3.43. The Prudential Code also indicates:
- “In developing the capital strategy a balance should be struck between the amount of detail included and accessibility to the key audience. Where detailed information is required thought should be given to how this is made available, its format and the training needs of members to encourage active engagement. The role of the formal scrutiny process should not be overlooked in ensuring effective challenge. Links should be made where appropriate to the treasury management strategy. **The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.**”
- 3.44. The requirements of the Capital Strategy will be included in the reports to Audit and Member Standards, Cabinet and Full Council during early 2019 for approval.

Alternative Options	There are no alternative options.
Consultation	Consultation is undertaken as part of the Strategic Plan 2016-20 and with Leadership Team.

Financial Implications

Projected Prudential indicators (PI) 2018/19:

- We can confirm that the Council is compliant with its Prudential Indicators for 2018/19; these were originally approved by Council at its meeting on 20 February 2018 and will be fully revised and approved by Council on 19 February 2019.
- In compliance with the requirements of the CIPFA Code of Practice this report provides members with a Summary Report of the Treasury Management Activity during 2018/19.
- None of the other Prudential Indicators have been breached. The Prudential Indicators are shown in detail at **APPENDIX D** and are summarised in the table below :

PI	Description	2018/19	2018/19	2018/19	Compliant
		Original	Approved	Projected	
1	Capital Expenditure (£m)	£10.242m	£12.569m	£9.025m	✓
2	Ratio of Financing Costs to Net Revenue Stream (%)	7%	6%	5%	✓
3	Capital Financing Requirement (£m)	£10.552m	£10.540m	£7.528m	✓
4	Gross external borrowing does not exceed the Capital Financing Requirement in the current year plus the next two years	True	True	True	✓
4	Actual External Debt including Finance Leases (£m)	(£3.418m)	(£3.418m)	(£7.193m)	✓
5	Authorised Limit (Maximum) (£m)	£21.377m	£21.377m	£15.894m	✓
6	Operational Boundary (Maximum) (£m)	£13.122m	£13.122m	£7.693m	✓
7	Adoption of CIPFA Code of Practice in Treasury Management	Yes			✓
8	Is our Gross Debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No	No	✓
	<u>Interest Rate Exposures (%)</u>				
9	Upper Limit for Investments (Fixed Interest Rate Exposure)	(100%)	(100%)	(100%)	✓
9	Upper Limit for Investments (Variable Interest Rate Exposure)	100%	100%	100%	
10	Upper Limit for Borrowings (Fixed Interest Rate Exposure)	(100%)	(100%)	(100%)	
10	Upper Limit for Borrowings (Variable Interest Rate Exposure)	30%	30%	30%	
	<u>Maturity Structure of Fixed Rate Borrowing (Upper Limit) (%)</u>	<u>Lower Limit</u>	<u>Upper Limit</u>	<u>Actual</u>	
11	Under 12 months	0%	100%	7.24%	✓
11	12 months and within 24 months	0%	100%	7.32%	
11	24 months and within 5 years	0%	100%	22.49%	
11	5 years and within 10 years	0%	100%	36.43%	
11	10 years and within 20 years	0%	100%	23.06%	
11	20 years and within 30 years	0%	100%	3.46%	
11	30 years and within 40 years	0%	100%	0.00%	
11	40 years and within 50 years	0%	100%	0.00%	
11	50 years and above	0%	100%	0.00%	
12	Principal sums invested > 364 days (£m)	£6.000	£6.000	£2.000	
13	Credit Risk	We consider security; liquidity and yield, in that order, when making investment decisions			✓

Contribution to the Delivery of the Strategic Plan

The MTFS underpins the delivery of the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications

There are no additional Equality, Diversity or Human Rights implications.

Crime & Safety Issues

There are no additional Crime and Safety Issues.

	Risk Description	How We Manage It	Severity of Risk
A	Management of the Council's Revenue and Capital budget is critical to the successful delivery of key Council priorities, and control measures need to be in place to manage the re-scheduling or re-profiling of projects and to respond to the changing financial climate including the impact of the EU Referendum	Close monitoring of expenditure. Maximising the potential of efficiency gains. Early identification of any unexpected impact on costs, for example, central Government policy, movement in the markets, and changes in the economic climate. Prioritisation of capital expenditure. Project management of projects.	Red - Severe
B	Counterparty default	This Approved Annual Investment Strategy utilises more counterparties and financial instruments to diversify the portfolio and reduce this risk.	Yellow - Material
C	Collection performance for Council Tax and Business Rates reduces	Regular monitoring in the Money Matters Reports throughout the financial year.	Yellow - Material
D	Actual cash flows are different to those that are planned	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect actual and planned cash flows. An element of the Council's investment portfolio will be invested in instant access accounts.	Yellow - Material
E	Planned capital receipts are not received	The Council plans to dispose of a number of assets to fund capital investment.	Green - Tolerable
F	New Government policies including the level of cuts to Communities and Local Government	To ensure any new policies such as those related to Business Rates and New Homes Bonus are evaluated and the impact is incorporated into the MTFS.	Red - Severe

Background documents

- CIPFA Code of Practice for Treasury Management in the Public Services
- The Prudential Code for Capital Finance in Local Authorities
- Money Matters: Council Tax, National Non Domestic Rates and Pension Contributions – Cabinet 17 January 2017.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2017-22 Cabinet – Cabinet 13 February 2018.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 12 June 2018.
- Allocation of Non-Site Specific Section 106 related to Planning Applications (x3) – Cabinet 12 June 2018.
- Money Matters: 2018/19 Review of Financial Performance against the Financial Strategy – Cabinet 4 September 2018.

Relevant web links

Capital Programme 2018/19

Project	Original Budget	Approved Budget	Actual To Date	Projected Actual	Projected Variance
Burntwood Leisure Centre Enhancement Projects	£42,000	£232,000		£140,000	(£92,000)
Play Area at Hawksyard	£1,000	£0		£0	
Squash Court and Sports Hall Floors (FGLC)		£50,000		£50,000	
Leisure Review: Capital Investment	£750,000	£1,032,000	£425,673	£1,032,000	
Renovation and Replacement of Play Equipment at Hill Ridware Village Hall		£71,000		£0	(£71,000)
New Build Parish Office/Community Hub		£92,000		£0	(£92,000)
Fradley Village Heating & CCTV		£15,000		£15,000	
Fradley Youth & Community Centre Cladding & Porch		£15,000		£15,000	
Replacement of children's play equipment at Upper Lodge Play Area		£21,000	£15,000	£21,000	
Armitage with Handsacre Village Hall heating upgrade		£20,000	£15,000	£20,000	
Armitage with Handsacre Village Hall storage container		£16,000	£10,000	£16,000	
Re-siting/improvement of Armitage War Memorial and surrounding area		£120,000		£120,000	
Replacement of canopy and installation of artificial grass at Armitage		£13,000		£13,000	
Accessible Homes (Disabled Facilities Grants)	£772,000	£928,000	£394,218	£928,000	
Home Repair Assistance Grants	£15,000	£35,000		£35,000	
Decent Homes Standard	£437,000	£0		£0	
Energy Insulation Programme	£20,000	£41,000	£3,887	£41,000	
DCLG Monies	£212,000	£0		£0	
Unallocated S106 Affordable Housing Monies	£400,000	£400,000		£400,000	
Housing Redevelopment Scheme - Packington		£40,000		£40,000	
Healthy and Safe Communities	£2,649,000	£3,141,000	£863,778	£2,886,000	(£255,000)
Darnford Park	£13,000	£13,000		£0	(£13,000)
Canal Towpath Improvements (Brereton & Ravenhill)		£105,000		£25,000	(£80,000)
Vehicle Replacement Programme	£168,000	£168,000	£14,750	£138,000	(£30,000)
Shortbutts Park, Lichfield	£23,000	£23,000		£0	(£23,000)
Env. Improvements - Upper St John St & Birmingham Road	£7,000	£7,000		£7,000	
Stowe Pool Improvements	£100,000	£100,000		£0	(£100,000)
The Leomansley Area Improvement Project	£3,000	£3,000		£3,000	
Canal Culvert at Huddlesford	£90,000	£0		£0	
Cannock Chase SAC	£43,000	£43,000	£28,907	£43,000	
Clean, Green and Welcoming Places to Live	£447,000	£462,000	£43,657	£216,000	(£246,000)
Data Management System	£6,000	£11,000		£11,000	
Birmingham Road Site Support	£313,000	£330,000	£122,171	£330,000	
Birmingham Road Site - Castle Dyke/Frog Lane Enhancement	£100,000	£81,000		£81,000	
Birmingham Road Site - Railway Station Forecourt Enhancements	£5,000	£0		£0	
Birmingham Road Site - Coach Park	£450,000	£243,000	£5,000	£243,000	
Birmingham Road Site - Police Station Acquisition		£1,805,000	£1,785,027	£1,805,000	
Sankey's Corner Environmental Improvements		£3,000	£3,000	£3,000	
City Centre Strategy and Interpretation		£1,500		£1,500	
Car Parks Variable Message Signing	£32,000	£32,000		£0	(£32,000)
Old Mining College - Refurbish access and signs		£14,000		£14,000	
Lichfield Festival Parade and Website (Lichfield City Art Fund)		£14,000	£13,752	£14,000	
St Mary's Cultural Hub (Lichfield City Art Fund)		£45,000	£31,729	£45,000	
Erasmus Darwin Lunar Legacy (Lichfield City Art Fund)		£25,000	£6,256	£25,000	

APPENDIX A

Project	Original Budget	Approved Budget	Actual To Date	Projected Actual	Projected Variance
A Vibrant and Prosperous Economy	£906,000	£2,604,500	£1,966,935	£2,572,500	(£32,000)
Property Investment Strategy	£6,000,000	£6,000,000		£3,000,000	(£3,000,000)
Depot Sinking Fund		£11,000		£0	(£11,000)
IT and Channel Shift Programme	£152,000	£162,000	£70,074	£162,000	
Asset Management - Works resulting from Condition Survey	£88,000	£188,000	£50,898	£188,000	
A Council that is Fit for the Future	£6,240,000	£6,361,000	£120,972	£3,350,000	(£3,011,000)
Capital Programme Total	£10,242,000	£12,568,500	£2,995,343	£9,024,500	(£3,544,000)

- **Variance projected to be more than £100,000 / Variance projected to be less than £100,000**

Funding Source	Original Budget	Approved Budget
Capital Receipts	£670,000	£2,682,000
Revenue Contributions	£154,000	£154,000
Council Funding	£824,000	£2,836,000
Borrowing Need – Borrowing and Finance Leases	£6,780,000	£7,062,000
Capital Grants and Contributions	£2,452,000	£2,110,500
Reserves and Sinking Funds	£186,000	£560,000
Capital Programme Total	£10,242,000	£12,568,500

Projected Actual	Projected Variance
£2,650,000	(£32,000)
£154,000	
£2,804,000	(£32,000)
£4,032,000	(£3,030,000)
£1,720,500	(£390,000)
£468,000	(£92,000)
£9,024,500	(£3,544,000)

Balance Sheet Projections

Figures may not sum due to rounding

	Type	2017/18 Actual £000s	2018/19 Budget £000s	2018/19 Projected £000s	2018/19 Variance £000s
Property, Plant and Equipment	ASSET	41,968	43,257	42,704	(553)
Heritage Assets	ASSET	515	515	515	0
Investment Property	ASSET	5,200	11,572	8,200	(3,372)
Intangible Assets	ASSET	76	50	76	26
Assets Held for Sale	ASSET	300	0	0	0
Investments	BOLE	24,418	20,724	22,085	1,361
Borrowing	BOLE	(1,370)	(8,565)	(5,640)	2,925
Finance Leases	BOLE	(2,048)	(1,577)	(1,553)	25
Working Capital	CRED	(9,134)	(8,399)	(8,823)	(424)
Pensions	PEN	(34,393)	(36,562)	(35,154)	1,408
TOTAL ASSETS LESS LIABILITIES		25,533	21,015	22,411	1,394

<u>Unusable Reserves</u>					
Revaluation Reserve	UNRES	(9,016)	(7,800)	(9,016)	(1,216)
Capital Adjustment Account	UNRES	(34,865)	(37,042)	(34,950)	2,092
Deferred Credits	UNRES	(47)	(47)	(47)	0
Pension Scheme	UNRES	36,028	36,562	36,028	(534)
Benefits Payable During Employment Adjustment Account	UNRES	132	225	132	(93)
Available for Sale Financial Instruments Reserve	UNRES	101	187	101	(86)
Collection Fund	UNRES	(611)	0	(232)	(232)
<u>Usable Reserves</u>					
Unapplied Grants and Contributions - General	USRES	(705)	(4)	(649)	(644)
Unapplied Grants and Contributions - Cannock Chase	USRES	(349)	(185)	(327)	(141)
Unapplied Grants and Contributions - Section 106	USRES	(588)	(42)	(184)	(141)
Usable Capital Receipts	USRES	(2,936)	(1,787)	(846)	941
Usable Capital Receipts - Arts Statue	USRES	(134)	(134)	(50)	84
Burntwood Leisure Centre Sinking Fund	USRES	(236)	(3)	(96)	(93)
City Centre Redevelopment Sinking Fund	USRES	(25)	(25)	(25)	0
Elections	USRES	(194)	(226)	(194)	32
Public Open Spaces	USRES	(439)	(476)	(439)	37
Three Spires Multi Storey	USRES	(2,057)	(2,279)	(2,207)	72
Building Regulations	USRES	(147)	(209)	(147)	62
Other Earmarked Reserves	USRES	(4,904)	(3,079)	(4,576)	(1,497)
Grant Aid - Development	USRES	(20)	(26)	(20)	6
General Fund Balance	USRES	(4,521)	(4,623)	(4,668)	(45)
TOTAL EQUITY		(25,533)	(21,015)	(22,411)	(1,394)

	Type	2017/18 Actual £000s	2018/19 Budget £000s	2018/19 Projected £000s	2018/19 Variance £000s
<u>Summary</u>					
Non-Current Assets	ASSET	48,059	55,394	51,495	(3,899)
External Borrowing, Finance Leases and Investments	BOLE	21,000	10,582	14,892	4,311
Pension Liability	PEN	(34,393)	(36,562)	(35,154)	1,408
Working Capital	CRED	(9,134)	(8,399)	(8,823)	(424)
Unusable Reserves	UNRES	(8,278)	(7,915)	(7,984)	(69)
Usable Reserves	USRES	(17,255)	(13,099)	(14,427)	(1,328)
TOTAL		0	0	0	0

