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19 March 2019

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, 27TH MARCH, 2019 at 6.00 PM IN THE COMMITTEE ROOM,** District Council House, Lichfield to consider the following business.

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

Yours faithfully

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

To: Members of Audit and Member Standards Committee

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

AGENDA

RESOLVED: “That as publicity would be prejudicial to the public interest by reason of the confidential nature of the business to be transacted, the public and press be excluded from the meeting for the following items of business, which would involve the likely disclosure of exempt information as defined in Paragraph **3** of Part 1 of Schedule 12A of the Local Government Act 1972”

IN PRIVATE

13. **Confidential Internal Audit Report - PR & Communications** 107 - 114

(Confidential Report of the Audit Manager – Angela Struthers)

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AUDIT AND MEMBER STANDARDS COMMITTEE

6 FEBRUARY 2019

PRESENT:

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

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

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

Also Present: Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor)

23 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs Woodward.

24 DECLARATIONS OF INTEREST

There were no Declarations of Interests.

25 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 14 November 2018, as printed and previously circulated, were taken as read and approved as a correct record.

26 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS

The Committee received a report on the Treasury Management Strategy Statement (TMSS) 2019/20 from Mr Anthony Thomas (Head of Finance & Procurement) and he delivered a Presentation to explain in more detail the Capital Strategy and the Capital Programme, the minimum revenue provision statement 2019/20, the balance sheet projections, interest rate projections, cash flow forecast for 2019/20, treasury management strategy and the annual investment strategy, the prudential and local indicators and the CIPFA resilience index. Mr Thomas explained that the authority were expected to approve a treasury management strategy before the start of the financial year and this report fulfilled the authority's legal obligation. Mr Thomas explained that the capital strategy was a new requirement which brings together existing areas of capital and treasury activities in one document. The Capital Programme approved by Council on 20 February 2018 was compared to the draft Capital Programme that will be recommended to Council on 19 February 2019. It was noted that the most significant change was due to capital expenditure related to the Property Investment Strategy. This was to ensure there was sufficient capacity, appropriate expertise and firm governance arrangements in place to ensure sufficient due diligence is undertaken prior to any acquisition. The extra investment was highlighted i.e. disabled grants, ICT projects and the short term site works at Birmingham Road site had been included in the draft MTFS – Capital Programme – see Appendix B.

The projected capital receipts included in the Medium Term Financial Strategy were shown illustrating share of housing sales from Bromford and asset sales which were also highlighted. The borrowing need was summarised as it starts relatively small and increases from 2020 because of the £45m investment in commercial property already agreed. The projected change in the balance sheet 2018/19 to 2022/23 was summarised as they are significant in assessing the Council's Treasury Management position in terms of borrowing requirement, investment levels and our Investment Strategy. (As assets are acquired under the Property Investment Strategy the borrowing liabilities also increase to fund these acquisitions. The element of property assets funded by external borrowing (the Loan to Value) and was compared to an indicative private sector level of 45%. In the private sector a Loan to Value limit would be set to manage the risk that the loans outstanding are unable to adapt to changing asset strategy or property value. This will be evident in a recession where typically property values reduce and loans therefore can exceed property value (known as negative equity). A negative equity scenario can make it difficult to rebalance the portfolio through disposals due to the existing loan repayments that will still need to be paid whilst income is no longer received.

Mr Thomas said there could be an opportunity to borrow some of the required funds internally and this was something to be considered and, in his opinion, it would be a lower cost option, reduce investment risk because there would be lower investment levels and would allow in the event of "windfall" income early repayments without penalties. However, a second opinion would be sought from the Treasury Management Advisors - Arlingclose.

Mr Thomas explained the cash flow forecast which takes account of the income the Council receives including housing benefits grants, council tax and business rate income and expenditure such as payments to precepting bodies, employee costs and housing benefit payments as well as the expected movement in interest rates which the council's assumption had been interest rates remain at the current level (because of the BREXIT uncertainty). Mr Thomas explained he had taken this view as it exposes us to least risks but no one knows what impact the form of exit from the EU will have on monetary policy.

Mr Thomas explained that Appendix E was the new Investment Strategy Report for 2019/20 which was to meet the requirements of the statutory guidance issued by the government in January 2018. It focused on how the Authority invests its money to support local public services and earns investment income from commercial investments.

Our investments and their limits were shown and the proposed changes for 2019/20 to provide additional options in the event there are issues with existing Money Market Funds domiciled in Luxembourg and Ireland were highlighted as:-

A new category of UK Domiciled Pooled Funds has been created with a limit of £5m per fund (there are currently two and the council has accounts with both);
A new category of Corporates (excluding the Council Company) has been created with a limit of £250,000 per company. Loans to unrated companies will only be considered following an external credit assessment;
A new investment limit for Real Estate Investment Trusts of £5m.

The lessons learnt in relation to Northamptonshire County Council had resulted in CIPFA recently consulting on the provision of a Financial Resilience Index to which we responded on 15 August 2018 with the outcome published on 4 December 2018. CIPFA are looking to produce a range of measures to enable each Council to understand its position relative to other similar Councils in terms of the level and use of reserves, exposure to specific funding streams and the External Auditor's value for money assessment. A beta version has been received and CIPFA plan to openly publish an updated version later this year.

