



16 March 2018

Dear Sir/Madam

A meeting of the Governance, Audit and Standards Committee will be held on Monday, 26 March 2018 in the New Council Chamber, Town Hall, Beeston commencing at 7.00pm.

Should you require advice on declaring an interest in any item on the agenda, please contact the Monitoring Officer at your earliest convenience.

Yours faithfully

Chief Executive

To Councillors: E H Atherton (Vice Chair) S A Bagshaw
 T P Brindley J W Handley (Chair)
 J C Goold J M Owen
 J W McGrath K E Rigby
 J C Patrick A W G A Stockwell

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest in any item on the agenda.

3. MINUTES

PAGES 1 - 3

The Committee is asked to confirm as a correct record the minutes of the meeting held on 29 November 2017.

4. ANNUAL AUDIT LETTER 2016/17

The Council's external auditors KPMG will make a presentation to the Committee on their position regarding the annual audit letter for 2016/17.

5. ANNUAL REPORTS ON GRANTS AND RETURNS 2016/17

The Council's external auditors, KPMG, have issued an Annual Report on grants and returns work 2016/17. The report is circulated separately with the agenda.

The external auditors will be present at the meeting to present the document.

6. EXTERNAL AUDIT PLAN 2017/18

This report provides the Committee with an overview on progress in delivering KPMG's responsibilities as the Council's external auditors. They will also present their plan for the external audit 2018/19 at the meeting. The report is circulated separately with the agenda.

7. STATEMENT OF ACCOUNTS 2017/18 – ACCOUNTING POLICIES PAGES 6 - 23

To provide members with any updates made to the Council's accounting policies in relation to the production of the 2017/2018 financial statements.

8. STATEMENT OF ACCOUNTS 2017/18 – UNDERLYING PENSION ASSUMPTIONS PAGES 24 - 25

To provide members with information regarding the assumptions made by the pension fund actuary in calculating the International Accounting Standard 19 - Employee Benefits figures to be reported in the 2017/2018 Statement of Accounts.

9. THE CODE OF CONDUCT AND THE ROLE OF THE MONITORING OFFICER

An introduction and presentation by the Council's Interim Monitoring Officer.

10. INTERNAL AUDIT PROGRESS REPORT PAGES 26 - 43

To inform the Committee of the recent work completed by Internal Audit.

11. CORPORATE GOVERNANCE ARRANGEMENTS PAGE 44

To inform Members of the statutory obligations regarding corporate governance and the approach to be taken in the production of the Annual Governance Statement for inclusion in the Council's published financial accounts for 2017/18.

12. ANNUAL COUNTER FRAUD REPORT 2017 PAGES 45 - 51

To provide the Committee with the annual report on counter fraud and corruption and money laundering prevention activity in 2017.

13. INTERNAL AUDIT REVIEW OF EFFECTIVENESS 2017/18 PAGES 52 - 57

To approve the review of the effectiveness of the system of internal audit for 2017/18 and the actions required to achieve full compliance with the Public Sector Internal Audit Standards.

14. INTERNAL AUDIT PLAN 2018/19 PAGES 58 - 66

To provide the Committee with details of the Internal Audit Plan for 2018/19.

15. REVIEW OF STRATEGIC RISK REGISTER PAGES 67 - 73

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

16. WORK PROGRAMME PAGE 74

To consider items for inclusion in the Work Programme for future meetings.

GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

29 NOVEMBER 2017

Present: Councillor J W Handley, Chair

Councillors: E H Atherton
S A Bagshaw
T P Brindley
J C Goold
J M Owen
P J Owen (substitute)
J C Patrick
A W G A Stockwell

Apologies for absence were received from Councillors R I Jackson and K E Rigby.

18. DECLARATIONS OF INTEREST

There were no declarations of interest.

19. MINUTES

The minutes of the meetings held on 25 September 2017 and 29 September 2017 were confirmed and signed.

20. EXTERNAL AUDIT REPORT 2016/17 – MANAGEMENT RESPONSES UPDATE

The External Audit Report 2016/17, presented by the external auditors to the Committee on 29 September 2017, followed their work on the Council's 2016/17 accounts. This included nine recommendations intended to strengthen the Council's financial reporting processes whilst ensuring the quality and accuracy of the financial statements and that they were produced in a timely manner.

Members noted the report and were informed that the external auditors had issued an unqualified audit opinion on value for money and the accounts. The Committee requested clarification on whether the journals were created and approved by the same individuals. It was explained that journals were a method by which items were moved from one code in the general ledgers to another. There was confidence that sufficient controls were in place to give the necessary reassurance.

21. APPOINTMENT OF EXTERNAL AUDITORS FROM 2018/19

The Committee noted the progress in appointing external auditors to audit the accounts of Broxtowe Borough Council for five years from 2018/19. Public Sector Audit Appointments (PSAA) announced on 14 August 2017 that Mazars LLP had been successful in winning a contract in the procurement exercise. PSAA proposed appointing Mazars as the Council's external auditors to replace the current external auditors KPMG.

22. REVIEW OF PARLIAMENTARY BOUNDARIES

The Boundary Commission for England (BCE) had published its revised proposals for parliamentary constituencies. Although representations were made to the BCE setting out the Council's concerns about the original boundaries, these were not taken into consideration.

Disappointment was expressed that under the revised proposals, wards within Broxtowe Borough remained split between three different parliamentary constituencies. It was stated that if the Council had submitted an entry for the first consultation date it would have been more influential and could have resulted in a different outcome. Officers responded that the Council's concerns were submitted to the second BCE consultation deadline.

It was suggested that the response be reinforced to include the 100th anniversary of the explosion at the National Shell Filling Factory at Chilwell should be used as an example of the necessity of keeping the Borough together.

RESOLVED that appendix 2 of the report form the Council's response to the Boundary Commission for England's revised parliamentary boundaries.

23. REVIEW OF THE INTERNAL AUDIT CHARTER

The Public Sector Internal Audit Standards came into force from April 2013. The Standards and the sector specific Local Government Application Note developed by the Chartered Institute of Public Finance and Accountancy were effective for public sector internal audit service providers in the United Kingdom and are mandatory for all principal local authorities.

One of the key elements of the Standards was that the internal audit activity must be formally defined in an Internal Audit Charter and that this must be approved by the respective audit committee. The previous Internal Audit Charter was approved by the General Purposes and Audit Committee on 9 December 2013.

RESOLVED that the revised Internal Audit Charter be approved.

24. INTERNAL AUDIT PROGRESS REPORT

The Committee received a report informing of the work of Internal Audit. The followings points were amongst issues raised and discussed:

- Disabled Facilities Grants was disregarded as discussions determined that the necessary monies had been paid.
- The outcome of the financial appraisal of a prospective tenant for a lease unit in Beeston Square resulted in the decision to mitigate the risk of non-payment. There would be a further report to the Committee on the subject if necessary.
- An action plan for Capital Works had been agreed and actioned.
- Improvements had been made with regard to planning applications and the need to ensure that the monthly reconciliation of the respective planning systems to the General Ledger was undertaken promptly, although there had been no evidence of a review.
- The review of Treasury Management had identified a need to increase the number of authorised officers in order to improve business continuity arrangements. The Interim Deputy Chief Executive was to be added to the approval list for payments on the banking system.

Members requested updates on the information by email or further reports to the Committee where appropriate.

RESOLVED that the revisions to the Internal Audit Plan for 2017/18 be approved.

25. REVIEW OF STRATEGIC RISK REGISTER

Following the report to the last meeting of the Committee, and in accordance with the timescales set out in the Risk Management Strategy, the Strategic Risk Management Group met on 17 October 2017 to review the Strategic Risk Register. Members requested clarification over risks being scored so highly with regard to failure to deliver the Housing Revenue Account Business Plan, the failure of strategic leisure initiatives and non-compliance with domestic or European legislation. The Committee was informed that scores could be altered to reflect changes in circumstances.

RESOLVED that the amendments to the Strategic Risk Register and the action plans to mitigate risks, as set out in the appendix to the report, be approved.