Investments in the 2018/19 Financial Year

The table below shows a breakdown of our investments at the end of September 2018:

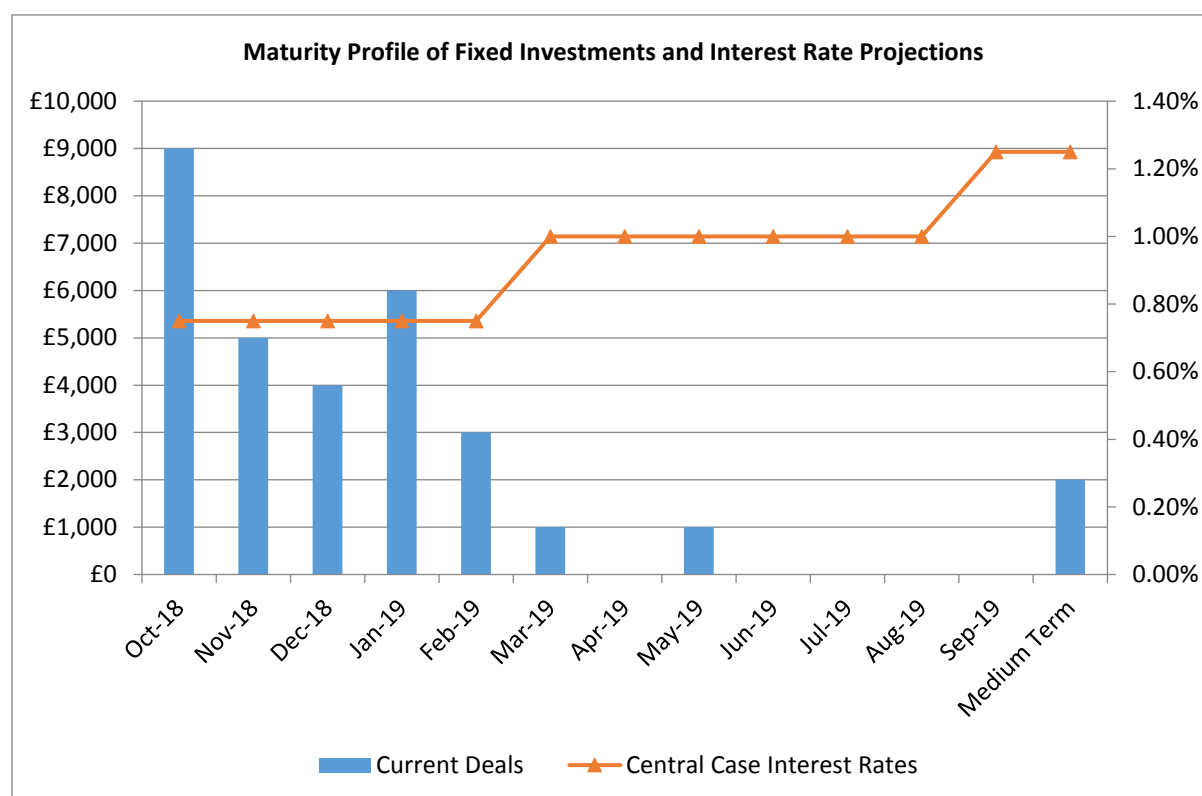
Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating	Foreign Parent
Money Market Funds						
Legal & General	£1,000,000	01-Oct-18	Instant Access	0.67%	0	N/A
BNP Paribas MMF	£1,000,000	01-Oct-18	Instant Access	0.63%	0	N/A
Amundi	£1,000,000	01-Oct-18	Instant Access	0.65%	0	N/A
Property Fund						
CCLA Property Fund	£2,000,000	N/A	N/A	3.97%	N/A	No
Fixed Term Investments						
Coventry Building Society	£1,000,000	05-Oct-18	5	0.63%	A	No
Commonwealth Bank of Australia	£1,000,000	05-Nov-18	36	0.66%	AA-	Yes
Nationwide	£1,000,000	15-Nov-18	46	0.56%	A	No
Lloyds	£1,000,000	15-Nov-18	46	0.75%	A+	No
United Overseas Bank	£1,000,000	17-May-19	229	0.84%	AA-	Yes
Surrey Heath Borough Council	£2,000,000	13-Dec-18	74	0.60%	LOCAL	No
DBS Bank	£1,000,000	03-Dec-18	64	0.71%	AA-	Yes
Australia and New Zealand Banking Group	£1,000,000	12-Dec-18	73	0.70%	AA-	Yes
Merthyr Tydfil Council	£2,000,000	29-Oct-18	29	0.52%	LOCAL	No
Slough Borough Council	£2,000,000	07-Jan-19	99	0.60%	LOCAL	No
Landesbank Hessen-Thüringen	£1,000,000	09-Oct-18	9	0.53%	A	Yes
Close Bros	£1,000,000	21-Jan-19	113	0.80%	A	No
North Ayrshire Council	£2,000,000	23-Jan-19	115	0.80%	LOCAL	No
Woking Borough Council	£2,000,000	26-Feb-19	149	0.85%	LOCAL	No
Barclays Bank	£1,000,000	30-Nov-18	61	0.67%	A	No
Call Accounts with Notice Period						
Santander	£1,000,000	29-Mar-19	180	0.95%	A	Yes
Goldman Sachs International Bank	£1,000,000	03-Jan-19	95	0.65%	A	Yes
Svenska Handelsbanken AB	£1,000,000	04-Nov-18	35	0.65%	AA-	Yes
Treasury Bills	£2,000,000	22-Oct-18	22	0.67%	UK Gov.	No
Certificates of Deposit						
Nordea Bank AB	£1,000,000	08-Feb-19	131	0.84%	AA-	No
Total Investments	£31,000,000					

External Borrowing

The Council currently has two external loans:

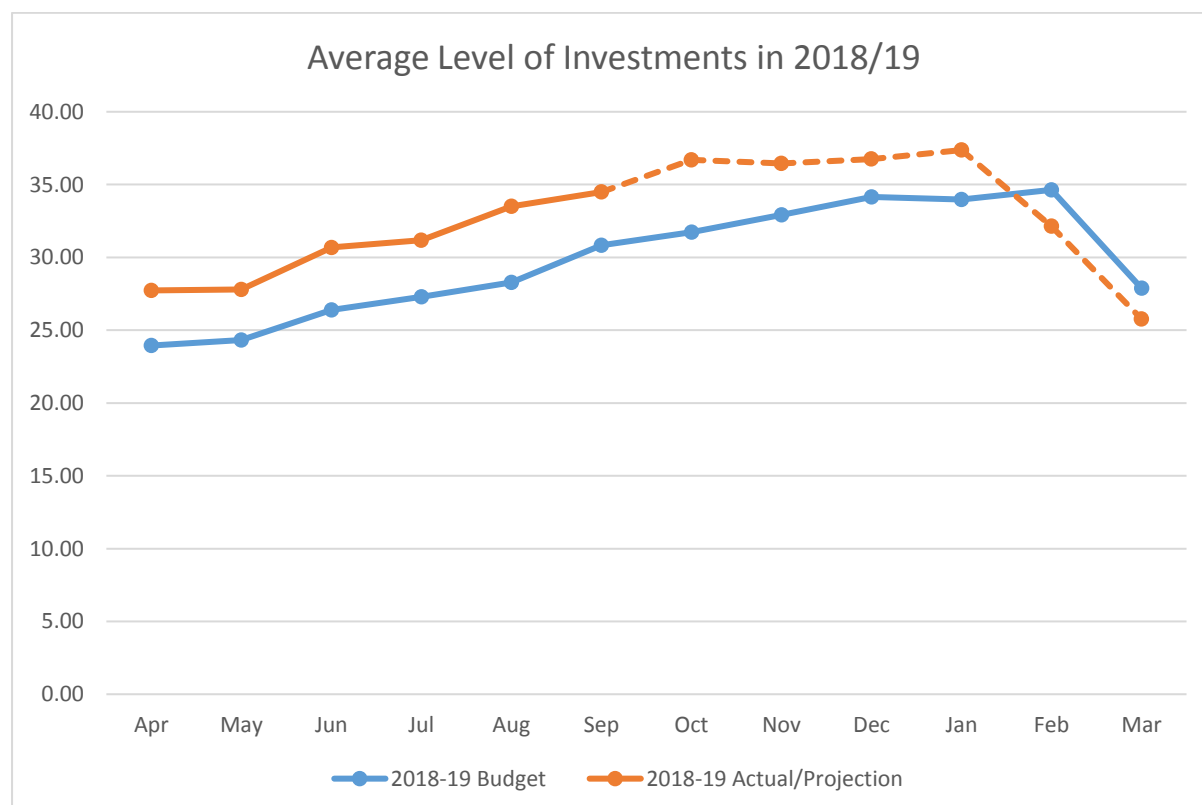
Source	Loan Amount	Interest Rate	Projected Outstanding Balance 31-March-19	Maturity Date
Public Works Loans Board (PWLb)	£1,522,000	2.59%	£1,308,920	08-04-2040
Public Works Loans Board (PWLb)	£1,395,000	1.71%	£1,330,747	31-05-2028

The maturity profile of these investments at 30 September 2018 compared to our Treasury Management advisor Arlingclose interest rate forecasts is shown in the graph below:



Cash Flow for 2018/19

The graph below compares the budget for average investment levels in 2018/19 with the actual levels.



Performance of the Treasury Management Function

The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

	Budget	Actual
<u>Security</u>		
Risk Status (Length of Investment)	A-	AA-
Risk Status (Value of the Investment)		AA-
<u>Liquidity</u>		
Length of Investments (days)	N/A	82 days
Temporary Borrowing	£0	£0
<u>Yield</u>		
Average amount we had available to invest (£m)	£29.57m	£30.90m
Average Interest Rate (%)	0.64%	0.81%
7-day London Inter-bank Bid (LIBID) rate	0.36%	
1 month London Inter-bank Bid (LIBID) rate	0.38%	
3 month London Inter-bank Bid (LIBID) rate	0.55%	
6 month London Inter-bank Bid (LIBID) rate	0.67%	
Gross Investment Income	(£183,000)	(£270,000)
Net Treasury Position including borrowing	£104,860	£64,710

Projected Prudential Indicators for 2018/19

Estimates of Capital Expenditure

No. 1 Capital Financing	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Non-Current Assets	8.138	10.350	7.049
Revenue Expenditure funded from Capital under Statute	2.104	2.219	1.976
Total	£10.242	£12.569	£9.025

No. 1 Capital Financing	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Capital Receipts	0.670	2.682	2.650
Burntwood Sinking Fund	0.042	0.232	0.140
Capital Grants and Contributions	2.452	2.111	1.721
Earmarked Reserves	0.144	0.328	0.328
Revenue Contributions	0.154	0.154	0.154
Finance Leases, Invest to Save and Borrowing	6.780	7.062	4.032
Total	£10.242	£12.569	£9.025

Ratio of Financing Costs to Net Revenue Stream

No. 2 Ratio of Financing Costs to Net Revenue Stream	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Gross Investment Income	(0.187)	(0.183)	(0.270)
Internal Interest	0.004	0.004	0.004
Borrowing Interest	0.048	0.047	0.047
Minimum Revenue Provision - Borrowing	0.199	0.199	0.186
Total	0.064	0.067	(0.033)
Transfers to Earmarked Reserves			
Property	0.038	0.038	0.031
Assistant Chief Executive	0.000	0.000	0.067
Net Treasury Position	0.102	0.105	0.065
Finance Lease Interest Charges	0.070	0.070	0.069
Minimum Revenue Provision - Leases	0.500	0.500	0.495
Total Financing Costs (Including Earmarked Reserves)	0.672	0.675	0.629
Total Financing Costs (Excluding Earmarked Reserves)	0.634	0.637	0.531
Total Funding Available	£10.306	£10.558	£10.558
% Total Financing Costs (Excluding Earmarked Reserves)	7%	6%	5%

Capital Financing Requirement

No. 3 Capital Financing Requirement	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Balance Brought Forward	4.471	4.177	4.177
Capital Expenditure financed from borrowing and Invest to Save	6.780	7.062	4.032
Minimum Revenue Provision	(0.699)	(0.699)	(0.681)
Balance Carried Forward	10.552	10.540	7.528

Gross External Borrowing does not exceed the CFR

No. 4	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
CFR plus next 2 years	49.240	40.068	37.056
Gross Debt	(10.142)	(10.142)	(7.193)
Gross Borrowing < CFR plus next 2 years	True	True	True

Actual External Debt

No. 4	31-Mar-2018 Actual £m	2018/19 Projected £m
LT Borrowing	1.309	5.463
Short Term Element of LT Borrowing	0.061	0.177
Short Term Element of LT Liabilities	0.505	0.525
Other Long Term Liabilities	1.543	1.028
Total	3.418	7.193

Authorised Limit

No. 5 Authorised Limit for External Debt	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Borrowing	16.929	16.929	14.341
Finance Leases	4.448	4.448	1.553
Total	21.377	21.377	15.894

Operational Boundary

No. 6 Operational Boundary for External Debt	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Borrowing	9.065	9.065	5.640
Finance Leases	4.057	4.057	1.553
Total	13.122	13.122	7.193

Adoption of the CIPFA Treasury Management Code

No. 7
The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 25 February 2003. The Council has incorporated any changes resulting from the revisions to the CIPFA Treasury Management Code within its treasury policies, practices and procedures.