Members voiced their concern about the undeveloped site at Birmingham Road although very much in its infancy and it was queried if we have included any budget for long term development of the site - Mr Thomas confirmed that the short term use budget included in the draft Capital Programme was for a period of 3 to 5 years including essential works to the bus station. However, the budget also included a budget for "master" planning and the council was currently looking at options for the whole of the city centre development as well as the site at Birmingham Road and until we know the options available and the delivery options a budget for long-term development could not be accurately assessed and therefore no budgetary provision was currently included in the draft MTFS.

The cash flow forecast was questioned as to why it is lower and then going higher and Mr Thomas agreed to check this and report back to the committee via email.

Members welcomed Mr Thomas's stoicism because of all the uncertainty at the moment and supported the internally borrowing rather than external borrowing because of this uncertainty.

RESOLVED:- That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:-

(1) The Capital Strategy and Capital Programme, in Appendices A & B;
(2) The Minimum Revenue Provision Statement 2019/20 at Appendix C which sets out the Council's policy of using the asset life method as the basis for making prudent provision for debt redemption;
(3) Treasury Management Strategy Statement for 2019/20 including proposed limits (Appendix D);
(4) The Investment Strategy Report (Appendix E) including the proposed limits for 2019/20;
(5) The Capital and Treasury Prudential Indicators for 2018-23 in the financial implications section;
(6) The Authorised Limit Prudential Indicator shown within the financial implications section.

27 INTERNAL AUDIT PROGRESS REPORT

Mrs Struthers (Audit Manager) presented the Internal Audit Progress Report September 2018 to December 2018 to the committee and explained that the Internal Audit Service aims to complete at least 90% of the applicable planned audits by the end of the financial year and although there has been staffing issues throughout the last year, this had now been resolved and a Trainee Internal Audit Assistant was now in post and working well so 90% of the audit plan is expected to be achieved by the end of the financial year.

Mrs Struthers confirmed that five audits had been postponed at management's request due to system changes and have been moved to the next financial year but four audits had been added to the current financial year's plan. Mrs Struthers confirmed that Internal Audit has started/completed 65% of the planned audits and a total of 33 recommendations were made with 32 (97%) of the recommendations being accepted by the management. The one recommendation not accepted related to project management governance procedures and the lack of consistency over the arrangements to support the monitoring of projects. However, it was felt that this was not required as they are described in the Project Initiation Document.

Overall the Internal Audit opinion highlighted only one limited assurance which was to be discussed in private and confidential later in the meeting.

RESOLVED: That the Committee considered the Internal Audit Progress Report September 2018 to December 2018 and no issues were raised.

28 RISK MANAGEMENT UPDATE

Mrs Struthers introduced the Risk Management Update which updated the committee on the management of the Corporate Risk Register. It was highlighted that the Property Investment Strategy was now included in the Corporate Risk – Financial Sustainability of the Council and the end of the ICT support contract which has previously been a project risk had been removed.

Concern was raised about there being no reference to the Birmingham Road site as a risk as it was our land and seen as an asset of the council. The Chief Executive, Ms Diane Tilley was in attendance and said in corporate risk identification, with all things considered, it was not felt to be a high risk and there was no risk on delivery of this project.

A query was received about the "failure to respond to changing demographics" risk and it was asked how do we envisage this and why is it impacting on the Council. Mr Thomas responded that this was failure to adapt service provision to reflect changing demographics such as an increased number of older people who were obviously more reliant upon our services and therefore the budget for disabled grants may need to increase, the ability to use digital services, and consequent impacts on benefits and Council Tax discount schemes would all be encompassed under this risk.

The "failure to manage a major incident" risk was queried. It was confirmed that as a local authority we have to support the Civil Contingencies Unit if there is a major incident. We include an allowance in the minimum level of reserves for a civil contingency and we are able to claim an element of funding from the Bellwin scheme. However, as a District Council we could only resource to a certain level and it would be the need to respond to the incident and recovery from the incident which was felt to be a corporate risk.

Risk COR4 was discussed – Capacity to deliver all of the outcomes required in the Council's Strategic Plan with the particular workforce and organisational development challenges we currently face – due to three Heads of Service resignations having been received. A query was raised regarding the impact on capacity and the ability to deliver. Ms Tilley replied and said we had got contingencies in place and were reviewing our priorities once again and there would be a full review of the Leadership Team. It was asked if there were any trends in staff absences/staff sickness because of these changes and Ms Tims, Head of Corporate Services said none had been identified as yet.

> **RESOLVED:-** Members noted 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.

29 ANNUAL REPORT ON EXCEPTIONS AND EXEMPTIONS TO PROCEDURE RULES

Members received a report from Ms Bal Nahal, (Head of Legal, Property & Democratic Services) on the Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules which is part of the Contract Procedure Rules and applicable from the 2017/18 financial year. The level of exceptions and exemptions (waivers) granted during 2017/18 and the previous two financial years is shown in summary in the financial implications section of the report and in detail at Appendix A of the report and she said because the key decision limit had now been increased to £75,000 it could be seen that we were performing quite well now.

Members just asked one query relating to the non-recurring waiver in 2017/2018 – Visit Lichfield Website Replacement and Support – why was this put through as a waiver?

Ms Nahal said she would look at this and report back to members.