26. WORK PROGRAMME

RESOLVED that the Work Programme be approved.

Report of the Interim Deputy Chief Executive

STATEMENT OF ACCOUNTS 2017/2018 – ACCOUNTING POLICIES1 Purpose of report

To provide members with any updates made to the Council's accounting policies in relation to the production of the 2017/2018 financial statements.

2 Introduction

Prior to the completion of the Statement of Accounts 2017/2018, it is considered good practice that members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2018.

The 2017/2018 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code), based upon International Financial Reporting Standards (IFRS).

3 Updates to the statement

The 2017/2018 Code introduces amendments to:

- the reporting of pension scheme transaction costs
- the reporting of investment concentration

These changes do not impact on any policies.

The Council's policy on Financial Instruments (policy x) has been updated in 2017/2018 to incorporate Available for Sale Assets. The Council first acquired assets of this nature during 2016/2017 and the policy has now been updated to reflect how these assets will be managed,

The proposed Accounting Policies for 2017/2018 are set out in the appendix.

4 Financial implications

There are no direct financial costs associated with the accounting policy updates.

Recommendation

The Committee is asked to RESOLVE that the Accounting Policies for 2017/2018 be approved.

Background papers

Nil

APPENDIX

Accounting Policies**(i) General Principles**

The Statement of Accounts summarises the authority's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting 2017/18 supported by International Financial Reporting Standards (IFRS), International Accounting Standards and statutory guidance issued under section 12 of the Local Government Act 2003.

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.

The Statement of Accounts has been prepared on a going concern basis. As required by IAS 1, it has been assumed that the Council will continue in operation for the foreseeable future.

(ii) 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:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- 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. A minimum value of £500 is applied to all such debtor and creditor accruals. 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.

An exception to the above relates to electricity and other similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

As regards private sector housing benefits, payments can relate to periods partly in advance and partly in arrears. The cut-off date applied to such payments is as near to the year end as possible and ensures consistency with the figures used to calculate government subsidy received on such payments.

Council housing rents become chargeable on the Monday of each week for the week ahead. Rent income is accounted for up to and including the last Monday in the financial year. This can therefore include an element relating to the following year for which no adjustment is made.

(iii) Acquisitions and Discontinued Operations

The nature of any acquired or discontinued operations identified during the year, together with details of any outstanding liabilities in respect of any discontinued operations will be disclosed within Note 30 of the Statement of Accounts.

(iv) 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 mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

(v) Exceptional Items

When items of income and expense are material, their nature and amounts is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

(vi) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the

effects of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. See note 2 for more details.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See note 5b for more details.

(vii) 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

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement, but there were accumulated revaluation gains in the Revaluation Reserve for that particular asset, an amount up to the value of that loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

The Council is not required to raise council tax or council housing rents 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 authority in accordance with statutory guidance. This is known as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore reversed out of the General Fund (and Housing Revenue Account (HRA)) and replaced by the MRP. This is completed with an adjusting transaction with the Capital Adjustment Account within the Movement in Reserves Statement for the difference between the two. This ensures that depreciation, revaluation and impairment losses and amortisations have no overall effect on council tax or housing rent levels.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require local authorities to approve an MRP policy at the beginning of each financial year on setting aside a sum of money from revenue for the repayment of principal on outstanding debt. From 2012/13 onwards the Council has approved a policy such that, for capital expenditure incurred before 1 April 2008, the MRP is based on 4% of the authority's Capital Financing Requirement for the General Fund. For General Fund capital expenditure incurred after 1 April 2008, the MRP is based upon the estimated life of those assets where the financing was

provided by borrowing. The Council has also decided that no voluntary provision for the repayment of debt relating to the HRA should be made in 2017/18.

The Council is responsible for the management of loan debt in respect of assets transferred to other authorities after reorganisation in 1974. Repayments are made to the Council by the relevant other authorities on the basis of a 5% increase in principal per annum.

(viii) 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 salaries, paid annual leave and sick leave and are recognised as an expense for service in the year in which employees render service to the Council.

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 when the Council is demonstrably committed to the termination of the employment of an officer or making an offer to encourage voluntary redundancy.

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

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Nottinghamshire County Council. The scheme is a defined benefit scheme in that it provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

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

- The liabilities of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. 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 that reflects the time value of money and the characteristics of the liability.
- The assets of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value

The change in the net pension's 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 as a result of a scheme amendment or curtailment 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 or asset (i.e. the net interest expense for the Council) – the change during the period in the net defined liability or 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 applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period after taking into account any changes in the net defined benefit liability or 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 or asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Actuarial gains and 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 Nottinghamshire County Council 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 and Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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 any 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 and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The authority 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.

(ix) 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.

(x) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument, and are initially assessed at fair value and are carried at amortised cost. Annual charges to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

All borrowings shown in the Balance Sheet consist of the outstanding principal repayable plus accrued interest. Annual interest is charged to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account, regulations allow the impact on the General Fund and Housing Revenue Account Balance respectively to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account to the net charge required against the General Fund or Housing Revenue Account Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for Sale Assets – assets that have a quoted market price and/or do not have any fixed or determinate payments

(i) Loans and Receivables

Loans and receivables include long term debtors, debtors (sometimes referred to as accounts receivable), payments in advance, investments and cash either in hand or at the bank. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

The Council has provided a number of “soft loans” to employees at less than market rates for the purchase of motor vehicles. These should be correctly shown in the Balance Sheet at fair value. However, the value of these loans is not considered to be material. Accordingly the value as shown in the Balance Sheet represents the value of any loans made less any repayments that have been received.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

(ii) Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the authority. Assets are maintained in the Balance Sheet at fair value.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

(xi) 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 to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired by 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.

Community Infrastructure Levy

The Council has not charged a Community Infrastructure Levy (CIL) in 2017/18. In October 2015 members agreed to receive a report on options for preparing a CIL charging schedule once work on the Part 2 Local Plan was sufficiently progressed.

(xii) Heritage Assets

The Council's Heritage Assets consist of the DH Lawrence Birthplace Museum building and a painting by Dr Ala Bashir, a respected sculptor and painter, of DH Lawrence which is linked to his most famous novel, Lady Chatterley's Lover. The museum building is held for its historical and artistic significance and to promote knowledge and culture. The DH Lawrence Birthplace Museum is recognised and measured (including the treatment of depreciation and revaluation gains and losses) in accordance with the Authority's accounting rules on property, plant and equipment. The building has been revalued at 31 March 2017 in accordance with the Council's 5 year revaluation cycle for such assets. The painting was donated to the Council in 2008.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. For example, this may be where the asset has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

(xiii) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is

restricted to that incurred during the development phase. Research expenditure cannot be capitalised.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 sales proceeds greater than £10,000) the Capital Receipts Reserve.

(xiv) Interests in Companies and Other Entities

The authority had no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. See policy xvii below.

(xv) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost. Whilst the Code of Practice on Local Authority Accounting 2017/18 requires inventories to be shown at the lower of cost and net realisable value, a departure from this is permitted under IFRS due to:

- the value of inventories not being considered to be material
- the cost of analysing inventories between cost and net realisable value outweighing the value to the user of the accounts

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

(xvi) 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 re-valued 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 and expenditure line in the Comprehensive Income and Expenditure Statement 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.

(xvii) Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Whilst the Council does not strictly have any jointly controlled operations and jointly controlled assets in line with the definitions above, the Council has a 50% interest in the Bramcote Bereavement Services Joint Committee with the other 50% relating to Erewash Borough Council. Whilst the Bramcote Bereavement Services Joint Committee is a separate entity in its own right, its decision making and operational arrangements fulfil many of features associated with a jointly controlled operation. Therefore the Council recognises 50% of the assets and liabilities of the Joint Committee on its Balance Sheet and debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate.

(xviii) 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 upon the use of specific assets.

The Council as Lessee**(i) 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. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. All assets acquired through finance leases have been fully written down at the Balance Sheet date.