Gross Debt

No. 8	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Outstanding Borrowing	(8.565)	(8.565)	(5.640)
Other Long Term Liabilities	(1.577)	(1.577)	(1.553)
Gross Debt	(10.142)	(10.142)	(7.193)
Capital Financing Requirement	10.552	10.540	7.528
Is our Gross Debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No	No

Interest Rate Exposures

No. 9 and 10	2018/19 Original %	2018/19 Approved %	2018/19 Projected %
Fixed Interest Rates			
Upper Limit on Fixed Interest Rate Exposure on Investments	(100%)	(100%)	(100%)
Upper Limit on Fixed Interest Rate Exposure on Debt	100%	100%	100%
Net Fixed Exposure (No. 10)	0%	0%	0%
Variable Interest Rates			
Upper Limit for Variable Rate Exposure on Investments	(100%)	(100%)	(100%)
Upper Limit for Variable Rate Exposure on Debt	30%	30%	30%
Net Variable Exposure (No. 11)	(70%)	(70%)	(70%)

Maturity structure of fixed rate borrowing

No. 11	£	%	Lower Limit
Maturity Structure of Fixed Rate Borrowing			
Under 12 months	191,039	7.24%	0%
12 months and within 24 months	193,275	7.32%	0%
24 months and within 5 years	593,622	22.49%	0%
5 years and within 10 years	961,610	36.43%	0%
10 years and within 20 years	608,800	23.06%	0%
20 years and within 30 years	91,320	3.46%	0%
30 years and within 40 years	0	0.00%	0%
40 years and within 50 years	0	0.00%	0%
50 years and above	0	0.00%	0%
Total	2,639,667		

Upper limit for total principal sums invested over 364 days

No 12	2018/19 Original £m	2018/19 Approved £m	2018/19 Projected £m
Upper Limit for total principal sums invested over 364 days			
Investments	£6.000	£6.000	£2.000

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CIPFA AUDIT COMMITTEE UPDATE PRACTICAL GUIDANCE

Cabinet Member for Finance & Democracy

Date: 14th November 2018

Agenda Item: 5

Contact Officer: Angela Struthers

Tel Number: 01543 308030

Email: Angela.struthers@lichfielddc.gov.uk

Key Decision? NO

Local Ward Members



AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 To brief Members on the revised CIPFA Audit Committee Practical Guidance 2018 edition.

2. Recommendations

- 2.1 That the Committee notes the update practical guidance for Audit Committees published by CIPFA
- 2.2 That the Committee considers the requirement for an Independent Member for non-standards issues and reports to Full Council to amend the Constitution accordingly.
- 2.3 Members of this Committee may also wish to consider where additional/refresher training may be required in any area under its remit.

3. Background

- 3.1 CIPFA has recently updated it's guidance on the function and operation of audit committees in local authorities and police bodies, and this represents best practice for audit committees in local authorities throughout the UK.
- 3.2 The guidance also includes CIPFA's *Position Statement: Audit Committees in Local Authorities and Police (2018)* ("the Position Statement"), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement.
- 3.3 The Position Statement emphasises the importance of audit committees being in place and recognises that they are a key component of governance.
- 3.4 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 3.5 CIPFA identify that good practice shows that co-option of independent members is beneficial to the audit committee – it is already a requirement for police audit committees, English combined authorities and for local authorities in Wales, and usual practice in health and central government audit committees.

- 3.6 Independent members can bring additional knowledge and expertise, reinforce political neutrality and independence, and maintain continuity of committee membership where membership is affected by the electoral cycle. It also identifies some risks that should be borne in mind – over-reliance on independent members can lead to lack of engagement, lack of organisational knowledge when considering risk register or audit reports, establishing effective working relationships, appropriate protocols for briefings and access to information.
- 3.7 The Audit Committee has previously had independent Members as part of its Membership and still retains an independent Member specifically for issues in relation to Member Standards.
- 3.8 Members of this Committee may wish to consider if the appointment of an independent member to this Committee for non-standards issues including Governance, Internal Control and Risk may be advantageous, and if so make recommendation to Full Council to amend the Constitution accordingly.**
- 3.9 There have been a number of significant developments in governance and audit practice since the last version published in 2013. Key developments include:
- The new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)
 - Updates to the PSIAS in 2016 and 2017
 - The Code of practice on managing the Risk of Fraud & Corruption (CIPFA, 2014)
- 3.10 The guidance is appended as **Appendix A** and updated parts of the guidance have been highlighted. The main changes to the CIPFA Position Statement are at point 3 – establishing the Committee as independent and effective, and point 6 – characteristics of good audit committees.
- 3.11 A summary of other main changes is summarized below:
- A description of the overall aim of good governance (page 7)
 - Detailing approval and review of independence and objectivity of the head of audit who has roles outside of internal auditing – as per the updated PSIAS (page 14)
 - Giving approval for any significant additional consulting services not included in the audit plan – PSIAS update (page 15)
 - Reference to the Internal Audit Standards Advisory Board’s guidance - Internal Audit’s role in counter fraud (2017). (page 19)
 - The appointment of the External Auditors (page 19) and their independence (page 20)
 - Timescales for the publishing of financial statements (page 22)
 - Partnership Governance has been update to include collaboration agreements (page 23)
 - New section on governance and ethical values (page 24)
 - Ethics Committee and Standards Committee roles section – updated to include the new standards regime under the Localism Act 2011 (page 28)
 - Minor changes to Structure and Independence section (page 33)
 - Minor changes to Accountability section (page 37)
 - Membership and effectiveness – extract from position statement has been updated and minor changes to the composition and operation of the committee (page 39)
 - CIPFA endorsing the approach of mandating the inclusion of a lay/independent member and recommending that authorities actively explore the appointment of an independent member to the Committee (page 40)
 - Identification of top three common areas of difficulty for audit committees (page 44)
 - Changes highlighted in appendices (page 49 onwards)
- 3.12 Through the refresh of the guidance, Members of this Committee may also wish to consider where additional/refresher training may be required in any area under its remit.

Alternative Options

1. None.

Consultation	1. The report has been agreed by the Council's Leadership Team.
Financial Implications	1. None arising from this report
Contribution to the Delivery of the Strategic Plan	1. To support the Strategic Plan by seeking independent, objective assurance as to the operations of the Authority
Equality, Diversity and Human Rights Implications	1. None arising from this report.
Crime & Safety Issues	1. None arising from this report
GDPR/Privacy Impact Assessment	1. None arising from this report

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Failure to comply with best practice for audit committees	Issue guidance and maintain up to date knowledge through training	Green (tolerable).

<p>Background documents</p> <p>CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2013)</p> <p>CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)</p>
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Relevant web links

audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition

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A sincere thanks to all those who have provided content, comment and feedback on this publication, including Keeley Lund, Kerry Ace, Alison Dewhirst and Alison Scott. Comments on external audit have been provided by David Aldous and Andrew Kendrick at the National Audit Office and Jon Hayes at Public Sector Audit Appointments, and we appreciate their input.

Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

A handwritten signature in black ink, reading "Diana Melville". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Diana Melville

Governance Advisor, CIPFA

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CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police* (2018) ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework \(CIPFA/Solace, 2016\)](#)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption \(CIPFA, 2014\)](#).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

CHAPTER 3

The purpose of audit committees

Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the Police Reform and Social Responsibility Act 2011. Guidance for police audit committees is contained in the Financial

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

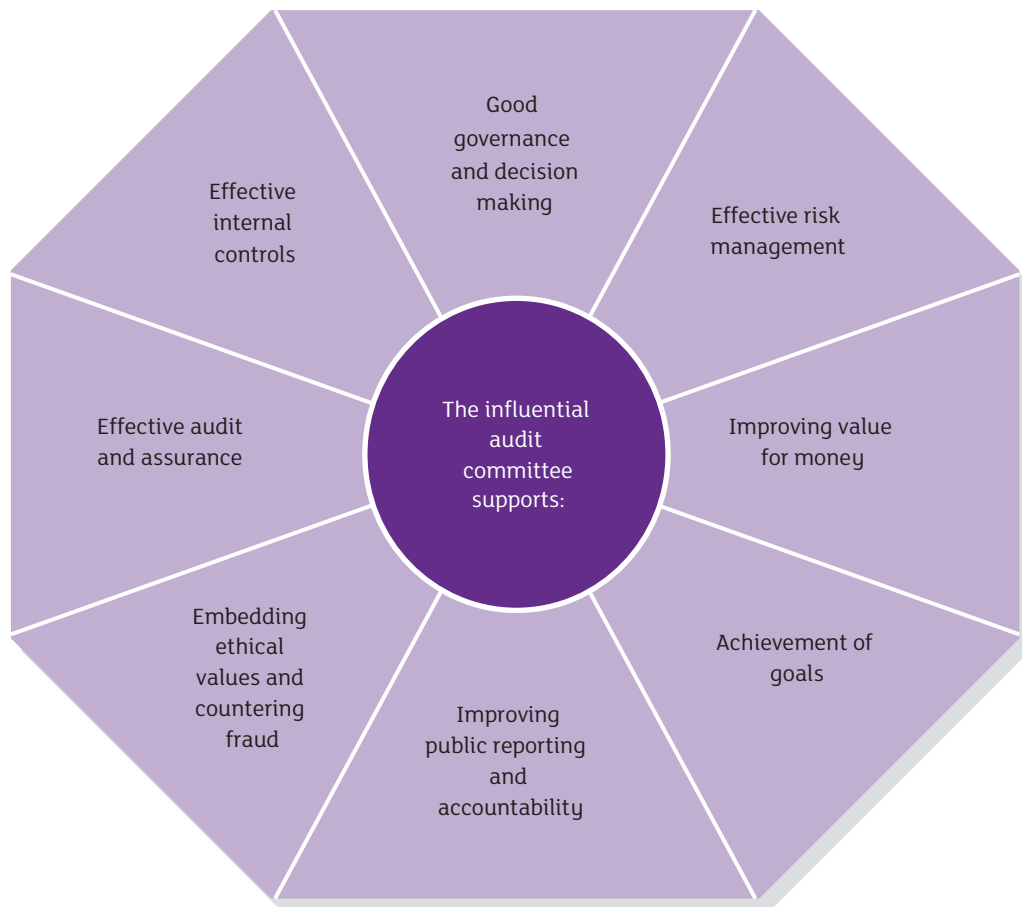
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- **approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing**
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance *Internal Audit's Role in Counter Fraud* (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the Local Audit and Accountability Act 2014.

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see *Guide to Auditor Panels* (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive guidance from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the Revised Ethical Standard 2016 (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

Understanding Local Authority Financial Statements (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the Policing and Crime Act 2017. Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. **Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.**

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the Public Interest Disclosure Act 1998. As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5** An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the Localism Act 2011, English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the Code of Ethics (College of Policing, 2014)
- Tone from the Top: Leadership, Ethics and Accountability in Policing (Committee on Standards in Public Life, 2015)
- Integrity Matters (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

CHAPTER 6

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The CIPFA Survey on Audit Committees in Local Authorities and Police 2016 found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The Cities and Local Government Devolution Act 2016 requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. **The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise**
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. **There are many personal qualities needed to be an effective chair, but key to these are:**
 - **promoting apolitical open discussion**
 - **managing meetings to cover all business and encouraging a candid approach from all participants**
 - **an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime**
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the **Local Government (Wales) Measure 2011**, which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the **Financial Management Code of Practice for the Police Forces of England and Wales** (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the Cities and Local Government Devolution Act 2016. The Act and the subsequent Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. CIPFA's 2016 survey of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	<ul style="list-style-type: none"> Where turnover of membership is very frequent, it will be difficult for the committee to build up experience 	<ul style="list-style-type: none"> Enhanced level of support and training to members will be required To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	<ul style="list-style-type: none"> Lack of training and support 	<ul style="list-style-type: none"> Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	<ul style="list-style-type: none"> Poor induction Limited opportunities to engage with the organisation outside formal meetings 	<ul style="list-style-type: none"> Improve induction Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	<ul style="list-style-type: none"> Lack of experience or skill in managing meetings by the chair Committee members are unsure about their role Poor support from the committee secretary 	<ul style="list-style-type: none"> Training and support Develop a mentoring/coaching programme Chair seeks feedback from meeting participants Consider skills and experience in the selection of the chair Provide training and guidance to committee members on their role Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	<ul style="list-style-type: none"> Agenda management fails to prioritise key areas The chair does not intervene to keep focus at an appropriate level 	<ul style="list-style-type: none"> Review the process of agenda development Review the terms of reference and provide training The chair seeks feedback from meeting participants Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	<ul style="list-style-type: none"> The audit committee fails to engage with many parts of the authority Attendance is often limited to the CFO and the head of internal audit 	<ul style="list-style-type: none"> Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee 	<ul style="list-style-type: none"> ■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	■ Required	■ Required	■ Required ■ It is recommended that this should be a combined body for both PCC and chief constable	No guidance
Composition of the audit committee	<p>■ Committees must have at least one independent person as defined by guidance</p> <p>■ The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical</p> <p>■ The committee may not include an officer of the combined authority or a constituent council</p>	<p>■ Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor</p>	<p>■ Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable)</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p>	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p>	<p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p>	No guidance
Responsibilities of the audit committee in relation to external audit	<p>■ No guidance</p>	<p>■ Oversee external audit arrangements</p>	<p>■ Review external audit reports</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to 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

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority's financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to 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

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account.

Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 **To publish an annual report on the work of the committee.**

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by <i>The Role of the Chief Financial Officer in Local Government</i> (CIPFA, 2016) and the <i>CIPFA Statement on the Role of Chief Financial Officers in Policing</i> (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

APPENDIX D

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	■ counter fraud and corruption			
	■ supporting the ethical framework			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
Membership and support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of the audit committee

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		

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INTERNAL AUDIT PROGRESS REPORT APRIL 2018 TO AUGUST 2018

Report of the Audit Manager

Date: 14 November 2018

Agenda Item: 6

Contact Officer: Angela Struthers

Tel Number: 01543 308030

Email: Angela.struthers@lichfielddc.gov.uk

Key Decision? NO

Local Ward

Members



AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 To report on the outcome of Internal Audit's review of the internal control, risk management and governance framework for the period April 2018 to August 2018. To provide members with assurance of the ongoing effective operation of an internal audit function and enabling any particularly significant issues to be brought to the Committee's attention.

2. Recommendations

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

3. Background

- 3.1 The Accounts and Audit Regulations 2015 require each local authority to publish an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is required to reflect the various arrangements within the Authority for providing assurance on the internal control, risk management and governance framework within the organisation, and their outcomes.
- 3.2 One of the sources of assurance featured in the AGS is the professional opinion of the Audit Manager on the outcome of internal audit reviews. Professional good practice recommends that the opinion be given throughout the year to inform the Annual Governance Statement. This opinion is given as part of the reporting process to the Audit & Members Standards Committee.
- 3.3 The Audit Manager's opinion statement for the period April 2018 to August 2018 is set out as **Appendix 1**, and the opinion is summarised below.
- 3.4 Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, **I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's Risk Management, Control & Governance processes.**

Overall in my opinion, based upon the reviews performed for the period April 2018 to August 2018, the Authority has:

- adequate and effective risk management arrangements;
- adequate and effective governance; and
- adequate and effective control processes.