> **RESOLVED:-** The Committee noted the Exceptions (Waivers) set out within Appendix A.

30 CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2018

Ms Laurelin Griffiths from Grant Thornton introduced the Certification letter regarding the Housing Benefit subsidy claim submitted by Lichfield District Council which takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding. The good news was that there was only an amendment value of £7 to the housing benefits subsidy claim and an extrapolation of the errors found showed a potential overpayment of approximately £1,700 on an £18m grant claim. The Chairman welcomed this letter and wanted the Head of Service – Pat Leybourne and her team to be congratulated as this was a fantastic success.

RESOLVED:- The Committee noted the Certification work letter from Grant Thornton UK LLP.

31 INFORMING THE AUDIT RISK ASSESSMENT - LICHFIELD DISTRICT COUNCIL

Ms Laurelin Griffiths from Grant Thornton presented a report - Informing the audit risk assessment Lichfield District Council 2018/19 which was a series of questions on particular areas e.g. fraud/laws and regulations/going concern/related parties/accounting estimates and the responses received from the Council's management. The Committee was asked to consider whether these responses were consistent with its understanding and whether there are any further comments it wishes to make.

Discussions took place around the question on page 106 – How does the Council communicate and encourage ethical behaviour of its staff and contractors?
It was asked if the management response could include "leadership by example/integrity" as it was felt to go beyond the induction point as some members of staff have been at LDC a very long time and their induction would have been a long time ago. Ms Griffiths agreed to add this in to the response.

Considerations were given to the whilstleblowing reference and members hoped employees who did whistleblow weren't ostracised. Ms Nahal confirmed that all LDC staff were protected if they were to whistle blow and support is offered by the Leadership Team and the Whistleblowing policy.

(At Appendix 1 pg 120 – "provision for liabilities" – there was a formatting issue in the second column as it began in a middle of a sentence. Ms Griffiths to amend and email to all the amended Appendix 1).

RESOLVED:- The Committee noted the Informing the audit risk assessment report for Lichfield District Council 2018/19.

32 AUDIT PLAN FOR LICHFIELD DISTRICT COUNCIL 2018/19

Ms Laurelin Griffiths from Grant Thornton presented the External Audit Plan year ending 31 March 2019 report which provided an overview of the planned scope and timing of the statutory audit of Lichfield District Council for those charged with governance. The significant risks have been identified which were broadly the same as last year and the value for money arrangements covered the last financial year so did highlight the Friarsgate development as a risk. Ms Griffiths said the council did successfully achieve early close in 2017/18 and an interim audit was taking place now and the team would be back on site again in June. It was recognised there may be some uncertainties, however, in the near future because of the potential impact of Brexit.

RESOLVED:- The Committee noted the External Audit Plan year ending 31

March 2019.

33 WORK PROGRAMME

A revised Work Programme was circulated and the Chairman asked for any additions/alterations to the programme – there were none. Only two meetings left for this municipal year.

34 EXCLUSION OF PUBLIC AND PRESS

RESOLVED: That, as publicity would be prejudicial to public interest by reason of the confidential nature of the business to be transacted, the public and press be excluded from the meeting for the following item of business which would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

IN PRIVATE

35 INTERNAL AUDIT REPORT - CYBER SECURITY 17/18

Minutes for this item are recorded separately as it includes exempt information.

(The Meeting closed at 7.01 pm)

CHAIRMAN

PROPOSED ACCOUNTING POLICIES FOR THE 2018/19 STATEMENT OF ACCOUNTS

Cabinet Member for Finance and Democracy

Date:	27 March 2019
Agenda Item:	4
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	anthony.thomas@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	All wards.

Lichfield district council
www.lichfielddc.gov.uk

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

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

1.2 This report, therefore, sets out the Council's proposed Accounting Policies to be adopted in completing the 2018/19 Statement of Accounts.

1.3 The report also details any changes that have been made to the Council's 2017/18 Accounting Policies to ensure that they are relevant to the preparation of the Council's 2018/19 Statement of Accounts.

2. Recommendations

2.1 It is recommended that the Audit and Member Standards Committee approves the Council's proposed Accounting Policies that will form part of the 2018/19 Statement of Accounts.

3. Background

3.1 The preparation of the Statement of Accounts is governed by the Accounts and Audit Regulations 2015. The format of the Accounts reflects the requirements of the Code of Practice in Local Authority Accounting in the United Kingdom 2018/19 published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is supported by the International Financial Reporting Standards (IFRS), which is a set of evolving accounting rules used internationally to guide the formation of financial statements in the public and private sector. The evolving state means that new accounting standards are formed on a regular basis along with reinterpretations of existing standards. The Accounting Policies are therefore reviewed annually to ensure that they remain current and relevant

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

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

3.4 The full list of Accounting Policies as produced in the Code of Practice for 2018/19 is shown in a table at Appendix A. For those Policies that are not adopted by the Council, a reason is provided within that table.

3.5 The Council's proposed Accounting Policies list for the 2018/19 Statement of Accounts is shown at Appendix B.

3.2 The Council has reviewed these Accounting Policies in line with the 2018/19 Code of Practice (changes are tracked for ease of reference). The following key change has been made:

- The incorporation of IFRS 9 – Financial Instruments. The main change contained within this Standard is the introduction of a forward looking expected credit loss (ECL) model that replaces the old incurred loss model. In summary, IFRS 9 requires all financial instruments to be examined for potential non-payment or credit risk worsening at least on an annual basis. The Standard impacts on two accounting policies – Financial Instruments and Fair Value Measurement.