(ii) 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.

The Council as Lessor**(i) 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.

(ii) 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.

(xix) Overhead 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 (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 authority’s status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two cost categories are defined in the Service Reporting Code of Practice and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Expenditure on Continuing Services.

(xx) 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.

The Council operates a de minimis level in valuing assets. Any assets valued at less than £5,000 are excluded from Balance Sheet values.

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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the

donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- 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) are involved, depreciated historical cost basis is used as a proxy for fair value.

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. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from a reversal of a loss previously charged to a service).

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.

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.

Depreciation

Depreciation is provided on all property, plant and equipment assets held by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight line allocation over the useful life of the property
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset. New specialist vehicles may also have an additional depreciation provision made from the year following acquisition as advised by a suitably qualified officer.
- Infrastructure - straight line allocation over 40 years

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. This applies particularly in respect of council house dwellings.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the

amount of any previous losses 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 (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

If part of an asset is replaced with a similar identifiable component, the carrying amount of the replaced or restored component is derecognised with the carrying amount of the new component being recognised. Any gain or loss arising from this process is credited or debited to the Comprehensive Income and Expenditure Statement as appropriate.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The Council has committed to a government scheme whereby as from 2012/13 housing capital receipts from right to buy sales can only be used towards new affordable council housing, and within three years of their receipt, otherwise they become payable to the government. The balance of receipts held is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment on council housing 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 or housing rents, 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.

(xxi) Private Finance Initiative and Similar Contracts

The Council has no such contracts in existence.

(xxii) Provisions, Contingent Liabilities and Contingent Assets

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. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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 as 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. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

A provision exists in relation to outstanding insurance claims, based upon information supplied by the Council's insurers. All insurance claims transactions during the course of the year are passed through the provision with the appropriate charge being made against the service lines within the Comprehensive Income and Expenditure Statement.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it 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. There are a number of contingent liabilities at the current time which are set out in more detail at note 45 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. Further details can be found in note 46 to the accounts.

(xxiii) 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 or Housing Revenue Account 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 or Housing Revenue Account balance in the Movement in Reserves Statement so that there is no net charge against council tax or housing rents for the expenditure.

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

(xxiv) 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 or Housing Revenue Account balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax or council house rents.

(xxv) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

(xxvi) Collection Fund

Billing authorities are required to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates. The Council acts as an agent, collecting and distributing council tax and business rates income on behalf of the major precepting authorities and central government as well as itself.

Non Domestic Rates

From April 2013 the business rates included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. Any difference between the income in the Comprehensive Income and Expenditure Statement and the

estimated share of income is taken to the Collection Fund Adjustment Account and included as an adjusting item in the Movement in Reserves Statement. As the collection of business rates is conducted on an agency basis, there is a debtor or creditor position between the Council and the major precepting authorities and central government.

Council Tax

The Local Council Tax Support Scheme is reviewed by the Finance and Resources Committee prior to the commencement of the financial year and any amendments are approved by full Council.

Report of the Interim Deputy Chief Executive

STATEMENT OF ACCOUNTS 2017/2018 – UNDERLYING PENSION ASSUMPTIONS1. Purpose of report

To provide members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2017/2018 Statement of Accounts.

2. Introduction

IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date. The proposed assumptions for 2017/18 are shown the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2016. The Actuary's final report for 2017/2018 is due to be received on 9 April 2018. All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern

Recommendation

The Committee is asked to NOTE the report.

Background papers

Nil

APPENDIX

Proposed Financial Assumptions for 2017/2018

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used and this year's proposed assumptions are listed below:

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a negative return of around 8% in the year to 31 March 2018 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 1.0%.
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, then they increase in line with CPI plus 1.5%. Due to expected changes in pay award proposals Broxtowe Borough Council has asked that these standard assumptions be used in place of the 1% to 2020 assumptions that had been adopted in the previous financial year.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Broxtowe may be different from the assessment below.

Changes in Actuary's Assumptions upon Employer's Liability from 2016/201

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 12.5	12.5 to 17.5	17.5 to 22.5	Greater than 22.5
Effect of change in discount rate on employer's liability	Decrease of up to 5%	Between a decrease of 1% and an increase of 6%	Increase between 4% and 8%	Increase between 7% and 8%
Change in inflation on employer's liability	Between a decrease of 1% and an increase of 1%	Decrease between 1% and 4%	Decrease between 5% and 8%	Decrease of 10%
Overall impact	Decrease between 1% and 4%	Between a decrease of 1% and an increase of 2%	Decrease of 1%	Decrease between 3% and 4%

Report of the Chief Audit and Control Officer

INTERNAL AUDIT PROGRESS REPORT1. Purpose of report

To inform the Committee of the recent work completed by Internal Audit.

2. Detail

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

A summary of the reports issued since April 2017 and progress against the agreed annual Internal Audit Plan for 2017/18 is included at appendix 1. A brief narrative of the work completed by Internal Audit since the previous meeting of this Committee is also summarised at appendix 1.

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the respective audits. Details of this follow-up work is included at appendix 2. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Further progress reports will be submitted to each future meeting of this Committee. A final report will be prepared for Members' consideration after the end of the financial year detailing the overall performance and productivity of Internal Audit for 2017/18.

Recommendation

The Committee is asked to NOTE the report.

Background papers

Nil

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE APRIL 2017

No	Audit Title	SIA	Report Issued	Opinion	Actions		IA Plan 2017/18 Complete
					Significant	Merits Attention	
27	Key Reconciliations 2016/17	WL	20/04/17	Substantial	0	1	-
28	Rent Arrears – Evictions 2016/17	WL	21/04/17	Substantial	-	-	-
29	Erewash BC - Risk Management	CF	21/04/17	n/a	-	-	-
30	Rents 2016/17	WL	24/04/17	Substantial	0	0	-
31	Bank Reconciliation 2016/17	WL	24/04/17	Substantial	0	0	-
01	Erewash BC – Health and Safety	CF	09/05/17	n/a	-	-	-
32	Flexi-time Management 2016/17	CF	11/05/17	Reasonable	1	2	-
33	Information Management 2016/17	CF	12/05/17	Reasonable	0	4	-
34	Shared Services 2016/17	CF	23/05/17	Substantial	0	0	-
35	Benefits 2016/17	CF	24/05/17	Reasonable	1	1	-
36	Beeston Square 2016/17	WL	05/07/17	Reasonable	0	3	-
02	Capita OPEN Housing System Users	WL	10/07/17	n/a	-	-	-
37	Chilwell Olympia 2016/17	WL	20/07/17	Substantial	0	0	-
03	Cash Receipting	CF	31/07/17	Reasonable	1	3	3%
38	Sundry Debtors 2016/17	CF	10/08/17	Reasonable	1	0	-
04	Local Auth. Housing Statistics Return	WL	08/09/17	Substantial	0	0	-
05	Asset Register (Estates Management)	CF	15/09/17	Reasonable	1	2	6%
06	Creditors and Purchasing	WL	15/09/17	Reasonable	1	2	8%
07	Land Charges	CF	15/09/17	Substantial	0	0	11%
08	Payroll	WL	15/09/17	Reasonable	1	1	14%
09	Car Parking	CF	15/09/17	Substantial	0	1	17%
10	Disabled Facilities Grants	WL	19/10/17	Substantial	0	0	19%
11	Prospective Tenant at The Square	CF	26/10/17	n/a	-	-	-
12	Willow Court Social Fund	WL	02/11/17	n/a	-	-	-
13	Capital Works	CF	10/11/17	Substantial	0	1	22%
14	NNDR	WL	21/11/17	Substantial	0	0	25%
15	Planning Applications and Income	CF	23/11/17	Substantial	0	1	28%
16	Treasury Management	WL	23/11/17	Substantial	0	2	30%
17	Fin App - Replacement CRM System	CF	04/12/17	n/a	-	-	-
18	Housing Repairs	CF	22/01/18	Reasonable	1	2	32%
19	Leisure Membership Scheme (LLL)	CF	22/01/18	Substantial	0	0	35%
20	HiMO Licences	WL	23/01/18	Substantial	0	4	38%
21	Stores	CF	31/01/18	LIMITED	2	1	41%
22	Kimberley Leisure Centre (LLL)	CF	07/02/18	Substantial	0	1	43%
23	Trade Waste	CF	07/02/18	Substantial	0	0	46%
24	Council Tax	WL	20/02/18	Substantial	0	0	49%
25	Key Reconciliations	WL	01/03/18	Substantial	0	0	51%
26	Bank Reconciliation	WL	06/03/18	Substantial	0	0	54%
27	Rents	WL	08/03/18	Substantial	0	0	57%
28	Pre-Eviction Protocol for Rent Arrears	WL	08/03/18	Substantial	0	0	-