Specific Issues

No specific issues have been highlighted through the work undertaken by Internal Audit during 2018/19 to date.

Alternative Options	1. None.
Consultation	1. The progress 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 an organisation'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	Audit Plan becomes unachievable	Continuous review to ensure target is achieved	Green
B	Audit Plan becomes irrelevant	Continuous review to ensure any issues that become high risk during the year are included in the Plan	Green

Background documents
Relevant web links

REPORT ON AUDIT WORK CARRIED OUT DURING APRIL 2018 TO AUGUST 2018

1 INTRODUCTION

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. (Public Sector Internal Audit Standards)

Every local authority is statutorily required to provide for an adequate and effective internal audit function. The Internal Audit service provides this function at this Authority.

This brief report aims to ensure that Committee members are aware of the arrangements operated by the Internal Audit service to monitor the control environment within the services and functions of the authority, and the outcome of the monitoring. This is to contribute to corporate governance and assurance arrangements and ensure compliance with statutory and professional duties, as Internal Audit is required to provide periodic reports to "those charged with governance".









2 PERFORMANCE AND PROGRESS AGAINST THE AUDIT PLAN

The Internal Audit service aims to complete at least **90%** of the applicable planned audits by the end of the financial year. This is one of the main Performance Indicators for Internal Audit. Progress to the end of August 2018 is detailed in **Annex 1** which shows that Internal Audit had started/completed **29%** of the planned audits for 2018/19. Internal Audit expect to have started/completed **42%** of the audit plan at the end of August. This equates to 3 audits not being started in the time period as expected. This has evolved due to staffing issues within the department – An Audit Apprentice was taken on in January 2018 and left in June 2018 creating a vacancy. Additional support to cover the vacancy gap is currently being provided by contract staff in order to achieve the audit plan. The Audit Apprentice post is being replaced by a new post of Trainee Internal Audit Assistant. At least 90% of the audit plan is expected to be achieved by the end of the financial year.

3 AUDIT REVIEWS COMPLETED APRIL 2018 TO AUGUST 2018

Nine audits were finalised during the period April 2018 to August 2018 with a total of **30** recommendations made with **27** (90%) of recommendations being accepted by management. **Annex 2** confirms the recommendations accepted. The table below details the reviews finalised and their assurance levels:

Overall Audit Opinion – work completed April to August 2018

Audit	Overall Opinion		Accepted Recommendations		
			H	M	
Payroll		Substantial assurance	1		Main Financial system - full
Capital Accounting		Substantial assurance		2	Main Financial system - full
Safeguarding (in relation to the Mental Capacity Health Act 2005)		Adequate assurance		3	System based review
Leisure Services Contract Management Process		Substantial assurance			System based review
TIC/Tourism		Limited assurance		9	System based review
Section 106/CIL agreements		Limited assurance	1	7	System based review
Treasury Management		Substantial assurance		1	System based review
Car Parking		Substantial assurance		3	System based review

Internal Audit revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions have been taken. Details of the implementation reviews and the status of the agreed management actions are summarised below and are detailed in **Annex 2**.

First Implementation Review Area	High			Medium		
	Fully	Partially	Not	Fully	Partially	Not
Data Protection	9	1		3		1
Development & Enforcement	1			3	3	
Freedom of Information				3	3	1
Safeguarding	2			8	1	
Total	12	1	-	18	7	2

Second Implementation Review Area	High			Medium		
	Fully	Partially	Not	Fully	Partially	Not
VAT				1		
Trade Waste	1			1		
Council Tax				1		
Total	1	-	-	3	-	-

Internally Audit is fairly satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues. The one high priority action partially outstanding relates to sending out reminders to staff to lock screens whilst they are not at their desk- one reminder has been sent but additional reminders have not yet taken place.

4 INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 of the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically states that the Audit Manager must confirm this to the Audit Committee at least annually. This confirmation is provided as part of the Internal Audit performance reporting.

“The Audit Manager confirms that Internal Audit is operating independently of management and is objective in the performance of internal audit work.”

5 OVERALL CURRENT INTERNAL AUDIT OPINION

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation’s Risk Management, Control & Governance processes.

Overall in my opinion, based upon the reviews performed for the period April 2018 to August 2018, the Authority has:

- Adequate and effective risk management arrangement;
- Adequate and effective governance; and
- Adequate and effective control processes.

Specific issues:

There were no specific issues highlighted through the work to date in the 2018/19 financial year.

Angela Struthers
Audit Manager

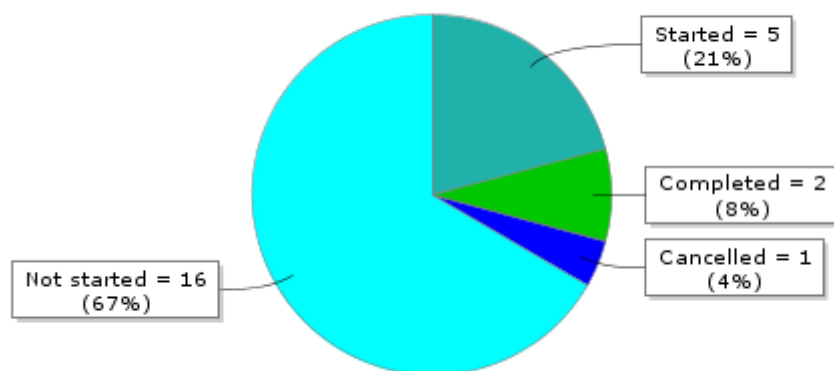
Audit Plan Status 2018/19

Report Type: Audit File Report



















Report Author: Angela Struthers

Generated on: 19 September 2018

Audit Status Description



Title	Audit Status Icon	Audit Status Description	Audit Assurance Type Title
Fraud Awareness/ Proactive work	✓	Started	
Accounting & Budgetary Control	●	Not started	System based review
Treasury Management	✓	Completed	System based review
Income management	●	Not started	System based review
BACs	●	Not started	System based review
Data Protection/Data Quality (GDPR)	●	Not started	System based review

Title	Audit Status Icon	Audit Status Description	Audit Assurance Type Title
Property Leases & Charges		Cancelled – commercial properties being reviewed as part of the Fit 4 Future programme	System based review
Elections		Not started	Risk based review
Scheme of Delegation		Not started	Risk based review
Service Desk		Not started	Risk based review
Application Controls		Started	Risk based review
PSN		Not started	Risk based review
Mobile phones		Not started	System based review
GIS		Not started	System based review
Allowances & Expenses		Not started	System based review
Lichfield Connects		Started	System based review
Strategic Housing		Not started	System based review
Homelessness		Not started	System based review
Taxi Licences		Not started	System based review
Land Charges		Started	System based review
Ground Maintenance/Parks – Business Growth Improvement		Not started	System based review
Car Parking		Completed	System based review
LA Trading Company		Not started	
Pension Assurance Work		Started	

Recommendations Agreed between April & August 2018

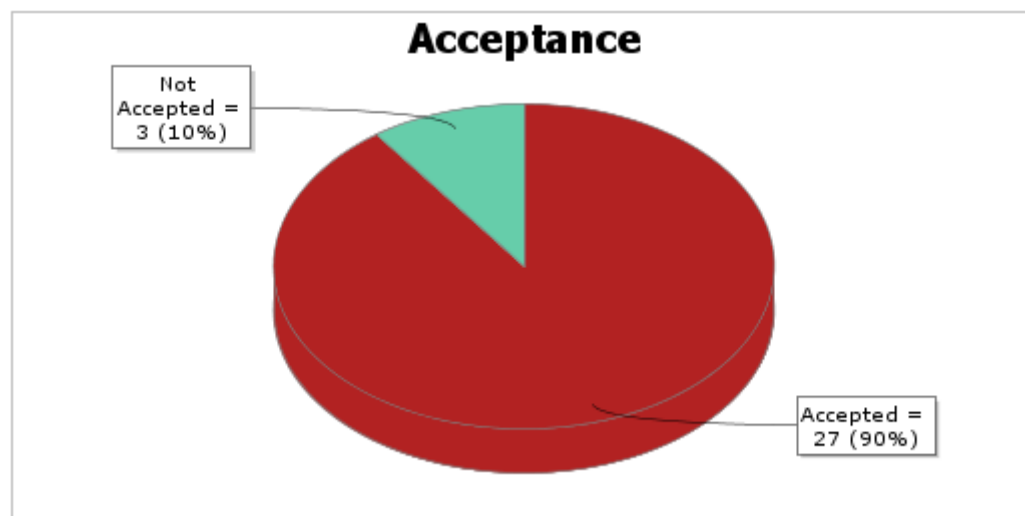
Report Type: Audit Recommendations Report

Report Author: Angela Struthers

Generated on: 24 September 2018

Rows are sorted by Priority

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Audit Recommendation Code & Title	Audit Recommendation Priority	Audit Recommendation Acceptance
1718 Cap 01 Verification of assets	Medium	Not Accepted- the formal sign off of assets is an additional internal control to existing internal controls. These controls include the Valuer undertaking formal valuations of property and the Finance

Audit Recommendation Code & Title	Audit Recommendation Priority	Audit Recommendation Acceptance
		Team's knowledge of asset acquisitions and disposals.
1819 TM 02 Authorisation of payments	Medium	Not Accepted - The Financial Procedure rules don't require 2 authorised officers. We do however endeavour to obtain 2 signatures but sometimes there is only one signatory in the office. The risk of a deal not being completed resulting in a breach of the approved limits thereby putting money at risk, is seen as greater risk than the risk of not obtaining two signatories
1819 TM 04 TM Potential Deal forms for DMO investments	Medium	Not Accepted - The Debt Management Office (DMO) is an option of last resort. We only use the DMO to solve a short cash flow issue.

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RISK MANAGEMENT UPDATE

Councillor CJ Spruce

Date: 14 November 2018

Agenda Item: 7

Contact Officer: Angela Struthers

Tel Number: 01543 308030

Email: Angela.struthers@lichfielddc.gov.uk

Key Decision? NO

Local Ward

Members



AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

- 1.1 To update the Committee on the Risk Management Policy and management of the Corporate Risk Register.

2. Recommendations

- 2.1 That Members:

- Approve the revised Risk Management Policy.
- 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.
- To note that the corporate project risk can be removed following the successful insourcing of the Information and Communications Technology support contract.

3. Background

- 3.1 The Council must manage risks through applying strong controls at all levels of the organisation and the Terms of Reference for the Audit & Member Standards Committee make it clear that this is this Committee's responsibility – **"To monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management"**.
- 3.2 The purpose of Risk Management is to effectively manage potential opportunities and threats to the organisation achieving its objectives. Risk Management assesses risks to the operation of the Council's business at Service, Project and Corporate levels, to make sure we know what the issues are that we need to pay attention to and that we are taking the right actions to minimise the risks.
- 3.3 In line with good practice, the Risk management Policy is reviewed and updated on an annual basis. The revised Risk management Policy is attached as **Appendix 1**. There are no significant changes to the policy. Members are advised that the Covalent system has been rebranded to Pentana
- 3.4 The Corporate Risk Register is produced by assessing the risk factors that could potentially impact on the Council's ability to deliver its Strategic Plan, as this sets out our priorities. This assessment ensures that we have measures in place to control the potential risks to our business objectives. Risks are judged based on their likelihood of occurrence and their potential impact. Each of these are rated on a scale of 1(Low), 2 (Medium), 3 (Significant) and 4 (High); the definitions of these ratings are set out in the Risk Management Policy. By multiplying the two scores together, each risk receives a rating to place it in a category of Tolerable, Material or Severe.

3.5 Following a comprehensive review by Leadership Team of Corporate Risks, a Corporate Risk Register of those risks that could have a potential impact on the Council's ability to deliver the Strategic Plan have been identified, reviewed and assessed. It should be noted that not all these risks are severe but need to be monitored and reviewed on a regular basis for any potential impact on the Strategic Plan.

3.6 The corporate risks that have been identified as having a potential impact on the ability to deliver the Strategic Plan are:

- **A failure to respond to changing demographics**
- **Economic growth/Performance of the local economy/Integrity of the Local Plan**
- **Financial sustainability of the Council**
- **Capacity to deliver**
- **Governance & statutory obligations**
- **Information technology**
- **Impact of Stakeholder strategies on our Strategic Plan**
- **Failure to manage a major incident**

The detail of these risks including the potential causes, consequences and the risk treatments measures in place are detailed in the Corporate Risk Register at **Appendix 2**.

3.7 It has also been noted that some projects carry significant risks as they could have a major impact if they are not delivered. As such, these risks need to be identified and monitored through this Committee. The two risks currently identified are:

- **The end of the Information and Communications Technology support contract** – this insourcing project was successfully implemented on 1 October 2018 and therefore this risk can now be removed from the project risk register.
- **Friary Grange Leisure Centre.**

3.8 The detailed risk information is shown at **Appendix 3** for information.

Alternative Options	1. None.
Consultation	1. Leadership Team have been consulted on the Corporate Risk Register.
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. The Risk Management Policy supports the delivery of priorities in the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. None.
Crime & Safety Issues	1. The Policy will aid the Council in assessing risks related to Crime and Community Safety and support improvement in this area.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Non-compliance with policy	Risk champions and Managers to monitor effectiveness and implementation	Green (tolerable)
B	Failure to manage known risks proactively	Severe risks are closely monitored by the Audit & Member Standards Committee and Leadership Team. Reports to Audit & Member Standards Committee provide assurance that active steps are being taken to control risks.	Green (tolerable)

Background documents

Relevant web links



Risk Management Policy

~~September~~
October 2017~~8~~

Document Status: Draft

Originator: A Struthers

Updated: A Struthers

Owner: Leadership Team

Version: 01.01.0~~3~~4

Date: ~~01/09/17~~08/10/18

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 Council's Intranet. Please check for current version before using.

Revision History

Revision Date	Version Control	Summary of changes
10/08/15	1.01.01	1 st draft
01/09/16	1.01.02	Scheduled review
21/08/17	1.01.03	Scheduled review
<u>08/10/18</u>	<u>1.01.04</u>	<u>Scheduled review</u>

Approvals

Name	Approved	Date
Audit Committee	Yes	September 2017
Leadership Team	Yes	September 2017
Audit Manager	Yes	August 2017 <u>October</u> <u>2018</u>

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.