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

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

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

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

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

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

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

Background documents

Code of Practice on Local Authority Accounting 2018/19.

Relevant web links

Accounting Policies Listed in the Code of Practice for Local Authorities 2018/19

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

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS) and Statutory guidance issued under Section 12 of the 2003 Local Government Act.

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

Accruals of Income and Expenditure

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

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

Cash and Cash Equivalents

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

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

Charges to Revenue for Non-Current Assets

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

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

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

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

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

Council Tax and Non-Domestic Rates

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

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

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

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

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

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

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2019. The estimate for the 2005 and 2010 valuation lists have been calculated using the Valuation Office (VO) ratings list of appeals and the analysis of successful appeals to date. The appeals for the 2017 valuation list under the new Check, Challenge and Appeal process are based on the Government's allowance for appeals included in the multiplier of 2.1p.

Employee Benefits

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

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

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept

voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring.

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

<u>Post-Employment Benefits</u>

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

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

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

- The liabilities of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of **3.2%** (based on the indicative rate of return on high quality corporate bonds).

- The assets of Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

    - Quoted securities professional estimate.
    - Unquoted securities current bid price.
    - Unitised securities current bid price.
    - Property market value.

- The change in the net pensions liability is analysed into the following components:

  Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Net interest on the net defined benefit liability (asset), ie the net interest cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by apply the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Actuarial gains or losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

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

<u>Discretionary Benefits</u>

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

Events after the Balance Sheet Date

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

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Financial Instruments

Financial Liabilities

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are derecognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

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

Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

The Code allows for three classes of financial assets:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI).

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in the Code, and is determined at the time of initial recognition. In addition, the Council has elected to classify as FVOCI certain equity investments held for strategic purposes.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments (bank deposits and Certificates of Deposit).

After initial recognition, these financial assets ae measured at amortised cost using the effective interest method, less an impairment loss allowance. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

The Council has made loans, as part of its policy of homelessness prevention, at less than market rates (soft loans). When such loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in al lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Financial Assets at Fair Value through Other Comprehensive Income

Financial assets measured at FVOCI are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are the same as if the asset was classified at amortised cost, but the asset is held on the balance sheet at fair value; the resulting difference is taken to the Financial Instruments Revaluation Reserve.

In addition, The Council has elected to classify its investment in the CCLA Local Authorities' Property Fund under this category. Dividends are accrued to the Financing Income and Expenditure line in the CIES when the Council's right to receive payment has been established. The asset is held on the balance sheet at fair value with the difference between cost and fair value taken to the Financial Instruments Revaluation Reserve.

Financial Assets at Fair Value through Profit and Loss
All other financial assets are measured at FVPL. They are held on the balance sheet and their fair value and all gains and losses, whether realised or unrealised at taken to the Financing Income and Expenditure line in the CIES.

Impairment
For all financial assets measured at amortised cost or at FVOCI, other than those elected as FVOCI, the Council recognises a loss allowance representing expected credit losses on the financial instrument. The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the other party is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12 month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

Government Grants and Contributions

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

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

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

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

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

Heritage Assets

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

Statues:

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

Art Collection:

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

Other Items:

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

Heritage Assets - General

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets eg where an item has suffered physical deterioration of breakage or where doubts arise over its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment - see page 72 (Impairment) and pages 70 to 73 (Property, Plant and Equipment) in this Summary of Accounting Policies. Any disposals are accounted for in accordance with the general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see pages 70 to 73 (Property, Plant and Equipment) in this Summary of Accounting Policies).

Inventories

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

Investment Property

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

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

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

Joint Operations

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

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements (known as Minimum Revenue Provision or MRP). Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement and also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2018/19 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

Property, Plant and Equipment

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

Recognition

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

De Minimis Level

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

<u>Measurement</u>

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction. Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

<u>Component Accounting Policy for Property, Plant and Equipment</u>

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

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

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

<u>Policy for Componentisation</u>

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

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

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

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

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

A component must:

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

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

Valuation

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

<u>Disposals and Non-current Assets Held for Sale</u>

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

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

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

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

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

Provisions and Contingent Liabilities

Provisions

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

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

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

Contingent Liabilities

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

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

Reserves

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

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

Revenue Expenditure Funded from Capital Under Statute

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

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Lichfield District Council is in a VAT receivable position at year end; the balance outstanding is included in **Note 16** Short Term Debtors.

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PUBLIC SECTOR INTERNAL AUDIT STANDARDS/QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

Lichfield district council
www.lichfielddc.gov.uk

Cabinet Member for Finance & Democratic Services

Date:	27 March 2019
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 report on the Internal Quality Assessment completed to ensure compliance with the Public Sector Internal Audit Standards and the Quality Assurance & Improvement Programme as required by the Public Sector Internal Audit Standards.

2. Recommendations

2.1 That Members endorse:

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

3. Background

3.1 The Public Sector Internal Audit Standards (PSIAS) came in to force on the 1st April 2013. The Standards require that Internal Audit comply with professional best practice and assess themselves against the requirements on an annual basis and that an External Quality Assessment (EQA) should be completed at least every five years. The EQA was completed in 2017 and was reported back to this Committee. The current internal annual assessment against the standards is detailed at **Appendix 1**.