REMAINING INTERNAL AUDIT PLAN 2017/18

No	Audit Title	SIA/ Days	Progress	IA Plan 2017/18 Complete
	Financial Resilience	CF	Draft report issued	59%
	Computer/ICT	WL	Draft report issued	62%
	Parks and Grounds Maintenance	WL	Draft report issued	65%
	Gas Safety (Servicing/Maintenance)	CF	Draft report issued	68%
	Choice Based Lettings	CF	Ongoing (Nearing completion)	70%
	Human Resources	CF	Ongoing (Nearing completion)	73%
	Compliance with CDM Regulations	CF	Ongoing (Nearing completion)	76%
	Benefits	WL	Ongoing (Nearing completion)	78%
	Serious and Organised Crime Audit	WL	Commenced	81%
	Sundry Debtors	15	Expected to commence in Q4	84%
	Information Governance (Management)	8	Expected to commence in Q4	86%
	Risk Management/Business Continuity	5	Expected to commence in Q4	89%
	Procurement	10	Expected to commence in Q4	92%
	Corporate Governance	8	Expected to commence in Q4	95%
	Fees and Charges	5	Expected to commence in Q4	97%
	Local Authority Trading Company	5	Expected to commence in Q4	100%

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior managers at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of objectives are adequately managed – the opinion being ranked as either ‘Substantial’, ‘Reasonable’, ‘Limited’ or ‘Little’ assurance;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions, and;
- identify issues of good practice.

The recommendations made by Internal Audit are risk assessed, with the agreed actions being categorised accordingly as follows:

- Fundamental – urgent action considered imperative to ensure that the Council is not exposed to high risks (breaches of legislation, policies or procedures)
- Significant – action considered necessary to avoid exposure to significant risk.
- Merits Attention (Necessary Control) – action considered necessary and should result in enhanced control or better value for money.
- Merits Attention – action considered desirable to achieve enhanced control or better value for money.

Completed Audits

The following audit reports have been issued with key findings as follows:

1. Financial Appraisal of Contractor

Internal Audit reviewed the financial details and accounts of companies expressing an interest to supply the Council with a new Customer Relationship Management System. The result of the appraisal was considered to be satisfactory. The findings and recommendations were reported to the Customer Services Manager and the Business Transformation Officer to enable them to proceed with the tender.

2. Housing Repairs Assurance Opinion – **Reasonable**

Internal Audit reports that the Council has an appropriate framework in place for the administration of operations in respect of Housing Repairs.

There was one ‘Significant’ action relating to the requirement to consider the retendering of a number of external contracts for specialist works and supplies, as follows:

Objectives

Internal Audit sought to ensure that appropriate controls over resource consumption, in particular operative working time/stores items, are in place.

Findings – Overdue Contract Tenders

A review of the current contract register revealed a number of Housing Repairs contracts (including fixed electrical testing, glazing, scaffolding, voids) to be either overdue for tender or approaching the renewal date.

The Housing Repairs Manager is taking a pro-active and prioritised approach to managing this issue, including the completion of some work in-house, assessing available procurement frameworks and reviewing the level of anticipated contract values.

However, there is a clear risk that the Council may fail to comply with tendering regulations and/or fail to demonstrate the achievement of best value for money should these issues remain unresolved in the medium term.

Agreed Action (Significant)

All expired and soon-to-be expiring contracted works will be reviewed and subject to the appropriate tender at the earliest opportunity.

Significant progress has been made in priority areas in terms of contract/ design specification, schedule of rates and consultations on the suitability of tendering through established frameworks. The support of the new Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the new Procurement and Contracts Officer.

Managers Responsible

Interim Senior Housing Manager
Housing Repairs Manager

Target Date: 30 June 2018

The review also indicated further areas for improvement, with two 'Merits Attention (including one 'Necessary Control') actions being proposed in respect of the setting of repairs targets/recording of completion dates and the adoption of a new performance management framework for the Housing Repairs team for implementation in 2018.

The actions were agreed by the Interim Senior Housing Manager and the Housing Repairs Manager.

3. Liberty Leisure – Leisure Membership Scheme Assurance Opinion – **Substantial**

Internal Audit reviewed the systems and procedures operating in respect of the Leisure Membership Scheme. The terms of reference were agreed with the Interim Managing Director prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure.

It is pleasing to report that Liberty Leisure continues to effectively operate the Leisure Membership Scheme. The findings arising from this review did not indicate any significant areas for improvement and a clearance report was issued accordingly.

4. Houses in Multiple Occupancy Licences Assurance Opinion – **Substantial**

Internal Audit completed an inaugural review of Houses in Multiple Occupancy (HiMO) Licences where it was reported that the Council has an appropriate framework in place for the administration of HiMO Licences.

The review did indicate areas for improvement with four 'Merits Attention' actions (including two 'Necessary Control' actions) being agreed as follows:

- Completing a regular reconciliation of income received between the respective systems/registers and the General Ledger
- Initiating follow-up arrangements for information requests about a HiMO licence applicant ("fit and proper" person test)
- Reviewing the cost of the service to determine the appropriate HiMO Licence fee
- Arranging for web-links on the 'gov.uk' website to be updated.

An action plan was agreed by the Head of Public Protection and the Senior Private Sector Housing Officer.

5. StoresAssurance Opinion – **Limited**

Internal Audit proposed two ‘Significant’ actions relating to the need to strengthen the segregation of duties and the requirement to regularly undertake procurement activity in accordance with Contract Standing Orders. These are considered separately below:

Objectives

Internal Audit sought to ensure that the procurement and purchase of stores items is conducted in an appropriate manner; that stores items are issued for use in an appropriate manner; that stocktakes and write-offs are conducted in an appropriate manner.

Findings – Segregation of Duties

There was a lack of segregation of duties with regards to storekeeping. The Chief Storekeeper is solely responsible for tasks which ideally should rest between different individuals, including determining optimum stock levels; purchasing; issues; maintenance of records; and stock-taking and write-off.

Whilst it is acknowledged that tasks are performed with input and assistance from other officers at the Depot, overall operational responsibility rests with the Chief Storekeeper.

Internal Audit is keen to stress that there are no indications whatsoever that the Chief Storekeeper has performed any wrongdoing as a result of this lack of segregation of duties.

Agreed Action (Significant)

A risk-based review of the segregation of duties relating to storekeeping at the Depot has been conducted. The risks highlighted by this audit are assessed as ‘low’ by management who are prepared to accept the risk.

The audit findings are acknowledged. Whilst the risks could be mitigated by employing more officers to support the Stores, the financial constraints on the Council make this level of control prohibitive.

Management is assured by the established control framework in place, with stock lines and levels being actively managed (and reduced where appropriate). Further system development in early 2018 with electronic barcoding will strengthen the management trail with improved reporting capabilities. This system will extend into carried vehicle stocks.

Managers Responsible

Head of Environment
Transport and Stores Manager

Objectives

Internal Audit sought to ensure that the procurement and purchase of stores items is conducted in an appropriate manner

Findings – Procurement of Stores Items

Internal Audit analysed supplier spend and reviewed the contract renewal work schedule maintained by the former Procurement and Technical Officer. This indicated that a number of contracts/supplies where formal tendering or request for quotation activity is necessary are overdue.