RISK MANAGEMENT POLICY STATEMENT

Lichfield District Council Risk Management Policy Statement

Our Risk Management Policy is drawn up within the context of the District Council's ambitions and overall focus. It supports our themes and ambitions.

Themes and ambitions are set out in the District Council's Strategic Plan and are underpinned by targets and milestones which are monitored through our Performance Management processes that covers the key areas of the Council's activity.

Risk taking is part of innovation and change and as such is to be encouraged, not avoided; it must however be carefully assessed, regularly monitored, and effectively managed.

There is a risk in all that we do. Some of that risk can be controlled and reduced, or mitigated, by effective management and clear ownership.

A Risk Management Policy is an essential component of sound governance. It will help us to identify, analyse and control those risks which might prevent the Council achieving its objectives in a clear, visible, coherent and consistent way. It is an essential tool for all managers and Councillors.

The overall Policy is supported by separate guidance notes on the methodology to be used. It is also supported by our corporate business continuity processes. Transparency and accountability is key to the process.

This policy is fully supported by Members, the Chief Executive and the Leadership Team.

1 Introduction

- 1.1 Risk management is an integral part of corporate governance and the Council formally adopted a framework for corporate governance at Council in October 2002. Corporate governance requires maintaining a sound system of internal control. Financial Procedure Rules place responsibility with Chief Officers for risk management and maintaining sound systems of internal control within their area of service delivery.
- 1.2 Implementation of the policy will ensure that two types of risk are addressed:
- Direct threats – (damaging events) which could lead to a failure to achieve ambitions and deliver on priorities
 - Opportunities – (constructive events) if exploited can offer an improved way of achieving objectives but which are surrounded by threats. Examples include areas such as partnership arrangements.

2 What is Risk Management?

- 2.1 Risk can be defined as the chance or possibility of loss, damage, injury or failure to achieve objectives being caused by an unwanted or uncertain action, event, or chain of events. Risk therefore includes a level of uncertainty of outcome (whether positive outcome or negative threat). Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives.
- 2.2 Risk management involves having processes in place to identify and monitor risks, be able to access up to date and reliable information about risks, ensure the right balance of control in place to deal with risks; and a decision making process that is supported by a framework of risk analyses and evaluation. Risks should be managed in an integrated way at different key levels to manage interdependencies – corporate risk, operational risk and project risks.
- 2.3 The purpose of this Risk Management Policy is to effectively manage potential opportunities and threats to the organisation achieving its objectives. The main objectives of the Risk Management Policy are to:
- Develop a culture that integrates risk management in the day-to-day management process;
 - Raise awareness of the need of risk management by all those connected with the delivery of service including partners;
 - anticipate and respond to changing social, environmental and legislative conditions;
 - minimise the impact and/or likelihood of risks occurring;
 - put in place a robust framework in place to identify, assess and manage the major risks facing the organisation;
 - minimise the total cost of risk

More detailed guidance can be found in the Risk Management Guidance.

3 Risk Appetite

- 3.1 The risk appetite is “the amount of risk that an organisation is prepared to accept, tolerate or be exposed to at any point in time.” (CIPFA). The Council will manage the risks by, reducing, preventing, transferring, eliminating or accepting the risks.

3.2 Whilst the Council acknowledges that it will have “Severe” (red) risks from time to time, it will endeavour to reduce these to an acceptable level either through controls or ceasing the activity (if applicable). Sometimes risks are identified and even though managed, may still remain “severe” (red risk). Severe risks at an operational and project level are reported to the Leadership Team to manage and monitor.

Risk registers must be maintained and managed in the following areas:

- Corporate Risks,
- Operational Risks,
- Project Risks,
- Partnership Risks,
- Opportunity Risks.

“Severe” risks can appear in any of the above risk registers.

Corporate risks are owned and managed by leadership team. These risks are those risks that are identified as those that could have a high level impact at a corporate level.

The Corporate Risk Register and “red” project risks are reported the Audit & Member Standards Committee.

4 The Benefits of Having a Risk Management Policy

- Risk Management will alert Leadership Team to the main service and financial issues. This will allow early and proportionate management handling i.e. mitigation, diversion of resources.
- It contributes to better decision making, and the process of achieving objectives. When embedded within existing planning, decision taking and option appraisal processes risk management provides a basis for ensuring implications are thought through, the impact of other decisions, initiatives and projects are considered, and conflicts are balanced. This will influence success and improve service delivery.
- It provides assurance to members, management and auditors on the adequacy of arrangements for the conduct of business and the use of resources. It demonstrates openness and accountability to various inspectorate bodies and stakeholders more widely.
- It leads to greater risk awareness and an improved control environment, which should mean fewer incidents and other control failures. In some cases this can result in lower insurance premiums.

4.1 These are not intangible benefits. By identifying risks earlier, by making sure processes are fit for purpose and not over engineered, and achieving a behavioural shift, risk management will be a process that is justified many times over.

4.2 Our approach to risk management which underpins the policy and provides a vision of what we are aiming for, is summarised below:

“Risk management in Lichfield District Council is all about managing our business threats and opportunities and creating an environment of “no surprises””.

“Risk management is the identification, analysis and control of those risks which might prevent an organisation achieving its objectives”.

“Risk management is not about insurance – not least because over 80% of risks faced by organisations is not insurable. Certainly risk transfer is part of risk management, but so is risk retention and control”.

- 4.3** Risk profiling is carried out at all levels of the organisations with each level feeding up to the next level to ensure that operational risks that could pose greater risks than corporate issues are not missed.

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5 Roles, Responsibilities and Reporting Lines

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- 5.1 The importance of establishing roles and responsibilities within the risk management framework is pivotal to successful delivery. The consideration of risk must be embedded into corporate policy approval and operational service delivery.

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- 5.2 The agreed roles and responsibilities within the risk management framework at Lichfield District Council are outlined in the table below:

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Group / Individual	Role
Leadership Team	<ul style="list-style-type: none"> Provide leadership for the process to manage risks effectively. Review and revise the Risk Management Policy in accordance with the review period. Monitor and review the Corporate Risk Register on a quarterly basis including the identification of trends, upcoming events and potential new corporate risks.
Audit & Member Standards Committee	<ul style="list-style-type: none"> Monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management. To monitor action being taken by the Council to mitigate the impact of potentially serious risks.
Cabinet	<ul style="list-style-type: none"> To provide strategic direction with regards to Risk Management and be collectively responsible for the Risk Management process To consider risk management operation within directorates/services as per their Cabinet responsibility
Directors/Heads of Service	<ul style="list-style-type: none"> To provide leadership for the process of managing risks within their directorate. To ensure that risk management methodology is applied to all service plans, projects, partnerships and proposals within their directorate. To identify and manage business/operational risks. To ensure that the management of risk is monitored as part of the performance management process. Provide assurance to Leadership Team and the Chief Executive that the Policy is being complied with. To ensure that employees attend appropriate risk management training to assist in the implementation of this policy. To ensure that risk management is a standard agenda item at team

	<p>meetings.</p> <ul style="list-style-type: none"> • To review and update their risk register on at least a quarterly basis • To determine the method of controlling the risk. • To delegate responsibility if appropriate for the control of the risk. • To notify Leadership Team of new risks identified, for consideration for inclusion on the Corporate Risk Register.
All Staff	<ul style="list-style-type: none"> • To ensure that risk is effectively managed in their areas. • To ensure that they notify their managers of new and emerging risks
Audit Manager	<ul style="list-style-type: none"> • To ensure that the risk management policy is regularly reviewed and updated. • Promote and support the risk management process throughout the Council • Advise and assist managers in the identification of risks.

Risk Management Process

6 Risk Identification

- 6.1 The identification of risks is completed at various levels and primarily, risks (and opportunities) relate to the achievement of the Council's objectives. The risks can therefore be at Corporate, Operational, Project, Partnership or Opportunity level. This stage can be repeated regularly to ensure that new risk arising are identified and recorded on the risk register as appropriate. In addition, risks that are no longer relevant can be deleted.
- 6.2 The Council acknowledges that no one person is responsible for identifying key risks and that they are identified at various levels and various ways.
- 6.3 As a basis, the following risks must be identified:
- Those that affect the delivery of the Strategic Plan;
 - Those that affect operational issues i.e. the delivery of a service;
 - Those that affect the delivery of a project;
 - Those that affect the delivery within a partnership.

7 Recording Risks

- 7.1 A Risk Register is the primary tool to administer the risks identified. The [CovalentPentana](#) system **must** be used to record all corporate, directorate, service, project and partnership risk registers.
- 7.2 All risks recorded on the risk register should identify:
- gross (unmitigated) risk;
 - vulnerabilities/causes of the risk;
 - potential effect/consequences of the risk happening;
 - controls in place to the reduce the risk;
 - net(mitigated) risk;
 - risk review period.

8 Reporting Risks

- 8.1 The Corporate Risk Register will be reviewed and updated by the Leadership Team on a quarterly basis and then reported to the Audit and Member Standards Committee. Red (severe) project risks will be reported at the same time.
- 8.2 All reports to the Council require that the risks inherent within the decision recommended are identified. The Committee report template is set up so that this is completed. It is the duty of the report writer that the relevant risk register on ~~Covalent~~Pentana is updated to take account of these risks.

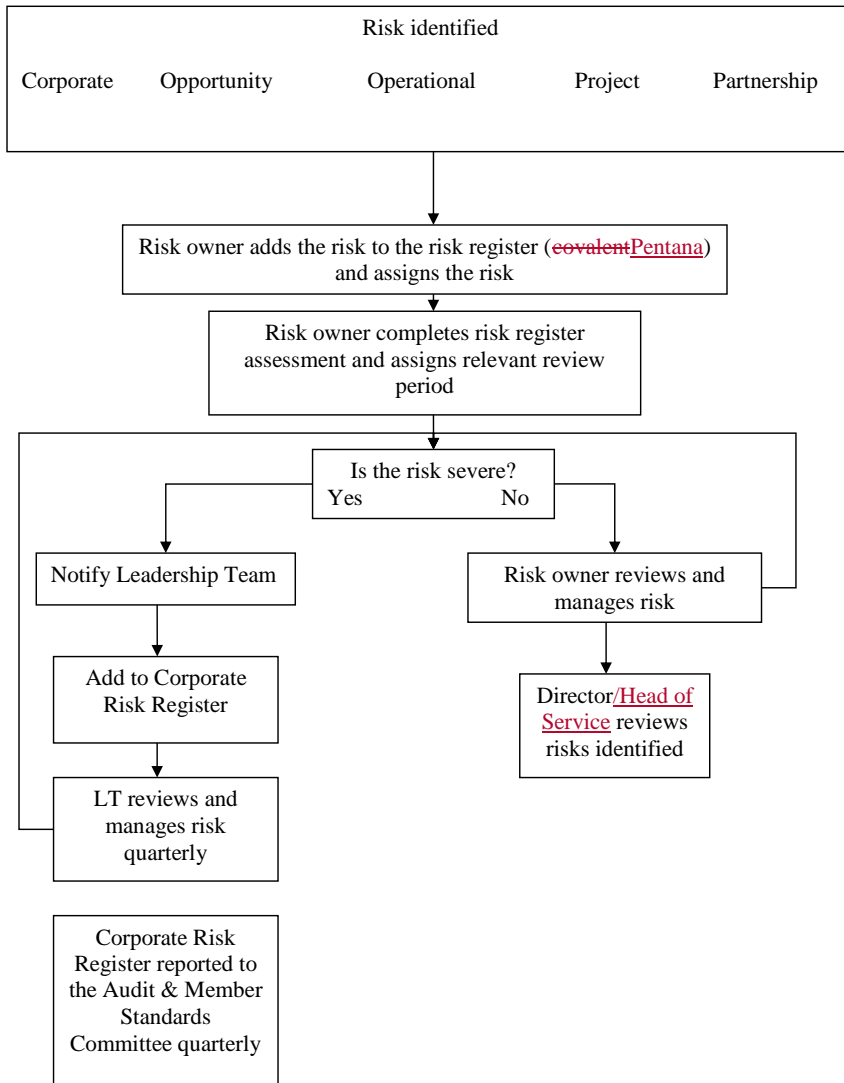
9 Reviewing Risks

- 9.1 Risks should be reviewed on a regular basis. The review period will depend on the type of risk. For example, operational risks (those that affect the delivery of a service) will more than likely not need to be reviewed as often as project risks. The ~~Covalent~~Pentana system allows you to set appropriate review periods for each risk. Risks can be added or deleted at any time.

10 Performance Management

- 10.1 The following key performance indicators for the risk management process will be completed:
- The Risk Management Policy will be reviewed and updated on an annual basis.
 - Leadership Team to review and update the corporate risk register taking into account emerging and changing risks on a quarterly basis.
 - Risks are reviewed appropriately to the severity/changing nature of the risk.
 - Staff are appropriately trained in Risk Management and the use of the ~~Covalent~~Pentana system.