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

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

- Conformance with Definition of Internal Auditing, the Code of Ethics and the Standards;

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

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

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

3.5 Attached as **Appendix 2** is the Quality Assurance & Improvement Programme (QAIP) for the Authority's Internal Audit Service. This gives an overview of the QAIP in place.

Alternative Options	1. None.
Consultation	1. Leadership have been consulted on the PSIAS Assessment and the QAIP.
Financial Implications	1. Risk management processes consider value for money at all times of the process. Failure to manage risks could lead to the Council being faced with costs that could impact on its ability to achieve its objectives
Contribution to the Delivery of the Strategic Plan	1. Internal Audit supports the delivery of priorities in the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. None.
Crime & Safety Issues	1. None.
GDPR/Privacy Impact Assessment	1. None identified in this report.

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

Background documents

Public Sector Internal Audit Standards

Relevant web links

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APPENDIX 1

Public Sector Internal Audit Standards Compliance Overview

Report Type: Scorecard Report
Report Author: Angela Struthers
Generated on: 15 February 2019

Definition of Internal Auditing and Code of Ethics

- Definition of Internal Auditing ✔
- Integrity ✔
- Objectivity ✔
- Confidentiality ✔
- Competency ✔

Performance Standards

1000 – 1322 Attribute Standards

1000 – 1110 Purpose, Authority and Responsibility

- Organisational Independence ✔
- Purpose, Authority, and Responsibility ✔

1110 – 1130 Independence and Objectivity

- Organisational Independence ✔

Independence and Objectivity	✓
Direct Interaction with the Board	✓
Individual Objectivity	✓
Impairment to Independence or Objectivity	✓
1210 – 1230 Proficiency and Due Professional Care	
Proficiency	✓
Due Professional Care	✓
Continuing Professional Development	✓
1300 – 1322 Quality Assuance and Improvement Programme (QAIP)	
Quality Assurance and Improvement Programme (QAIP)	✓
Requirements of the Quality Assurance and Improvement Programme	✓
Internal Assessments	✓
External Assessments	✓
Reporting on the Quality Assurance and Improvement Programme	✓
Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓

Disclosure of Non-conformance	✓
2000 – 2600 Performance Standards	
2000 – 2060 Managing the Internal Audit Activity	
Managing the Internal Audit Activity	✓
Planning	✓
Communication and Approval	✓
Resource Management	✓
Policies and Procedures	✓
Coordination	✓
Reporting to Senior Management and the Board	✓
2070 External Service Provider and Organisational Responsibility for Internal Audit	
External Service Provider and Organisational Responsibility for Internal Audit	✓
2100 – 2130 Nature of Work	
Nature of Work	✓
Governance	✓
Risk Management	✓

Control	✓
2200 – 2240 Engagement Planning	
Planning Considerations	✓
Engagement Objectives	✓
Engagement Scope	✓
Engagement Resource Allocation	✓
Engagement Work Programme	✓
2300 – 2340 Performing the Engagement	
Performing the Engagement	✓
Identifying Information	✓
Analysis and Evaluation	✓
Documenting Information	✓
Engagement Supervision	✓
2400 – 2440 Communicating the Results	
Criteria for Communicating	✓

Qualities of Communications	✓
Errors and Omissions	✓
Use of "Conducted in Conformance with the ISPPIA"	✓
Engagement Disclosure of Non-conformance	✓
Disseminating Results	✓
2450 Overall Opinions	
Overall Opinions	✓
2500 Monitoring Progress	
Monitoring Progress	✓
2600 Resolution of Senior Management's Acceptance of Risks	
Communicating the acceptance of risk	✓

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Internal Audit Services
Quality Assurance & Improvement Programme

1 Introduction

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

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

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

The QAIP is reviewed on an annual basis.

2 Internal Assessments

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

<u>Ongoing reviews</u>

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

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

<u>Periodic reviews</u>

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

Periodic assessments will be conducted through:

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

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

External Assessment

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

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

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

Assessment scale

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

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

Reporting on the Quality Program

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

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

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

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

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

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INTERNAL AUDIT CHARTER & PROTOCOL

Cabinet member for Finance & Democratic Services

Date:	27 March 2019
Agenda Item:	6
Contact Officer:	Angela Struthers
Tel Number:	01543 308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To advise Members of the proposed Internal Audit Charter and Protocol for the 2019/20 financial year.

2. Recommendations

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

3. Background

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

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

3.3 The Internal Audit Protocol supports the charter and gives detail as to the protocol of Internal Audit. It ensures that a consistent approach is applied to all audit work – including follow ups, establishes a timetable for management to respond to audit reports, and details reporting protocol within the Authority. The Internal Audit Protocol is attached as **Appendix 2**. Changes made to the Protocol include deleting the requirement for the issue of a memo in certain circumstances. After the completion of all work, a final audit report will be issued. This ensures that all data is captured on the audit software package. Report distribution is to be extended to all Members of the Audit & Member Standards Committee to ensure that all Members of the Committee are aware of the assurance levels given at the completion of the audit.