This is in breach of the Council's Financial Regulations, in particular Section 5 of Contract Standing Orders, and may mean that the Council is not obtaining best value for money.

Agreed Action (Significant)

Management will review all procurement and purchasing activity relating to Stores with a view to establishing a programme of retendering work to ensure that requirements are met in full.

There will be consideration of using established procurement frameworks for these contracts. The support of the new Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the Procurement team.

Managers Responsible

Head of Environment

Transport and Stores Manager

Target Date: 30 June 2018

The review also indicated a further area for improvement, with one 'Merits Attention 'Necessary Control' action being proposed in respect of maintaining a record of authorised signatories for requisitions. A further observation was made regarding the latest stock take where Internal Audit offered to provide advice prior to finalising the procedures.

The actions were agreed by the Head of Environment, Transport Manager and the Chief Storekeeper. Internal Audit will complete appropriate follow-up work at six months from the date of the audit report and will report back to Committee accordingly

6. Liberty Leisure –
Kimberley Leisure Centre

Assurance Opinion – **Substantial**

Internal Audit reviewed the systems and procedures operating at Kimberley Leisure Centre. The terms of reference were agreed with the Interim Managing Director prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure.

It was pleasing to report that Liberty Leisure has maintained an appropriate framework for the day-to-day administration of operations at Kimberley Leisure Centre. One value-for-money recommendation was made regarding the frequency of cash collections by the security company with a view to improving efficiency and effectiveness. A similar review of collections will be completed for Bramcote Leisure Centre and Chilwell Olympia Sports Centre.

The proposed action was agreed by the Liberty Leisure Managing Director, the Business Development Manager and the Leisure Centre Manager.

7. Trade Waste Assurance Opinion – **Substantial**

Internal Audit sought to ensure that income from the Trade Waste service is correctly invoiced and collected; that businesses are complying with their Duty of Care requirements; and that waste collections are carried out in an efficient manner. It was pleasing to report that management has an appropriate framework in place for the administration of Trade Waste. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

8. Council Tax Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of operations in respect of Council Tax. The review indicated an area for improvement, with one 'Merits Attention - Necessary Control' action being agreed regarding adequate controls being in place to detect and prevent money laundering activity. An action plan was agreed by the Head of Revenues and Benefits Shared Services.

9. Key Reconciliations Assurance Opinion – **Substantial**

Internal Audit sought to ensure that the key reconciliation framework was effective and that processes were completed in a timely and accurate manner. It was pleasing to note that previously agreed actions had been completed. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

10. Bank Reconciliation Assurance Opinion – **Substantial**

Internal Audit is pleased to report that the Bank Reconciliation is effective and that the monthly processes are being completed in a timely manner. It was also pleasing to note that challenges that have affected the Bank Reconciliation processes following the transfer of banking facilities to Barclays Bank and the creation of separate arrangements for Liberty Leisure have been overcome and largely resolved and that the reconciliations are up-to-date in time for the financial year end.

No significant areas of concern were noted during the course of the audit. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

11. Rents Assurance Opinion – **Substantial**

Internal Audit was pleased to report that there continues to be an appropriate framework in place for the administration of operations in respect of Rents. Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

12. Pre-Eviction Protocol for Rent Arrears Assurance Opinion – **Substantial**

The annual review of the Pre-Eviction Protocol for Rent Arrears has been completed. It was pleasing to report that the Council has an appropriate framework in place in relation to evictions. The Protocol is compliant with legislation. A sample of five cases where eviction was considered on the grounds of rent arrears was reviewed. The findings were considered to be satisfactory, with the action taken being reasonable and compliant with the steps outlined in the Protocol.

Further reviews in respect of Benefits, Choice Based Lettings, Compliance with CDM Regulations, Computer, Gas Safety, Human Resources, Parks and Grounds Maintenance and Serious and Organised Crime are ongoing and the reports have yet to be finalised. These will be included in the next progress report to Committee.

Current Audit Performance

Overall 78% of planned audits for 2017/18 are near to completion as at 1 March 2018. This level of performance is similar to what was achieved at this stage in the previous year and the target of 90% is expected to be achieved.

APPENDIX 2

INTERNAL AUDIT FOLLOW-UP

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit.

The table below provides a summary of the progress made with agreed actions for internal audit reports issued between September 2014 and August 2017 (i.e. within six months of completion), excluding clearance reports. Those audits where all actions have previously been reported as completed have also been excluded from this list.

No	Audit Title	Report Issued	Opinion	Number of Actions (Significant in brackets)	Progress
14	Leasehold Service Charges 2014/15	19/09/14	Reasonable	6	1 Outstanding
01	Procurement 2015/16	28/05/15	Reasonable	3 (1)	1 Outstanding
45	Housing Repairs 2014/15	21/07/15	Reasonable	4 (1)	Next Audit
10	CCTV 2015/16	09/09/15	LIMITED	3 (2)	2 Outstanding
36	Household Refuse/Bulky Waste 2015/16	06/06/16	Reasonable	5 (1)	2 Outstanding
37	Trade Waste Refuse Collection 2015/16	06/06/16	Reasonable	7 (1)	Completed
12	Members Allowances 2016/17	06/10/16	Substantial	3	2 Outstanding
25	Council Tax 2016/17	02/03/17	Substantial	1	Completed
27	Key Reconciliations 2016/17	20/04/17	Substantial	1	Completed
32	Flexi-time Management 2016/17	11/05/17	Reasonable	3 (1)	1 Outstanding
33	Information Management 2016/17	12/05/17	Reasonable	4	4 Outstanding
35	Benefits 2016/17	24/05/17	Reasonable	2 (1)	1 Outstanding
36	Beeston Square 2016/17	05/07/17	Reasonable	3	Completed
03	Cash Receipting 2017/18	31/07/17	Reasonable	4 (1)	2 Outstanding
38	Sundry Debtors 2016/17	10/08/17	Reasonable	1 (1)	1 Outstanding

Further details of progress being made with agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. LEASEHOLD SERVICE CHARGES		April 2014, Reasonable Assurance, Agreed Actions – 6
1.1. Repair Cost Apportionment		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>A commitment to improve the arrangements for apportioning repair charges with a view to increasing billing accuracy ('right first time'). A temporary solution will involve the Maintenance Inspector assessing each repair enquiry from a leaseholder by surveying the site and duly reporting his recommendations.</p> <p>The Leasehold Officer, going forward, shall quality check the detail of all repair works recharged to the leaseholders.</p> <p><u>Managers Responsible</u> Housing Allocations & Options Manager/Housing Repairs Manager</p>	<p><u>Management Progress Report of the Housing Strategy Manager</u></p> <p>The Capita system upgrade is in the process of implementation. This will provide the capability to fully address all recommendations within the audit. The Leaseholder Officer post, which is responsible for the management of leasehold properties, was approved as part of the recent Housing Restructure but an initial attempt to recruit to the post was unsuccessful. The post is currently being re-advertised. In the meantime, the Performance Officer is reviewing all procedures and will be completing quality checks in 2018 should the Leaseholder Officer post remain vacant.</p>	
2. PROCUREMENT		April 2014, Reasonable Assurance, Agreed Actions – 3 (with 1 Significant)
2.1 Procurement e-Learning Package		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>An e-Learning package will be developed to raise awareness of the law, regulations and other matters surrounding procurement and the systems in place at the Council. This will complement the existing support and guidance that is provided by the Procurement and Technical Officer.</p> <p><u>Managers Responsible</u> Head of Finance Services Procurement and Technical Officer</p>	<p><u>Management Progress Report of the Head of Finance Services</u></p> <p>There were substantial issues experienced following the upgrade of the e-procurement system that delayed its implementation.</p> <p>The Procurement and Contracts Officer post remains vacant, although this post is being advertised. Given the current vacancy, there will be delays to all but the highest priority matters, meaning that the revised target date for launch is August 2018. An e-Learning package will be developed after this time.</p> <p>In the meantime, regular emails serve to remind officers of basic procurement requirements.</p>	