Risk Management Process


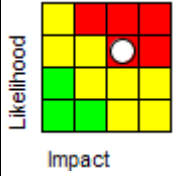
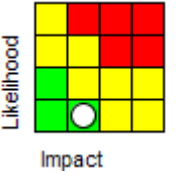


Corporate Risk Register 2018

Report Type: Risks Report

Report Author: Alison Swift

Generated on: 06 November 2018


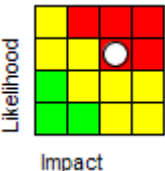
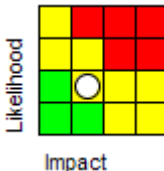
Risk Code	COR1	Risk Title	A Failure to Respond to Changing Demographics	Current Risk Status	
Description	A failure to respond to changing demographics				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	24-Oct-2018
Responsible Cabinet Member					
Assigned To	Pat Leybourne; Neil Turner				
Risk Factors/Causes	<p>It is recognised that the population of Lichfield district is ageing more quickly than other areas for a number of reasons: the young families that moved into the district during the periods of high growth in the 1970s and 1980s are now older. The district tends to see its young people leave for higher education, to begin their careers and to start families whilst the district is popular with those retiring and those developing professional careers during their middle age.</p> <p>In consequence we need to be mindful of the demographics of the district as it will place different demands on the services required from the council and, conversely, will also provide opportunities.</p> <p>This risk analysis attempts to capture what emerging pressures may look like and also the potential opportunities that that may materialise that need to be recognised.</p>				
Potential effects/consequences	<p>Risks</p> <p>Growing demands from residents for support services that are provided directly by the council including:</p> <ul style="list-style-type: none"> . Benefits – council tax support; housing benefit; extracare; 				

- Reduced council tax receipts; extra administration costs; if benefits capped then extra financial pressure on council
 - . Assisted bin collections;
 - Additional costs of collection
 - . Disabled car parking provision
 - Lower return from car parking
 - Impact of parking on street
 - . More applications for disability facilities grant
 - Risk of developing a waiting list for DFG's which increases the potential risk of increased delays/worsening health and wellbeing of applicants/complaints and increases the risk to meet statutory responsibilities
- Growing demands from residents for facilities and infrastructure that are provided by others but are influenced by the council including:
- . supported or extra care housing;
 - . specific types of housing including bungalows, retirement apartments, etc.
 - . provision of health facilities
 - . extra demand for taxis – pressure on licensing
- Growing demands from residents for facilities and infrastructure that are provided by others:
- . Health and social care – costs falling onto other parts of the public sector; risk of cost shunting or reduction of others' budgets.
 - . Public transport pressure particularly for buses
- Growing pressures on businesses
- An ageing workforce with dated skills that might mean businesses struggle to recruit.

Opportunities


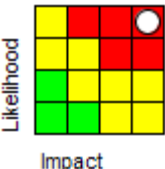
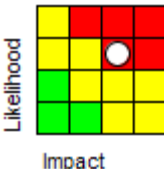
- Growing demands for services provided or facilitated by the council
- A healthier older population may be looking for greater sports and physical activity opportunities in our parks and leisure centres
 - A healthier older population may be willing to volunteer for conservation, sport, cultural or tourism related activities
 - A more IT literate older population will be more willing to embrace channel shift
 - A wealthier older population may be prepared to spend more for leisure, cultural and tourism type activities.
 - A wealthier, healthier older population will continue to use car parks
 - A more mobile older population may utilise the shopmobility scheme
- Growing opportunities for the community and the economy
- A healthier experienced skilled older population will bring different skills to the workplace and to voluntary and community groups
 - A wealthier older population will bring disposable income to support the retail, care and leisure economy; An older population, with time

	capacity may offer more affordable childcare to their grandchildren thereby allowing their children to be more economically active, or to offer more time as a volunteer. – A healthier older population may wish to set up their own businesses using their own capital;
Risk Treatment Measures	Consider changing demographics – but not just from a risk point of view – when preparing equality impact assessments, plans and policies.
Latest Note	


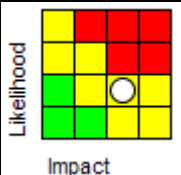
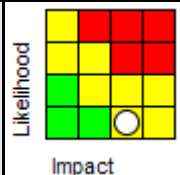
Risk Code	COR2	Risk Title	Economic Growth/Performance of the Local Economy/Integrity of the Local Plan	Current Risk Status	
Description	Economic Growth/Performance of the Local Economy/Integrity of the Local Plan				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	06-Nov-2018
Responsible Cabinet Member					
Assigned To	Craig Jordan; Richard King				
Risk Factors/Causes	<p>The state of the local economy is a key factor for the Council, residents and businesses in the District. A poorly performing economy is not only contrary to expectations of the Council's Strategic Plan to 2020 but can cause a variety of problems. It is imperative that the Authority understands local economic conditions, identifies where and how private sector investment can be attracted and furthermore determines where policy and others forms of intervention would make economic, social and environmental sense. Specific risks are that the Council does not suitably monitor and be aware of economic trends taking place or impacting upon the District, does not work appropriately cross-sector including with other public sector bodies, fails to deliver growth or key infrastructure where it has direct or significant control and does not acknowledge or engage with key businesses or consumers to ensure good succession planning and business continuity. Whilst, the Authority to some degree can influence and intervene in the local economy it needs to be recognised that external factors such as the state of the global and national economy as well as policy decisions taken at the national level can have significant impacts. The decision in 2016 to leave the European Union is an example, the repercussions of which are unknown at this time but will in due course effect the UK economy.</p>				
Potential effects/consequences	<p>The effects of a poorly performing local economy can be seen in many ways including:</p> <ol style="list-style-type: none"> 1. Increased unemployment, decreasing activity rates – people losing jobs, companies closing or reducing the scale of their operations can have serious social and economic consequences for an area including placing increased demands on the Council and other public agencies to provide support and address financial and welfare issues. 2. Failing town and local centres – Lichfield City and Burntwood are the Districts two key urban centres serving substantial populations. Outside of these and recognising the large rural areas in Lichfield District, there a number of key centres and more localised centres meeting needs of 				

	<p>immediate residents and further afield. These centres and their economic health and well-being are crucial to the sustainability of residents and local business. Significantly changeable retail/commercial vacancy rate, decline in business rate receipts, business support relief.</p> <p>3. Empty properties highlight problems with local property and commercial markets and can indicate a lack of confidence in an area, lack of market interest, poor wider economic and social conditions etc. Whilst it might be expected to see the occasional empty property in a thriving, affluent area and which has little negative impact, in other areas an agglomeration of empty properties can have serious implications. Decline in business rate receipts, decline in Council tax receipts, unused or underused resource, potential costs to Authority of liaising with property owners to maintain health and safety obligations and preventing environmental despoliation.</p> <p>4. Key to maintaining and strengthening centres is to encourage and realise improved footfall, boosting visitors and providing the right kinds of services and facilities to meet the needs of residents and those travelling further afield. If measures of footfall show a decrease over normal levels then that can be sign of market problems and lack of retailer/consumer and investor confidence. Requests for Business rate relief increase.</p> <p>5. Lower footfall and lack of investment in centres can be a sign of a troubled locality. This can impact the Council and local community through reduction in income eg. retail and commercial outlets owned or leased by the Authority. 6. In times when the economy is not performing well or there are market and other barriers at work, development sites and related infrastructure may not come forward and lay dormant. Lack of business rate income, Council Tax and New Homes Bonus to the Authority</p>
Risk Treatment Measures	<p>Having a vibrant and prosperous local economy by 2020 is a key strategic ambition in the Council's Strategic Plan. The Plan is supported by Annual Action Plans setting out specific actions and performance measures for relevant services.</p> <p>Alongside the Strategic Plan is an Economic Development Strategy and associated Action Plan setting in more detail how the stated strategic ambitions are going to be realised.</p> <p>The Council's approved Local Plan sets out a spatial strategy for delivering employment land and jobs linked to the above, this is under constant review (see below for latest update)</p> <p>The Council's shared economic development service led by Tamworth Borough Council activities are informed by the Strategic Plan and ED Strategy but also a regularly reviewed and agreed Service Level Agreement and annual business plan. Performance against the business plan is overseen by the Economic Growth, Development and Environment Cabinet Member and scrutinised by the EGED (O&S) Committee At the Strategic level the Council is involved with both the Greater Birmingham and Solihull LEP and the Stoke and Staffordshire LEP, both identifying high level priorities and from this setting out clear long term ambitions and detailed work programmes. Through this engagement the Council benefits from cross-LEP funding, access to European Funding regimes, information sharing and skills & knowledge. Programmes and initiatives, for example the Business Growth Programme and Rural Enterprise Programme, support local businesses by providing information & technical advice, access to funding and networking opportunities to share experiences and inform policy and plans. A variety of partners work with and oversee the outputs and outcomes of the District Council in terms of local economic development including Lichfield District Board, Staffs CC, Birmingham Chambers, Lichfield City BID, Lichfield Townsafe Partnership, Burntwood Business Community,</p>


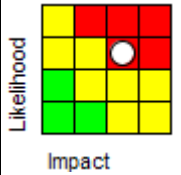
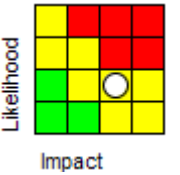
Latest Note	<p>Part 2 of the Local Plan, the Land Allocations Document was submitted for examination earlier this year and subsequently examined by an independent inspector. The inspector has recently indicated the need for certain modifications to be made to ensure that the Plan can be found sound. Work has commenced on a Local Plan Review with consultation on issues and options undertaken in mid 2018, an initial draft plan is due to be prepared for early 2019.</p> <p>The Council continues to keep a watching brief over activity being carried out by the West Midlands Combined Authority and which potentially could be relevant to growth and prosperity prospects in the District. Our membership of the GBSLEP allows us an insight and some influence over the level of knowledge sharing from the CA and ability to inform the application of policy. A number of new initiatives arising out of both the GBSLEP and CA could have impacts on or be beneficial to the district including policy and funding support for delivery of affordable housing and strengthening city and town centres.</p> <p>In terms of centres, following the demise of the Friarsgate project efforts are being made to re-evaluate the scope for re-development of the Birmingham Road site. A cross-party member task group has been set up with officer support to consider in the context of the wider city centre the scale and nature of development that would be appropriate on this site.</p> <p>Since September 2017The Council has engaged additional dedicated resource as regards the economic growth agenda enabling the District's interests to be further acknowledged and addressed at a strategic and local level. This resource working with the shared service provide to Lichfield by Tamworth BC has ensured that local businesses and those contemplating setting up in business have been able to take advantage of business support initiatives eg. Business Growth Programme and Enterprise for Success as well as more generally through the two LEP-enabled Growth Hubs. Finally, the Council has adopted a Property Investment Strategy as part of its wider Commercialisation Strategy, identifying opportunities to intervene in and support the market in line with its strategic objectives.</p>
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Risk Code	COR3	Risk Title	Financial Sustainability of the Council	Current Risk Status	
Description	The financial resources available are not sufficient to support all of the planned priorities for the Council and areas that rely on significant income generation may not achieve their targets.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	24-Oct-2018
Responsible Cabinet Member					
Assigned To	Anthony Thomas				
Risk Factors/Causes	<p>The financial risks facing the Council continue to be severe. The following are key risks:</p> <ul style="list-style-type: none"> . Planned capital receipts are not received and this impacts on the financing of the Capital Programme. . The Council is unable to achieve its key priorities. . The implementation of the Check, Challenge and Appeal new Business Rates Appeal system from 1 April 2017. . The implementation of more frequent Business Rate revaluations. . The financial impact of changes to the New Homes Bonus regime including the level of the baseline. . The move to 100% retention of Business Rates. Any potential impact of BREXIT on the local economy. Although at this stage it is difficult to quantify the risk to the Council and the local economy, trade negotiations and subsequent agreements are likely to be a key element for some local businesses. 				
Potential effects/consequences	The financial resources available are not sufficient to support all of the planned priorities for the Council and areas that rely on significant income generation may not achieve their targets.				
Risk Treatment Measures	<p>The Council intends closing this funding gap via an efficiency plan with four strands:</p> <ol style="list-style-type: none"> 1. In year efficiency savings / income generation – this is in recognition of the Council's favourable financial performance over the last three financial years, in comparison with the Approved Budget. 2. Fit for the Future (F4F) efficiency savings / income generation – this is part of the Council's ongoing F4F programme. This programme is designed to manage the change that will be across LDC and its services in order to meet all of the changes following the fundamental review of Local Government Finances. 				

	<p>3. F4F transformational change – this is the element of the F4F programme designed to reshape and redesign LDC and its services into one that is fit for the future.</p> <p>4. Growing the Business Rates and Council Tax base – the Council will seek to maximise the growth of both of these in order to increase the income from these funding sources. This will enable the Council to become financially self-sufficient over the medium term. The Council closely monitors it's in year position and this is reported on a regular basis to Cabinet and Strategic (Overview and Scrutiny) Committee in the Money Matters Report.</p>
Latest Note	<p>The approved Medium Term Financial Strategy 2017–22 identified Funding Gaps of:</p> <ul style="list-style-type: none"> . 2018/19 – £0. . 2019/20 – £1,305,000, Updated Projection £1,222,940. . 2020/21 – £2,006,360, Updated Projection £1,572,010. . 2021/22 – £2,034,090, Updated Projection £1,601,350. . 2022/23 – Projection £1,654,020. <p>The Money Matters Report for the three months financial performance in 2018/19 to Cabinet on 4 September 2018 identified that:</p> <ul style="list-style-type: none"> . In terms of the revenue budget, the Net Cost of Services was £36,030 above budget, funding was projected to be (£252,100) below budget, the contribution from the Birmingham Road Earmarked Reserve would be reduced by £252,100 and therefore there was a reduced contribution to General Reserves of £6,180 (compared to the Original Budget of £26,990 and the Approved Budget of £42,210). . The total General Reserves projected at 31 March 2019 are £4,668,473 and taking account of the Minimum Level of £1,600,000 the available General Reserves are projected to be £3,068,473. . In terms of the Capital Programme, the financial performance is projected to be (£495,000) below budget. . The Council is projected to receive (£300,000) more capital receipts than the budget. . The Council Tax Collection Fund is projected to be in surplus and Lichfield's Share would be (£19,530). . The Business Rates Collection Fund is projected to be in surplus and Lichfield's Share would be (£22,300).