Alternative Options	1. None.
Consultation	1. The report has been discussed and agreed with the Council's S151 Officer.
Financial Implications	1. None arising from this report.
Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations
Equality, Diversity and Human Rights Implications	1. None arising from this report.
Crime & Safety Issues	1. None arising from this report.
GDPR/Privacy Impact Assessment	1. None identified in this report.

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

Background documents

Relevant web links

APPENDIX 1

INTERNAL AUDIT CHARTER

Angela Struthers Audit Manager	March 2019

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INTERNAL AUDIT CHARTER

Document Status: Draft

Originator: A Struthers

Updated: A Struthers

Owner: A Struthers

Version: 01.01.04

Date: 15/02/2019

Deleted: 3

Deleted: 29/01/2018

Document Location

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

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

Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1st draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2018	1.01.04	Annual review

Approvals

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

Document Review Plans

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

Distribution

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

CONTENTS PAGE

1 Definition of Internal Auditing

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

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

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

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

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

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

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

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

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

2 Mission Statement of Internal Audit

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

3 Purpose and Statutory Requirements

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

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

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

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

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

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

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

4 Objectives

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

It does this by:

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

5 Role and Scope of Work

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

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

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

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

Internal audit operate in an advisory capacity to:

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

The CAE is responsible for:

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

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

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy
- Evaluate preventative and detective controls
- Review control weaknesses that led to the fraud
- Review of the fraud risk assessment
- Provide support in the ethical and anti-fraud and corruption culture
- Share learning

- Champion the development of counter fraud capability
- Receive whistleblowing referrals
- Use data analytics to identify fraud
- Review of NFI matches
- Lead on a fraud and corruption risk assessment
- Develop the counter fraud and corruption strategy
- Undertake investigations

6 Proficiency and Due Professional Care

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

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

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

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

Internal Auditors will exercise due professional care by considering the:

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

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

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

7 Authority

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

8 Organisation

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

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

9 Independence and Objectivity

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

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

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

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

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

10 Internal Audit Plan

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

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

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

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

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

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

11 Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

Deleted: to the Head of Finance & Procurement & Head of Paid Service . A summary of the internal audit results will be communicated to the Board

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

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

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

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

12 Quality Assurance and Improvement Programme

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

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

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

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

Signed by

Chief Audit Executive (Audit Manager)

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

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APPENDIX 2

Lichfield district council

www.lichfielddc.gov.uk

INTERNAL AUDIT PROTOCOL

Angela Struthers **Audit Manager**	**March 2019**

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LICHFIELD DISTRICT COUNCIL

INTERNAL AUDIT PROTOCOL

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INTERNAL AUDIT PROTOCOL

Introduction

The purpose of this protocol is to:

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

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

Planning an Audit

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

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

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

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

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

Audit Approach

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

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

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

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

Interim Reports

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

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

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

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

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

Report Presentation

All assignments will be reported as a formal report with an executive summary.

Report Content

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

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

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

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

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a) Formal report with an executive summary - used for routine or major audits.¶
¶
Memorandum or letter - used when the report is relatively short, or the matters raised are of a minor nature.

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

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

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

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

1. Adversely affects the Annual Governance Statement;
2. Results in significant loss of funds or assets;
3. May lead to service delivery failures which could adversely affect the Council's reputation;
4. Shows non-compliance with statutory requirements, the Council's Constitution, Codes or Policies and or any Cabinet approved initiatives;
5. Changes the effectiveness of key controls;

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6. Significant opportunity exists for real gains in processing efficiency;
7. Poor cost controls or potential for significant savings and/or revenue generation;
8. Significant impact environmentally, socially or economically.

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

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

Consultations

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

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

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

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

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

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

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

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

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

Finalisation of Report

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

Management Sign Off Of Report

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

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

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

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

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

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

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

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

Customer Satisfaction Questionnaire

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

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

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

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

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

Report Distribution

Reports will be distributed electronically as follows:

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

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

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

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

Risk Registers

Any findings/recommendations identified as 'high risk' should be added to the relevant service/departmental risk register. This is the responsibility of the risk register owner.

Follow Up Reviews

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

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

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

A draft report will be issued to the Manager and Head of Service detailing the outcome of the follow up review together with an updated action plan and a revised ov erall audit opinion.

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual Report to the Audit & Member Standards Committee

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

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

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

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

APPENDIX A

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

Managers

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

Heads of Service

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

Chief Executive/Directors

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

S151 Officer

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

Monitoring Officer

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

HR Manager

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

External Auditor

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

Leader

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

Cabinet Members

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

Audit & Member Standards Committee

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- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification if management do not respond to internal audit reports.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review and the second follow up review.
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Director/designated officer would attend in order to answer any questions that may be raised.
- Opportunity to use the audit report as a catalyst to a specific piece of work to be undertaken
- Receive progress reports, based on the individual audit reports issued within the period.
- Receive annual audit report.

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INTERNAL AUDIT PLAN 2019/20

Cabinet Member for Finance & Democratic Services

Date:	27 March 2019
Agenda Item:	7
Contact Officer:	Angela Struthers
Tel Number:	01543308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To consider the 2019/20 Work Programme of the Internal Audit Section.