3. CCTV		September 2015, Limited Assurance, Agreed Actions – 3 (with 2 Significant)
3.1 CCTV Management and Control	Progressing	
3.2 CCTV Policy	Progressing	
<p><u>Agreed Actions</u> (Significant)</p> <p>There is consideration of establishing a central management and control function in respect of CCTV at Broxtowe, with the proposal to create this expertise under the revised remit of the Parking Manager.</p> <p>A comprehensive policy/guidance document covering the operation of CCTV systems across the Council will be created having due regard to the relevant legislation, regulations and codes of practice.</p> <p>To support this process, the Parking Manager will initially complete a schedule of visits to all satellite sites with CCTV systems to offer guidance and support. These visits will include a summary review of the respective systems in place and, where appropriate, immediate restrictions will be applied if found to be necessary. Whilst the Parking Manager will be the direct contact for advice and support, a responsible officer will be identified for individual systems at each site.</p> <p><u>Managers Responsible</u> Head of Property Services Parking Manager</p>	<p><u>Management Progress Report of the Head of Property Services</u></p> <p>Centralised management has taken place for 90% of the Council's camera surveillance stock. All sites have been visited with the purpose and need for each system being reviewed. Recommendations have been made regarding the appropriateness, centralisation and continued monitoring responsibilities of each system. All officers associated with surveillance systems have received guidance on appropriate use in line with the Government's Camera Surveillance Commissioner's principles.</p> <p>The Council is working in accordance with Government guidance, but policies need updating to reflect changes in circumstances.</p> <p>The Parking Manager has made progress with centralisation and has advised Liberty Leisure on its operations. Centralising all systems is difficult and will require further dedicated resources to fully complete this process. A lack of officer resources does not allow an alternative site visit-based monitoring and enforcement option. Some savings have been achieved by reducing monitoring costs for the shared service. Negotiations in relation to shared control room and CCTV maintenance management is taking place. This will hopefully secure funding for additional resource to support CCTV, Security and Parking Services.</p> <p>The process of developing updated and more accurate comprehensive policies to reflect surveillance activities has been delayed.</p>	

4. HOUSEHOLD AND BULKY WASTE		June 2016, Reasonable Assurance, Agreed Actions – 5 (including 1 ‘Significant’)
4.1 Missed Bin Collections		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>Missed bin reports will be provided to management for review. These reports will be used to identify issues relating to particular rounds or addresses in order for suitable action to be taken to reduce the number of missed collections. There will be further evaluation of the policy relating to missed bin collections with a view to reducing costs in this area.</p> <p><u>Managers Responsible</u> Environment and Business Development Manager Operations Manager</p>	<p><u>Management Progress Report of the Environment and Business Development Manager</u></p> <p>The new refuse rounds introduced in December 2017 have resulted in data which is not meaningful in terms of being a true reflection of current missed bins. Time is needed for the rounds to bed in. The missed bin service itself is being reviewed and it is hoped to take a report to the Leisure and Environment Committee in the future which proposes a change in the current system of returning for every collection irrespective of the reason why the bin was not emptied.</p>	
4.2 Income Reconciliation for Special Collections		Outstanding
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The formal reconciliation of special collection income (bulky items) will be reinstated and completed on a monthly basis to ensure that all monies received agree to the amounts expected and to the transactions posted on the general ledger. This check will be evidenced by way of a signature.</p> <p><u>Managers Responsible</u> Environment and Business Development Manager</p>	<p><u>Management Progress Report of the Environment and Business Development Manager</u></p> <p>Due to resource issues and work priority this has still not been actioned. Discussions are taking place to determine how best this can be done within existing resources.</p>	

5. MEMBERS ALLOWANCES		October 2016, Substantial Assurance, Agreed Actions – 3
5.1 Advertisement – Independent Remuneration Panel		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>There will be consideration of adding details about the Independent Remuneration Panel as part of a dedicated Members’ Allowances section on the Council’s website. These could include details of the Panel’s constitution and membership, along with downloadable copies of the latest minutes of meetings and recommendations.</p> <p>Alternative ways of attracting interest from volunteers to join the Independent Remuneration Panel will also be considered.</p> <p><u>Manager Responsible</u> Head of Administrative Services</p>	<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>A brief overview of the role of the Panel has been included on the web site. This will be reviewed as part of the development of the committee management system and the information provided on governance arrangements once that has been implemented.</p>	
5.2 Motor Insurance – Business Use		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>Members will be asked to provide annual confirmation to the Council that their motor insurance policy provides cover for ‘business use’ wherever appropriate. This will be provided via Democratic Services.</p> <p><u>Managers Responsible</u> Head of Administrative Services Chief Audit and Control Officer</p>	<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>This matter is being considered as part of a wider review of the Driving at Work Policy. Any request for information will be supported by Democratic Services.</p>	

6. FLEXI-TIME MANAGEMENT		May 2017, Reasonable Assurance, Agreed Actions – 3 (including 1 ‘Significant’)
6.1 Use of the Tensor System		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>A review of departmental use of the Tensor system will be undertaken, in conjunction with the Senior Management Team, with a view to expanding the application of the Tensor system wherever practical.</p> <p><u>Managers Responsible</u> Head of Administrative Services Human Resources Manager Target Date: 30 September 2017</p>	<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>Work is continuing with Human Resources to identify any remaining services not currently using the system.</p>	

7. INFORMATION MANAGEMENT		May 2017, Reasonable Assurance, Agreed Actions – 4
7.1 Progress to address previously identified issues		Outstanding
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The SIRO audit will be completed as soon as the appropriate resources are identified. Internal Audit’s support with this matter would be appreciated and has been offered.</p> <p><u>Managers Responsible</u> Chief Information Officer Target Date: 30 June 2017</p>	<p><u>Management Progress Report of the Chief Information Officer</u></p> <p>Progress was delayed due to a lack of dedicated resources to carry out the SIRO audit. The Information Governance Officer started with the Council in October 2017. However supporting the implementation of the GDPR Action Plan has been a key priority since that time. The 2017/18 SIRO Audit will be carried out during March 2018.</p>	
<p>The summary findings of the forthcoming SIRO audit will be presented to GMT for consideration. GMT will be encouraged to consider the actions identified within their respective departmental management team meetings to ensure transparency and to encourage progress.</p> <p><u>Managers Responsible</u> All Chief Officers Target Date: Ongoing from July 2017</p>	<p>As above, the 2017/18 SIRO Audit findings will be presented to GMT for consideration and with Chief Officers for consultation with their respective management teams.</p>	

7.2 Destruction of Records		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>The next SIRO audit will include the need for Information Asset Owners to confirm deletion in line with their agreed documented arrangements (Information Asset Register).</p> <p><u>Managers Responsible</u> Chief Information Officer</p> <p>Target Date: 30 June 2017</p>	<p><u>Management Progress Report of the Chief Information Officer</u></p> <p>This data is currently being captured as part of the Information Asset Registers (part of the GDPR Action Plan) completed by departments and collated by the Information Governance Officer. All of these registers are expected to be completed no later than 31 March 2018 and any identified risks regarding deletion arrangements and controls will be followed up over the course of April and May.</p>	
7.3 Opportunity for Reminders		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>An email to remind employees of the need to adhere to the Clear Desk policy will be drafted for distribution by the Chief Executive, making suitable reference to the findings of this audit.</p> <p><u>Managers Responsible</u> Chief Information Officer</p> <p>Target Date: 30 June 2017</p>	<p><u>Management Progress Report of the Chief Information Officer</u></p> <p>The previously used template is being updated by the Information Governance Officer and will be issued to all staff by early April 2018.</p>	
7.4 Information Risk Management Plans and Training		Progressing
<p><u>Agreed Action</u> (Merits Attention – Necessary Control)</p> <p>A risk assessment document has been created by the Chief Information Officer and will be implemented during the 2016/17 SIRO audit in order to identify any service specific risk(s) and record appropriate mitigation.</p> <p>This will include guidance that will focus Information Asset Owners on ensuring that the generic information management training provided to their teams is applied appropriately within their specific area.</p> <p><u>Managers Responsible</u> Chief Information Officer</p> <p>Target Date: 30 June 2017</p>	<p><u>Management Progress Report of the Chief Information Officer</u></p> <p>The SIRO Audit template has been updated to include additional risks and actions to take account of the changes associated with the implementation of GDPR. This will be issued to Information Asset Owners in March 2018. In addition the Information Asset Registers may also identify additional risks (i.e. lack of data sharing agreements) which will be progressed through the GDPR Action Plan processes.</p>	