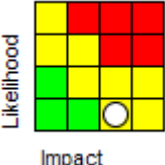
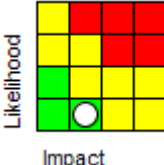
Risk Code	COR4	Risk Title	Capacity to Deliver	Current Risk Status	
Description	Capacity to deliver all of the outcomes required in the Councils Strategic Plan with the particular workforce and organisational development challenges we currently face.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	09-Oct-2018
Responsible Cabinet Member					
Assigned To	Christie Tims				
Risk Factors/Causes	The council is facing significant pressure to deliver its ambitious strategic outcomes in tight financial constraints. Ensuring the workforce of the council has the correct skills and capacity to deliver and that all of the expected outcomes from the Strategic Plan are being effectively progressed is a significant challenge. If we are not able to recruit and retain critical skills sets and sustain sufficient resources to deliver our plans effectively, this is a key corporate risk. If we are also not able to inspire a more commercial culture and clear business focus, then we will not be able to build a sustainable council.				
Potential effects/consequences	<p>The effects of a lack of workforce capacity can be seen in a number of ways including –</p> <ol style="list-style-type: none"> 1. Impacts on service delivery 2. Failure to deliver key objectives and performance metrics 3. Workforce disturbances including industrial action; vacancy rates; inability to recruit. 4. Reputational damage 5. Loss of morale 				
Risk Treatment Measures	<p>These issues will be addressed in the full as part of the Fit for the Future programme to establish a clear vision, empower and incentivise staff to new ways of working and increase flexibility. This will be supported by a People Strategy and underpinning Workforce Development Plan. Leadership development has been undertaken to ensure effective change and will be further supported by a commercial training programme this year.</p> <p>Service Plans and strategic plans are being aligned with the budget setting process and the Corporate Annual Action Plan is being replaced by a</p>				

	<p>Delivery plan for the remainder of the Strategic Plan period to ensure the key outcomes are prioritised, deliverable and support is available. As part of our golden tread for Performance Management, the Delivery Plan translates into Service Delivery plans then individual Performance Development Reviews (PDRs) and targets for all employees. Any vacancies and skill shortages are flagged as service ricks for each relevant service area.</p> <p>Key projects will be controlled with clear business case and document risks and resource planning under the Fit for the Future Programme. All activity is co-ordinated through Leadership Team. Other treatment measures are:</p> <p>Regular communications/engagement – eg staff briefings and use of key messages to ensure all employees are aware of the strategic projects and how they contribute to achieving them. Revisions to the PDR process (updated template to allow e-mailing, support for 1–2–1 PDRs in all areas) and monitoring and reporting of completion in all areas. HR policies and procedures reviewed and available via the intranet, training and support delivered as required. Absence management tracking and reporting with management of long term absence and return to work process in place.</p> <p>Talent and succession planning built into service plan templates.</p> <p>Review of recruitment processes to reduce waste/delay. Trade union relationships are good with the role of the union clearly defined. Union are supported to ensure meaningful engagement. Business continuity plans and service risk management build in resilience for teams. Training and development completed for all levels of staff. Corporate training needs are identified to build skills and capacity. Robust Project management that ensures business outcomes and performance of key projects. Employee well-being is developed and key interventions in place to support management of change. People Strategy – which articulates all of these aspirations and how managers will be supported to deliver them.</p>
Latest Note	The Fit for the Future Programme is being relaunched in May 2018 which will coordinate the activity and outcomes required.


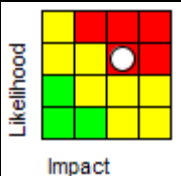
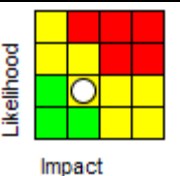
Risk Code	COR5	Risk Title	Governance & Statutory Obligations	Current Risk Status	
Description	Governance & Statutory Obligations				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	18-Oct-2018
Responsible Cabinet Member					
Assigned To	Bal Nahal; Neil Turner				
Risk Factors/Causes	<p>Every organisation needs effective governance to ensure that it complies with its statutory obligations and its own constitution. Lichfield District Council is no exception. Indeed as a public body, the council needs to be an exemplar of good governance to ensure that its decisions are sound and transparent in their making, in order to maintain the confidence of its residents, partners and customers.</p> <p>Sound decision making and probity is informed by the council's Constitution and the associated financial and procurement rules, which are unique to this council. But the council is also governed by legislation including Health and Safety at Work Act; the Equalities Act, the Local Government acts (which demands the appointment of a Head of Paid Service, a S151 Officer and a Monitoring Officer) and, from May 2018, will need to be compliant with the General Data Protection Regulations.</p> <p>There are 4 key areas of governance where the council considers the risks are greatest, either because of external factors, or because there is always a material risk to be managed. Its constitution has not been comprehensively reviewed since its adoption in 2001 despite a number of legislative changes and restructures; financial probity to ensure that we can protect the public purse; ensuring compliance with the General Data Protection Regulations (although we are aware of our obligations of the Data Protection Act); and meeting our Health and Safety obligations.</p> <p>Of course there are other risks associated with governance – for instance of managing change; of employing staff; of ensuring that our services are not fair. But these risks are considered to be satisfactorily managed through existing policies and procedures, although they are reviewed on a regular basis.</p>				
Potential	Decision making is poor and subject to challenge leading to reputational, financial and operational risk				

effects/consequences	<p>There are increased opportunities for fraud or loss to the public purse</p> <p>People are injured or killed because of a failure to comply with health and safety</p> <p>Recruitment and retention of staff is difficult because of a lack of clear policies and procedures</p> <p>Costs rise because of failure to follow policies and procedures.</p> <p>Information is lost, inaccurate or inaccessible because of a breach of data protection principles.</p>
Risk Treatment Measures	<p>The following actions are being implemented to ensure risks are mitigated:</p> <p>Decision making</p> <p>The constitution has been reviewed to ensure that it is fit for purpose. The revised constitution was adopted in May 2018.</p> <p>The approach to overview and scrutiny is changing so as to be able to support Cabinet and Cabinet Members to make better, more informed, decision in order to help deliver the ambitions of the Strategic Plan.</p> <p>Appropriately skilled and authorised officers attend all constituted meetings to ensure that decisions are not taken ultra vires.</p> <p>All members and officers are expected to observe the relevant Codes of Conduct, including declaring conflicts of interest, and operate by the Nolan 7 principles of public service.</p> <p>Financial Probity</p> <p>The council retains a team of Internal Audit and is required to maintain the appointment of External Auditors. The s151 Officer is expected to ensure that the council remains compliant with all fiscal obligations including ensuring that the council has a balanced budget, a medium term financial strategy, and an annual governance statement</p> <p>The financial and contract procedure rules were revised as part of constitution review and training will be rolled out to all Officers.</p> <p>General Data Protection Regulations</p> <p>New rules on data protection come into force from 25th May 2018. A project is being implemented to ensure that we can evidence compliance by then. Actions include training of all staff, Members, the appointment of a Data Protection Officer and a Senior Information Risk Owner, an audit of data and of information systems, and the design and implementation of procedures to ensure compliance.</p> <p>Health and Safety</p>


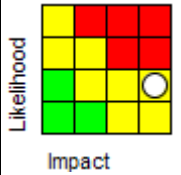
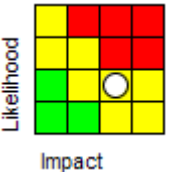
	<p>The council maintains the appointment of a competent person. The council has a Health and Safety Policy which is reviewed and revised annually. Health and Safety performance is reported to the Employee Liaison Group, Leadership Team and Employment Committee. The Joint Waste Service supports a service specific Health and Safety Committee in recognition of the greater risks associated with the collection of household and trade waste. Managers are supported in developing risk assessments and training is provided where risks are greatest.</p>
Latest Note	

Risk Code	COR6	Risk Title	Information Technology	Current Risk Status	
Description	How ICT supports business outcomes and our reliance on IT to achieve our strategic ambitions.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	09-Oct-2018
Responsible Cabinet Member					
Assigned To	Christie Tims				
Risk Factors/Causes	<p>We live in an increasingly digital world, heavily dependent on information technology to deliver all our key services in some way.</p> <p>Our ability to be able to respond to new digital threats, adapt our ITC infrastructure and develop all the technologies we use is key to the delivery of our strategic plan. Any failure of our infrastructure, data assets and development capacity is a key business risk for the authority.</p>				
Potential effects/consequences	<p>Losing sight of customers</p> <p>Cost/return on investment</p> <p>Loss of IT systems & inability to deliver services</p> <p>Reputational damage</p> <p>Fine and prosecution</p> <p>Potential imprisonment</p> <p>Loss of key management information</p> <p>Cost of change prohibitive to consider alternatives and develop new approaches.</p>				
Risk Treatment Measures	<p>Primarily these have been addressed in the development of the Digital Strategy and underpinning ICT Review for the termination of the support contract.</p> <p>An effective Cloud Readiness assessment has been undertaken to consider all of our future options for ICT.</p> <p>ICT has clear business continuity plans; uses strong information governance; has developed mechanisms to anticipate & identify business needs and develop and implement new technology effectively.</p>				

	Other measures include: Effective Project management and deployment of new systems Use of Firewalls and virus protection to manage cyber security Strong user ID's and passwords and policies on their application and refreshment Policies and procedures relating to good, safe practice and a programme of awareness. Secure remote access controls. Physical security of the building and key assets and the use of clear desk/locked screens. PSN compliance and staff vetting for relevant positions Established protocols and audit controls. Business continuity plan and disaster recovery planning. Use of penetration testing to identify and remove potential weaknesses. Data Protection Policy and Data protection training for all staff. IT governance and CPD to ensure skill sets are maintained.
Latest Note	In sourcing has gone smoothly with no issues.

Risk Code	COR7	Risk Title	Impact of Stakeholder Strategies on our Strategic Plan	Current Risk Status	
Description	Impact of Stakeholder Strategies on our Strategic Plan				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	24-Oct-2018
Responsible Cabinet Member					
Assigned To	Diane Tilley				
Risk Factors/Causes	Whilst focussed on delivering the strategic plan at a local level the work of the council is inevitably affected by partner organisations locally and government and policy decisions taken nationally. The council does not operate in a vacuum. The changes to the strategy and policy of other organisation may prevent the achievement of our goals by changes in statute, requirement to divert resources to new policy initiatives, reduction in available resources, changes to grant income from other partners, changes to service provision from partners that have a knock on effect on those services we deliver. Some of these are linked to other risks in this corporate risk register, such as the impact of national economic measures on our own economy and on our financial resilience. Each risk as it emerges will appear in relevant service plans and in itself will not be a corporate risk but collectively these issues require corporate response and monitoring				
Potential effects/consequences	<p>These are wide and varied but as examples of current pressures:</p> <ol style="list-style-type: none"> 1. Reduction in funding for Domestic violence from County and OPCC resulting in closure of refuge and LDC requirement to rehouse occupants. 2. Changes to housing associations voids policy requiring additional temporary accommodation for homelessness 3. Requirement for increased resource commitment to Prevent and community cohesion agenda 4. Changes to planning policy requiring additional resources and pressure from developers for development outside the Local Plan. 5. Changes to health provision which affects our community and their needs. 6. Changes to the national economic position which could result in reduced business rate receipts 7. Increased unemployment and lower wages leading to increased demand for affordable housing 8. New legislation on Homelessness prevention 				

	9. SCC budget pressures
Risk Treatment Measures	<p>Each different event which comes under this collective heading will have a range of treatment and mitigation measures that can be taken by the relevant service area as and when necessary. However corporately there are number of mitigating actions which need to be taken. These include:</p> <ol style="list-style-type: none"> 1. New burdens funding – ensure that costs of new government initiatives are covered by New Burdens funding and that we are fully aware of the whole cost of a change and evidence need for increased resources. 2. A need to monitor and assess emerging pressures. Through fora such as LGA, and DCN national issues can be tracked and anticipated. Through liaison with neighbouring Councils and the strategic partnerships across Staffordshire, e.g. partnership, Health and Wellbeing Board, Safer Communities' Board emerging issues can be tracked monitored and challenged by senior staff and members 3. At a local level the District Board should consider how it encourages local partners to share knowledge and information of emerging strategies to future proof decision making 4. When developing business cases full consideration of all possible changes by other partners or stakeholders should be factored into the decision so that individual risks are fully appreciated. 5. Working as One Council will reduce risk of cross directorate impacts and also increase knowledge and information available on stakeholder activities. 6. Being clear on exit strategies for initiatives where funding and delivery is dependent on more than one organisation so that the district council does not retain the expectations of the community for continued delivery when others withdraw. 7. There needs to be a corporate recognition of these issues and acceptance of a level of risk that we have no control over 8. Analysing and responding to policy consultations to influence the direction of policy in the Council's favour. 9. Ensuring that the additional risks identified above are considered when setting the minimum level of reserves in order to further protect the council from exposure financially as a result of these risk materialising.
Latest Note	no change in this review however one of the latest risks in this area is the impact of the government guidance on the geography or LEP which may impact on our relationships with GBSLEP and SSLEP

Risk Code	COR8	Risk Title	Failure to manage a major incident	Current Risk Status	
Description	Failure to manage a major incident				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	21-May-2018
Responsible Cabinet Member					
Assigned To	Gareth Davies				
Risk Factors/Causes	<p>Lack of integrated emergency arrangements making it difficult to react quickly to a disaster and provide the required support and essential service in line with the requirements of the Civil Contingencies Act.</p> <p>Failure to test plans</p> <p>Failure to undertake training</p> <p>Plans not activated</p> <p>Plans not kept up to date</p> <p>Plans do not accurately identify the staffing/resources required</p> <p>Implications of industrial action from other service providers eg Fire Service</p> <p>Lack of understanding both staff and members of their roles</p> <p>Failure to understand and monitor the needs of the community</p> <p>Not understanding our communities needs</p> <p>Lack of integrated emergency plans for significant incidents that may impact on our district in neighbouring authorities areas.</p>				
Potential effects/consequences	<p>Services not delivered</p> <p>Damage to reputation</p> <p>Civil Contingency Act requirements not met</p> <p>Death</p> <p>Destruction of property</p> <p>Damage to the environment</p>				


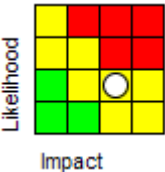
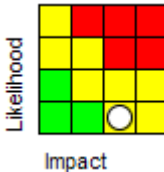
	<p>Adverse effect on vulnerable groups</p> <p>Public expectations of service delivery not met</p> <p>Increased costs for alternative service delivery</p> <p>Loss of homes – temporary or permanent</p>
Risk Treatment Measures	<p>Emergency plan in place and tested on a regular basis</p> <p>Emergency planning training</p> <p>Business Continuity Plans at service level</p> <p>Insurance cover</p> <p>Advice and guidance on Risk Management</p> <p>Business continuity strategy and management handbook</p> <p>Emergency advice available on the website including Evacuation Plan for Lichfield City Centre leaflet and poster, Flooding, How we Plan for Emergencies, Your Guide to Dealing with the Unexpected and links to the Staffordshire Prepared website</p> <p>Fire prevention controls in place and tested on a regular basis</p> <p>PAT testing</p> <p>Physical access controls in place</p> <p>Communications plan</p> <p>Membership of Staffordshire CCU & Resilience Forum</p> <p>Plans uploaded to Resilience Direct</p> <p>Learning from actual events eg IT system restores, Flooding</p> <p>Prevent training</p> <p>Chair local Safety Advisory Groups for local events</p> <p>Building Control enforcement – dangerous structures etc</p> <p>Monitor for the emergence of high risk sites on our borders and ensure adequate multi-agency response plans are in place.</p>
Latest Note	