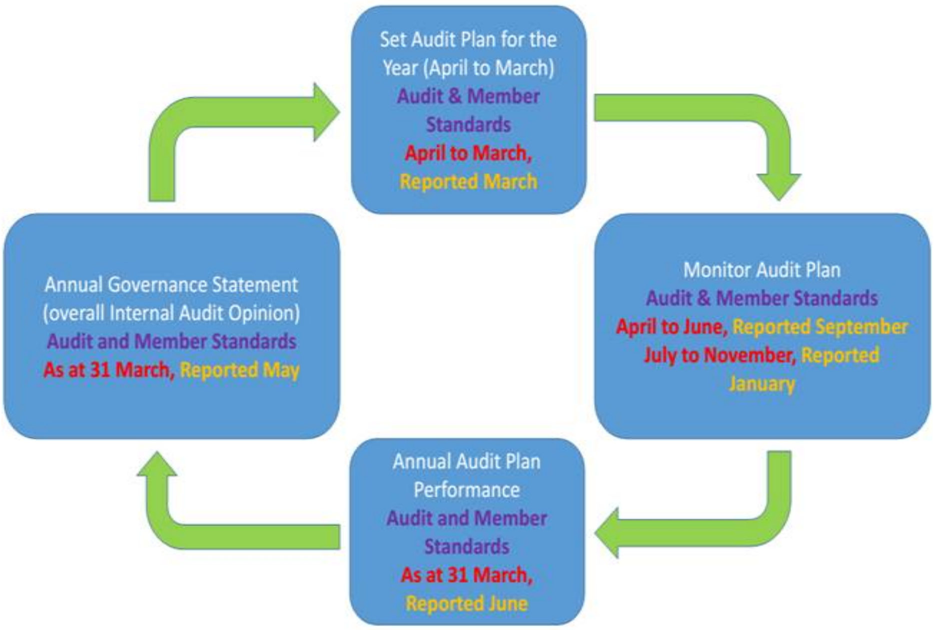
2. Recommendations

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

3. Background

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

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



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

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

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

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

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

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

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

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

Alternative Options	1. None.
Consultation	1. Leadership Team has been consulted regarding the inclusion of the audit reviews in the Annual Planned Work Programme.
Financial Implications	1. Aspects of the internal audit process are concerned with value for money.
Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an adequate and effective system of internal control in accordance with the proper practices in relation to internal control. .
Equality, Diversity and Human Rights Implications	1. None.
Crime & Safety Issues	1. None

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

Background documents

Accounts and Audit Regulations 2015
Financial Procedures Rules

Relevant web links

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APPENDIX 1

Audit Plan 2019/20	Plan No of Days	Comment
Key Financial Systems		
Sundry debtors	10	Assurance on new system - procurement, testing
Council Tax	10	System based
	20	
Other work committed		
Fraud Awareness/Proactive Fraud Work	20	
Pensions Assurance work	5	Annual assurance
National Fraud Initiative	5	
Annual Governance Statement	1	
Follow up Reviews	32	
Risk Management	12	
HB Memo of Understanding	4	Annual assurance
DFG's	5	Annual assurance
Consultancy/working groups	33	
	117	
Finance & Procurement		
Joint working/SLA's	10	System based
Property Investment Strategy	10	System based
LA Trading Company	12	System based
VAT	10	System based
Contracts - procurement	10	System based
	52	
Legal, Properrty & Democratic Services		
RIPA	12	System based
Ethics	10	Risk based
Property Leases & Charges	10	System based
Legal Compliance	12	Risk based
Committee Reporting	10	System based
	54	
Corporate Services		
Performance Management	12	System based
Equalities	10	System based
Mobile phones	10	System based
Cyber security	10	IT Audit
Workforce development	10	Risk based
Health & Safety	10	Risk based
IT Governance	10	IT Audit
	72	
Revenues, Benefits & Customer Services		
CRM application	10	System based
	10	

RegulatoryServices, Housing & Wellbeing		
Affordable Housing	12	Risk based
Safeguarding - incl Modern Slavery	10	System based
Taxi Licences	10	System based
Civil Contigencies	10	Risk based
Community Safety/ASB	10	Risk based
	52	
Development Services		
Countryside management & bio diversity	10	Risk based
	10	
Leisure & Operational Services		
Parks management	10	Risk based
Leisure contract	10	Risk based
Street Cleansing	10	Risk based
	30	
Economic Growth		
CCTV	10	Risk based
Tourism	10	system based
Spatial Planning Policy	10	Risk based
	30	
Total number of days	**447**	

Audit Progress Report and Sector Update

Lichfield District Council
Year ending 31 March 2019

March 2019

Agenda Item 9

Contents

Introduction

Phil Jones

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Engagement Manager

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This paper provides the 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 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.

PSAA Contract Monitoring

Lichfield District Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at March 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork includes:

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

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 28 May with findings reported to you in our Audit Findings Report. We will present our report at the July Audit Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

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

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

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

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

Details of our initial risk assessment were included in our Audit Plan. We identified two significant risks:

- Termination of the Friarsgate development agreement
- Financial sustainability

we are in the process of carrying out our VfM work.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We will agree our overall project plan for completing this work with officers.