8. BENEFITS		May 2017, Reasonable Assurance, Agreed Actions – 2 (including 1 ‘Significant’)
8.1 Checking of Claim Assessments and Overpayments		Progressing
<p><u>Agreed Action (Significant)</u></p> <p>The checking process for Housing Benefit and Council Tax Support claim assessments and overpayments will be fully reinstated and monitored.</p> <p>The monitoring process is currently performed by the Team Leaders in the Benefits section. As highlighted during the audit, officers have found the maintenance of this task difficult with the increase in their responsibilities over the last twelve months.</p> <p>Working practices have now been adapted to ensure that the monitoring process is actioned on a regular basis. Some of the monitoring will be undertaken within the Performance team to ensure consistency in the monitoring process. Training will be provided by the Team Leaders to the relevant individual over the coming weeks.</p> <p><u>Managers Responsible</u> Head of Revenues and Benefits Managed Service Senior Benefits Assistant(s) Quality and Control Manager</p> <p style="text-align: right;">Target Date: 30 June 2017</p>	<p><u>Management Progress Report of the Head of Revenues and Benefits Managed Service</u></p> <p>The Benefits section had developed this role and provided training to an individual to take the monitoring of claims forward. This person has since left the organisation. The Benefits Team Leaders are currently in the process of training up another individual to complete this task. As a result, the target date will now be 31 March 2018.</p>	
9. CASH RECEIPTING		July 2017, Reasonable Assurance, Agreed Actions – 4 (including 1 ‘Significant’)
9.1 Cash Floats – Independent Checks		Progressing
<p><u>Agreed Action (Merits Attention – Necessary Control)</u></p> <p>Independent cash checks will be programmed into the administrative operations of the kiosk, in conjunction with Internal Audit.</p> <p><u>Managers Responsible</u> Head of Administrative Services</p> <p style="text-align: right;">Target Date: 31 August 2017</p>	<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>Arrangements have been made for checks to be carried out every six months. These will be undertaken by Internal Audit and the Business Support Team Leader who does not normally handle cash taken out of the kiosk.</p>	

9.2 Frequency of Cash Collections		Progressing
<p><u>Agreed Action</u> (Merits Attention)</p> <p>The frequency of cash collections by the security company will be considered (and potentially reduced) as part of the efficiency and effectiveness review.</p> <p><u>Managers Responsible</u> Head of Administrative Services Target Date: 31 December 2017</p>	<p><u>Management Progress Report of the Head of Administrative Services</u></p> <p>Collections will be reduced to three-times a week from April 2018. The amount collected through the kiosk will continue to be monitored to determine whether frequency could be reduced further.</p>	
10. SUNDRY DEBTORS		August 2017, Reasonable Assurance, Agreed Actions – 1 (including 1 ‘Significant’)
10.1 Weaknesses within the Recovery Process		Progressing
<p><u>Agreed Action</u> (Significant)</p> <p>The backlog of aged debts will be fully reviewed the Legal Assistant. Where appropriate, recovery action will be re-initiated or the balance submitted for potential write-off. The use of a collection agent for aged balances will be considered as a recovery option.</p> <p>Measures will be put in place to ensure that the backlog of aged debt does not continue to grow. Targets will be set for recovery rates and an action plan established for write-offs. The recovery process may include referral to a collection agent as the default action and consideration for write-off prior to commencing legal action. The respective teams will work together to understand the process.</p> <p>The spreadsheet maintained by Legal and used to monitor the performance of debt recovery will be reviewed and improved. This document will incorporate an accurate, detailed and regular reconciliation between the Civica Legal and Sundry Debtors systems.</p> <p><u>Managers Responsible</u> Chief Solicitor and Deputy Monitoring Officer/Legal Assistant Head of Revenues and Benefits Shared Service Quality and Control Manager Target Date: 31 December 2017</p>	<p><u>Management Progress Report of the Chief Solicitor and Deputy Monitoring Officer</u></p> <p>The backlog of aged debts has been fully reviewed, with the balance being reduced from around £450,000 to £200,000.</p> <p>The use of a collection agent for aged balances has been introduced as a recovery option.</p> <p>The relevant teams are having regular quarterly meetings to work together to ensure that there are better systems in place to ensure significant write-off increases.</p> <p>The Legal Assistant is due to go on maternity leave in May. Legal is looking at measures to be put in place incorporating assistance in conjunction with the Administrative Services team. Training is to be arranged for April 2018.</p>	

Report of the Interim Deputy Chief Executive

CORPORATE GOVERNANCE ARRANGEMENTS1 Purpose of report

To inform Members of the statutory obligations regarding corporate governance and the approach to be taken in the production of the Annual Governance Statement for inclusion in the Council's published financial accounts for 2017/18.

2 Background

Under the Council's constitution this committee is responsible for overseeing the maintenance of the Council's internal control environment and for monitoring and making recommendations regarding the Council's corporate governance arrangements.

The CIPFA/SOLACE document *Delivering Good Governance in Local Government : Framework* was revised in April 2016. Local authorities are under a statutory obligation to follow the approach set out in the document unless there are valid reasons for not doing so.

The preparation of an annual governance statement is a requirement of the Accounts and Audit Regulations (2015). The regulations require authorities to conduct a review, at least once in each financial year, of the effective of its system of internal control and to include a statement reporting on the review in its statement of accounts.

In previous years, a draft annual governance statement was presented to the committee in June for approval to include in the draft statement of accounts before formal examination by the external auditors. The final statement of accounts was then approved by this committee in September.

The new requirement in Accounts and Audit Regulations (2015) for the draft financial accounts to be prepared by and submitted to the external auditors by 31 May and then formally approved by 31 July have resulted in a need to set up an additional meeting of this committee in May to allow consideration of the draft annual governance statement before submission to the external auditors for their examination. This will include the results of the review of the effectiveness of the system of internal control and other relevant information.

Members will be informed of the date of the May meeting in due course. The final statement of accounts along with the external auditors ISA 260 report setting out their findings and any recommendations will be presented to this committee on 23 July 2018.

Recommendation

The Committee is asked to NOTE the report.

Background papers

Nil

Report of the Chief Audit and Control Officer

ANNUAL COUNTER FRAUD REPORT 20171. Purpose of report

To provide the Committee with the annual report on counter fraud and corruption and money laundering prevention activity in 2017.

2. Detail

Fraud and corruption are a serious and ongoing threat to the financial health of the public sector. It is estimated that over £300 million each year is lost as a result of fraudulent acts both against and within public sector organisations. The Council acknowledges the significant negative impact fraudulent and corrupt acts can have on the Council, the delivery of its Corporate Plan and the services provided to residents.

The Fraud and Corruption Prevention Policy was approved by this Committee in March 2017. The Policy Statement is that the Council takes a zero-tolerance approach to fraud and corruption. The Council is committed to establishing a strong anti-fraud and corruption culture and will take all necessary steps to prevent, detect and punish fraudulent and corrupt acts. The Policy also recognises that Internal Audit will take a more prominent role in leading and co-ordinating anti-fraud and corruption activities.

The Council has a number of national and local processes in place which help to identify and tackle fraud. This is underpinned by the Policy which is reviewed and updated to ensure it is in line with current legislation and best practice. In addition, the examination of the risk of fraud is integral to the Council's governance and risk management arrangements.