Corporate projects risk register


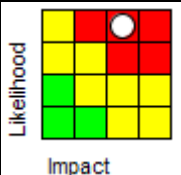
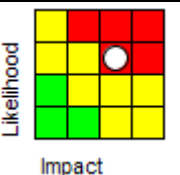
Report Type: Risks Report

Report Author: Alison Swift

Generated on: 06 November 2018

Risk Code	CORPRO2	Risk Title	End of the ICT Support Contract	Current Risk Status	
Description	The end of the current ICT Support Contract is a corporate risk that will be managed in accordance with the approach approved by Cabinet in May 2018. The existing contract has been broken down into a series of smaller projects/contractual arrangements to manage the risk and allow for a reset of our ICT support to achieve our digital ambitions in line with the strategic plan.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	06-Nov-2018
Responsible Cabinet Member					
Assigned To	Christie Tims				
Risk Factors/Causes	The end of the NPS contract for ICT support 30th September 2018				
Potential effects/consequences	Lack of helpdesk support if contracts, recruitment and training are not in place by the transfer date of 1st October 2018. Failure of key systems/processes if contracts are not in place in good time. Business continuity impacts.				
Risk Treatment Measures	These are as outlined in the Cabinet report and include: Server and database support contracts provided by existing infrastructure supplier A fully managed transition plan to create an in-house Support Desk TUPE of staff assigned to the existing contract to provide application support Direct award of printing contracts using government frameworks				

Latest Note	The transition project is moving at pace and we hope to have secured key appointments and procurements by early August. Contingency plans are now also in place to eliminate any impact from the project on the business.
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Risk Code	CORPRO3	Risk Title	FGLC	Current Risk Status	
Description	Planned or unplanned closure of the Friary Grange Leisure Centre due to lack of investment in the asset by Staffordshire County Council and/or associated Contractual/Legal issues relating to ownership and asset responsibility.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	06-Nov-2018
Responsible Cabinet Member					
Assigned To	Chris Cook				
Risk Factors/Causes	<p>. No investment in the building infrastructure resulting in closure – the asset responsibility is currently being discussed/disputed through the reinstated Friary Grange Management Committee. Whilst the Management Committee has now been dissolved renewed discussions are taking place between SCC & LCC to identify a pragmatic solution to prevent closure. If this is not achieved it is likely that some form of informal arbitration will be used.</p> <p>. The building is in a poor state of repair as a result of its age (45 years) and lack of investment. Recent closures have taken place as a result of water ingress and corrosion to major pipework. The roof is leaking throughout the whole facility and specifically the squash court and swimming pool roofs require replacement. The cost of the swimming pool roof is currently being determined by way of an intrusive survey jointly funded by SCC/LDC. The squash court roof is estimated at £70K.</p> <p>. It is not possible to determine when further closure will be required as a result of structural and/or M&E failure. Although LDC have produced an operational risk assessment the potential of risk of injury cannot be predetermined.</p>				
Potential effects/consequences	<p>. Reputational damage to the Authority</p> <p>. Cessation of the outsource leisure contract and associated compensatory payments relating to the contract and staff redundancy.</p> <p>. Significant shortfall in leisure provision(refer to FGLC options paper May 2018) within Lichfield/the district (Policy & Strategic Context – National Planning Policy Framework 2012, Lichfield Local Plan 2008 – 2012, Lichfield District Infrastructure Delivery Plan 2017, Lichfield District Council Strategic Plan 2016 – 2020, Lichfield District Council Health & Wellbeing Strategy 2018, LOPS Service Plan 2018 – 2023)</p> <p>Formal legal proceedings could commence regarding ownership of the building in the event of the Management Committee being unable to reach an agreement, but this is not a preferred option. Associated costs and implications cannot be determined at this stage. Potential clawback in relation to £210K Sport England grant for refurbishment of reception area and changing rooms in 2013. The amount will be determined by the</p>				

	timing of any closure and LDC approach to providing a replacement facility. Enforcement bodies (Health and safety Executive, Staffordshire fire and Rescue etc) could invoke enforcement action against the Council if they deemed the lack of investment was seriously compromising public and/or employee safety
Risk Treatment Measures	<p>. In May 2017 Lichfield District Council commissioned a Condition Survey to determine the level of investment required to make the facility fit for purpose for the short term. This survey identified that an investment of £1.7 million was required to enable the short term serviceability of the building.</p> <p>. In June 2017 the issues relating to the Condition Survey and Management Arrangements was integrated into the procurement process for the outsource of leisure facilities. This was subsequently discussed with the preferred bidder and resulted in the 10 year operational contract being changed to a 12 month rolling basis to reflect the associated risk of cessation.</p> <p>. Between June 2017 & February 2018 LDC continued to develop the working relationship with Friary School and addressed the funding allocation relating to the apportionment of utility/operating costs.</p> <p>. In October 2017 LDC commissioned Sport England to undertake a detailed planning model to determine the size, scale and scope of leisure facility that would be required to replace FGLC.</p> <p>. In January 2018 LDC developed an operational risk matrix and associated communications plan identifying all operational/financial/structural/contractual/health and safety risks. In February 2018 LDC commissioned LPB Consulting to develop an options appraisal for Friary Grange Leisure Centre, this document was considered by the Leadership Team on 4th July and subsequently by informal Cabinet. At this stage the key focus is on maintaining the serviceability of the building and the potential to replace the facility will be considered gain in Spring 2019.</p> <p>In October 2018 renewed discussions commenced between SCC & LDC Officers to identify a pragmatic solution to ensuring the serviceability of the building. The operator of the leisure centre (Freedom Leisure) hold operational responsibility for the safe delivery of services. They will continue to report through to the Head of Leisure any concerns relating to ongoing safety and operation</p>
Latest Note	



Annual Audit Letter

Year ending 31 March 2018

Lichfield District Council

August 2018

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Appendices

A	Reports issued and fees
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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lichfield District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Member Standards Committee as those charged with governance in our Audit Findings Report on 25 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £864,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Member Standards Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Lichfield District Council in accordance with the requirements of the Code of Audit Practice.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £864,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks for the Council

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries, identified and tested unusual and significant journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment and investment properties</p> <p>The Council revalues its land and buildings on a 5 year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>Investment properties were historically included in the Council's rolling valuation programme along with other land and buildings. Following previous audit recommendations due to the Council's highly material investment property balance and the differing valuation requirements of PPE and investment properties, the Council considered investment properties separately for the 2017/18 year.</p> <p>We identified revaluations and impairments of both land and buildings and investment properties as risks requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; reviewed the basis on which the valuation is carried out and challenged the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any issues in respect of the valuation of the Council's property, plant and equipment or investment properties.</p>

Audit of the Accounts

Significant Audit Risks for the Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;• gained an understanding of the basis on which the valuation is carried out;• undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary.	<p>At the time of writing the Audit Findings Report that was presented to Audit and Member Standards Committee on 25 July 2018, discussions were still ongoing as to the correct treatment of the pension liability relating to staff who had been transferred from the Council to a leisure service provider during 2017/18.</p> <p>A verbal update was provided to the Committee prior to the approval of the financial statements and the issuing of our audit opinion. We are satisfied that the Council's decision to exclude the staff in question from their actuarial calculations, and from the liability in the Council's balance sheet as at 31 March 2018, was appropriate.</p> <p>Our audit work did not identify any issues in respect of the valuation of the Council's pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Member Standards Committee on 25 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Lichfield District Council in accordance with the requirements of the Code of Audit Practice. We certified the closure of the audit within our audit report issued on 25 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We carried out an initial risk assessment in February 2018 using the guidance contained in AGN03. The key risk we identified and the work we performed are set out overleaf.

We continued our review of relevant documents up to the date of giving our audit report, and did not identify any additional significant risks requiring us to perform further work.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Friarsgate development</p> <p>Friarsgate was the Council's city centre regeneration project, which was intended 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.</p> <p>The infrastructure requires considerable updating and investment. Projects within the programme needed to be effectively managed to ensure they are completed to time, budget and quality.</p> <p>During the course of 2017/18, the Council and its development partner were unable to secure funding for the project, and on 26 June 2018, the Council made the decision to walk away from the development agreement.</p>	<p>We reviewed the project management structure and governance structure for the project, and the processes and controls in place to monitor them.</p> <p>We considered how these processes and controls fed into Member scrutiny by the Environment and Development (Overview and Scrutiny) Committee.</p> <p>We maintained an understanding of the progress made on the project, the issues faced by the Council, and how these fed into future plans. We discussed with management how they were ensuring that the Council attained Value for Money on the development.</p> <p>We have reviewed key papers that were presented to decision-making bodies, and the information that they contained.</p>	<p>We are satisfied that the Council had a clear chain of reporting and governance structure in place regarding the Friarsgate development, led by the Environment and Development (Overview and Scrutiny) Committee.</p> <p>Regular updates were provided to this Committee, as well as to Audit and Member Standards, Cabinet and Council, detailing the progress on the development, the risks it faced and key decisions to be made.</p> <p>The Council's forward financial planning was not reliant on the success of the development, and so the decision to walk away from the agreement has no detrimental effect on the Council's financial plans.</p> <p>At the end of March 2018, the Council had spent approximately £4.35m on the development, of which £2.2m related to land acquisitions.</p> <p>We have maintained a watching brief over the events since the end of the financial year, and are satisfied that nothing has occurred that indicates that there was a weakness in arrangements in 2017/18.</p> <p>We have concluded that for the 2017/18 year the risk is sufficiently mitigated and the Authority had proper arrangements in place to secure value for money.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services	
None	-
Non-Audit related services	
None	-

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Fees

	Planned fees £	Actual fees £
Statutory audit	45,990	45,990
Housing Benefit Grant Certification	6,123	TBC
Total fees	52,113	TBC

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



Audit Progress Report and Sector Update

Lichfield District Council
Year ending 31 March 2019

November 2018

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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a 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 and 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 www.grantthornton.co.uk.

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

Progress

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on 25 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year.

Our Annual Audit Letter, summarising the outcomes of our audit is included on today's agenda.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

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 2018/19 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 Finance Officers in October as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

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

Annual Certification Letter

December 2018

Not yet due

This letter reports any matters arising from our certification work carried out under the PSAA contract.

2018/19 Deliverables

Planned Date

Status

Fee Letter

April 2018

Complete

Confirming audit fee for 2018/19.

Accounts Audit Plan

January 2019

Not yet due

We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.

Interim Audit Findings

March 2019

Not yet due

We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.

Audit Findings Report

July 2019

Not yet due

The Audit Findings Report will be reported to the July Audit Committee.

Auditors Report

July 2019

Not yet due

This is the opinion on your financial statement, annual governance statement and value for money conclusion.

Annual Audit Letter

August 2019

Not yet due

This letter communicates the key issues arising from our work.

Annual Certification Letter

December 2019

Not yet due

This letter reports any matters arising from our certification work.

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, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

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

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

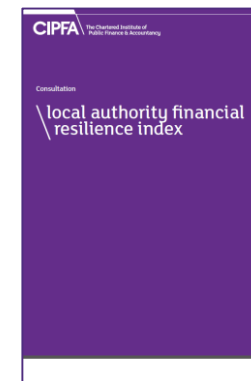
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

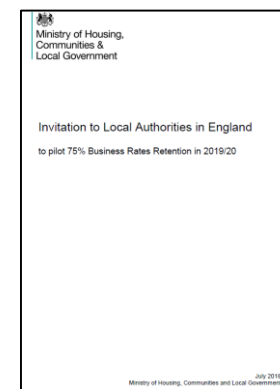
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report

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



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granththornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



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

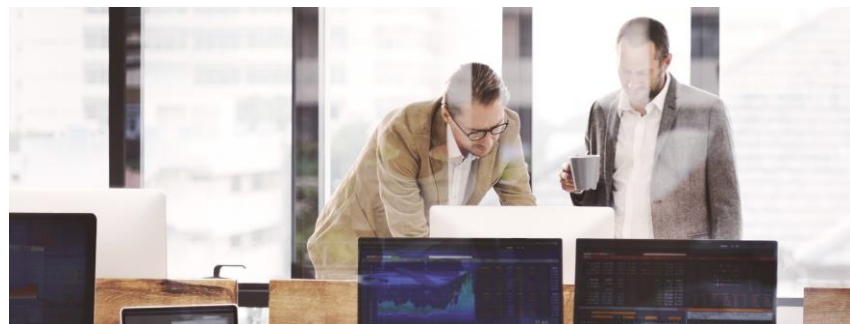
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

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

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

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

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

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

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

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

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

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2018/19

Item	14 Nov 18	06 Feb 19	27 Mar 19	24 Apr 19	July 19	Deferred Reason
FINANCE						
Annual Governance Statement				√		
Annual Treasury Management Report						
Mid-Year Treasury Management Report	√					
Review of Accounting Policies			√			
Statement of Accounts						
Treasury Management Statement and Prudential Indicators		√				
Overview of the Council's Constitution in respect of Financial Procedure Rules		√				
Audit & Member Standards Committee Practical Guidance	√					
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			√			
Risk Management Update		√	√			
Risk Management Update to include Risk Management Policy and Corporate Risk Register	√					

AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2018/19

Item	14 Nov 18	06 Feb 19	27 Mar 19	24 Apr 19	July 19	Deferred Reason
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		√				Done as part of Constitution update
GDPR/Data Protection Policy						Approved at previous meeting and Cabinet 01/05/18
Annual Report of the Monitoring Officer - Complaints			√			
RIPA reports policy and monitoring						
Terms of Reference						Done as part of Constitution update
EXTERNAL AUDITOR						
Audit Findings Report for Lichfield District Council 2017/18						
The Annual Audit Letter for Lichfield District Council	√					
Certification Work for Lichfield District Council for Year Ended 31 March 2018		√				Verbal Report only in November – report to be finalised by end of Nov so actual report will be deferred to February 2019
Planned Audit Fee 2018/19						
Informing the Audit Risk Assessment - Lichfield District Council		√				
Audit Plan for Lichfield District Council 2018/19		√				
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2019	√		√			