Meetings

We meet regularly with Finance Officers 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. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan 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.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Included in this report
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plan presented to the Audit Committee in January 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Results of Interim Audit Work

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Review of information technology controls	We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Trust's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Trust's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach. During our year end visit we will undertake detailed testing on journal transactions recorded for the year.
Early substantive testing	We have performed substantive testing on transactions for the first nine months of the year across the Trust's revenues and expenditures.	No issues have been identified in our early substantive testing. We will top-up this testing during our final accounts visit to ensure that sufficient work is performed over the full-year balances.

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Sector Update

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 by clicking on the logos below:

Public Sector

Local government

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

Page 92

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

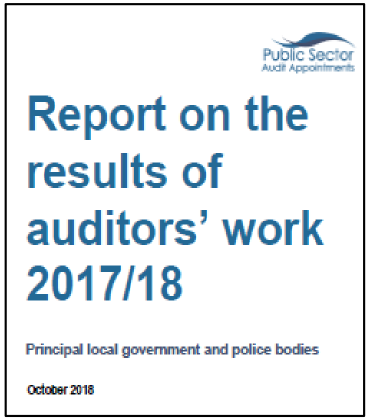
The report is available on the PSAA website:

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

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?


Public Sector Audit Appointments

Report on the results of auditors' work 2017/18

Principal local government and police bodies

October 2018

National Audit Office – Local auditor reporting in England 2018

Page 93

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

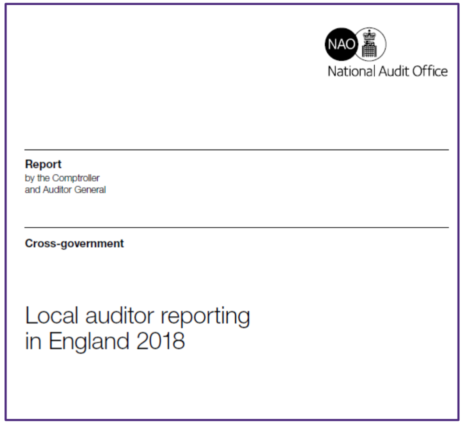
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/


NAO
National Audit Office

Report
by the Comptroller
and Auditor General

Cross-government

Local auditor reporting
in England 2018

NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?

National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

• maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and

• ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

https://www.nao.org.uk/report/local-authority-governance-2/

NAO Report

Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?


NAO National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Local authority governance

National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes.* This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017).* The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

• supporting local authorities to produce plans for how the supply of new homes will meet need in their area;

• supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and

• working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

• the process of setting the need for new homes;

• the reductions in local authority capability;

• the under-performing Planning Inspectorate; and

• failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

https://www.nao.org.uk/report/planning-for-new-homes/#

NAO National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Planning for new homes

NAO Report

Challenge question:

Has your Authority got a robust plan in place to deliver the additional houses needed over the next five years?

CIPFA – Financial Resilience Index plans revised

Page 96

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a "suite of indicators" following a consultation with the sector.

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 put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the "unprecedented level of interest" in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more "forward-looking" assessment and raised fears over the possibility of "naming and shaming" councils.

CIPFA chief executive Rob Whiteman said with local government facing "unprecedented financial challenges" and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

"Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions," he said.

"The tool will sit alongside CIPFA's planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances."

CIPFA is now planning to introduce a "reserves depletion time" category as one of the indicators. This shows the length of time a council's reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that "generally most councils have either not depleted their reserves or their depletion has been low".

"The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories," it said.

It also highlighted the broad support from the sector for the creation of the index. "There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern," it said.

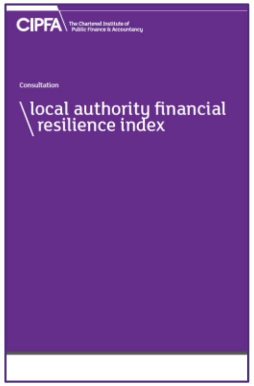
"Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication."

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Has your Head of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the ‘expectation gap’ in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What’s the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports**: ‘The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money’
- **Other powers and duties**: implementing public interest reports in addition to VFM
- **Restricted role of questions and objections**: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance**: ‘if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance’
- **Audit committees not consistently effective**: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees**: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules**: new independence rules don’t allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**
- **Increased auditor liability**: an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

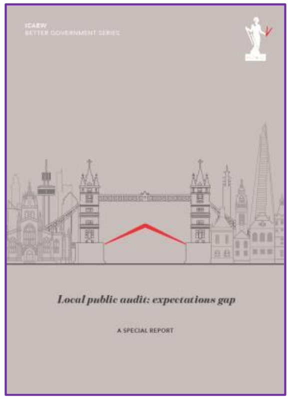
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO’s want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/

Brexit

Challenge question:

How well advanced are your Authority's plans for Brexit?

Links

Grant Thornton

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

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

National Audit Office

https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/

https://www.nao.org.uk/report/local-authority-governance-2/

https://www.nao.org.uk/report/planning-for-new-homes/#

https://www.nao.org.uk/report/pressures-on-childrens-social-care/

Ministry of Housing, Communities and Local Government

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

Public Sector Audit Appointments

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

CIPFA

https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our team

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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

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"I have found Grant Thornton to be very impressive…..they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

Grant Thornton

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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		√				
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	√					

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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
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 to include Financial Procedure rules
GDPR/Data Protection Policy						Approved at previous meeting and Cabinet 01/05/18
Annual Report of the Monitoring Officer - Complaints			√			To be reported November 2019
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	√		√			

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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