As part of the process, reports relating to fraud and corruption prevention activity are submitted to this Committee. Further details of activity in 2017 and an action plan for the forthcoming year are included in the appendix. The delivery of these actions will help to further strengthen the current arrangements in place.

Recommendation

The Committee is asked to NOTE the Annual Counter Fraud Report 2017.

Background papers

Nil

APPENDIX

ANNUAL COUNTER FRAUD REPORT 2017

1. **Introduction**

Fraud and corruption are a serious and ongoing threat to the financial health of the UK public sector. The latest report from CIPFA (the Chartered Institute of Public Finance and Accountancy) estimates that over £300 million each year is lost as a result of fraudulent acts both against and within local authorities and other public sector organisations.

CIPFA published the results of its third annual Fraud and Corruption Tracker survey in November 2017. The survey focused on local government and shows how the sector is dealing with the fraud threat. The responses received provided a spread of results from across all regions, enabling it to estimate the total figures for fraud across English, Welsh and Scottish local authorities. The key findings were that:

- An estimated 75,000 frauds were detected or prevented across local authorities in 2016/17 with a total value of £336.2m
- The number of fraud cases investigated or prevented dropped in 2017 but the average value per fraud increased by one third to £4,500
- Procurement, adult social care and council tax single person discount were perceived as the three greatest fraud risk areas
- Adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- The highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- The highest value area of fraud is housing with an estimated total of £263.4m
- 38% of responding authorities had a dedicated counter fraud service.

2. **Local Context**

The Council has acknowledged the significant negative impact fraudulent and corrupt acts can have on the delivery of services provided to residents.

The Policy Statement, as set out in the Fraud and Corruption Prevention Policy approved by this Committee in March 2017, is that the Council takes a zero-tolerance approach to fraud and corruption. The Council is committed to establishing a strong anti-fraud and corruption culture and will take all necessary steps to prevent, detect and punish fraudulent and corrupt acts. Where a fraudulent or corrupt act is proven to have taken place, the Council will take all appropriate action against the perpetrator and pursue all available options to recover any losses.

3. Role of Internal Audit

Internal Audit traditionally plays a preventative role in trying to ensure that systems and procedures are in place to prevent and deter fraud and corruption. It may be requested to investigate cases of suspected financial irregularity, fraud or corruption, in accordance with agreed procedures. The authority of the Deputy Chief Executive and/or his authorised representative to access premises, documents, records and explanations, if required for the purposes of the Internal Audit, are supported within the Financial Regulations.

a. Risk Assessment

The Deputy Chief Executive (as the Section 151 Officer) is responsible for the ongoing assessment of the risk to the Council of financial or other loss resulting from fraud and corruption. Whilst the focus of the risk assessment will be the potential financial loss and/or disruption to services, other important areas such as reputational risk and impact on employee welfare will also be considered.

A fraud risk assessment is programmed for early 2018/19. This will be completed by the Chief Audit and Control Officer in conjunction with senior management and will take into account published guidance and other information from Central Government, CIPFA, National Fraud Initiative or similar and other relevant organisations.

b. Detection and Prevention

The fraud risk assessment will provide the basis for an ongoing detection and preventative audit work programme to be performed. Internal Audit will liaise with management to recommend changes in procedures to reduce risks and prevent losses to the Council.

c. Response

The role of Internal Audit has been extended to act as a co-ordinating and investigating service for all non-benefit related fraud and corruption reports and to manage the Council's response to such reports. Benefit fraud alerts are referred to the Single Fraud Investigation Service (SFIS) of the Department for Work and Pensions (DWP).

4. Summary of Activity

a. Policy Updates

The updated Fraud and Corruption Prevention Policy was approved by this Committee on 27 March 2017. The Policy also considers the requirements of the Bribery Act 2010. In addition, the Money Laundering Prevention Policy was updated to ensure that the document remains fit for purpose and was also approved on 27 March 2017.

b. Training and Awareness

Fraud prevention has to be underpinned by a strong anti-fraud culture that is driven by management. It requires active promotion to include officers, members, key stakeholders and the public. This culture should seek to motivate employees and ensure that they understand the importance of tackling fraud, are able to recognise fraud and know how/ where to report suspicions of fraud. The most effective anti-fraud culture changes people's attitudes and behaviours towards fraud, positively reinforcing their responsibility in preventing, detecting and reporting fraud and deterring would-be criminals from committing fraud in the first place.

Internal Audit has been positive in sharing general fraud awareness updates with employees, in addition to providing more targeted fraud information to the relevant officers. Internal Audit is also developing a fraud web-page for the intranet to complement information already provided on the Council's website. This will also be refreshed in 2018.

The Council is also considering arranging training for its officers in terms of fraud awareness and money laundering. This could be developed as an eLearning package through Broxtowe Learning Zone.

c. National Fraud Initiative

The Council participates in the Cabinet Office's National Fraud Initiative programme (NFI). The NFI matches electronic data within and between public and private sector bodies to assist in the prevention and detection of fraud. These bodies include local authorities, police authorities, local probation boards, fire and rescue authorities as well as a number of private sector bodies.

The NFI tool is helpful in assisting local authorities to identify potential fraud in areas such as council tax, housing benefit, pensions, payroll and housing tenancy. Since its introduction in 1996, the NFI programme has helped identify £1.2 billion nationally in fraud or error.

The Council is required to provide particular sets of data to the Cabinet Office for matching. The data provided includes records such as council tax, creditors, payroll, electoral register, housing waiting lists, insurance claims and licences. Internal Audit is the single point of contact for participation in the NFI data matching programme. It is supported in this process by the respective Heads of Service and Service Managers with responsibilities for the service/system being subjected to review under the scheme.

The most recent NFI exercise generated a total of 2,354 new matches across the various data sets. These included 560 recommended priority matches for further scrutiny. Investigation work is ongoing and Internal Audit has closed 458 matches to date. It is intended that 100% of the recommended priority matches will have been reviewed by June 2018.

Going forward a network is being established to enable departments to support Internal Audit with this review work.

Further data sets have recently been submitted to support the latest NFI exercise relating to the Council Tax Single Person Discount. Once available, the matches from this exercise will be scrutinised at the earliest opportunity.

The Council has recently expressed an interest in an NFI pilot that will match Business Rates data together with existing NFI data such as premises data, within and between bodies to identify potential Business Rates fraud. A known fraud risk is companies fraudulently claiming Small Business Rate Relief from multiple local authorities. This pilot could provide some useful data for the Council and its neighbouring authorities.

d. Internal Audit – Special Investigations

There have not been any major fraud investigations undertaken by Internal Audit in 2017.

e. Revenues and Benefits

Much of the current fraud activity within the Revenues and Benefits teams is in supporting the DWP. In 2017 this activity included:

- Issuing 46 fraud referrals to the DWP
- Completing 70 Local Authority Information Exchange Forms (LAIEF), being requests for information from the DWP to support their ongoing investigations
- Undertaking 10 adjudications, including eight cases of 'living together as husband and wife' (LTAHW).

A sample of successful Housing Benefits cases in the year includes:

- An overpayment of Housing Benefit totalling £30,918 relating to undeclared capital being paid back in full
- An overpayment of Housing Benefit totalling £23,991 relating to LTAHW where recovery action is ongoing
- An overpayment of Housing Benefit totalling £9,364 relating to LTAHW where recovery action is ongoing

There have been no further specific programmes relating to discounts, exemptions and reliefs awarded for Council Tax and Business Rates, although the regular Revenue inspection activity is ongoing.

f. Housing

Nationally, the risk of fraud relating to housing has been identified as high value. Locally, the risks for this Council will include the potential for tenancy fraud and risks associated with the 'Right to Buy'.

In respect of 'Right to Buy' applications, appropriate checks are undertaken to prevent and detect potential fraud:

- Requesting identity and proof of address for each applicant
- Checking if the applicant (tenant) is in receipt of Housing Benefit and referring this onto the Benefits team for further enquiry (particularly where the sale is expected to be financed without a mortgage)
- Checking each applicant's details with appropriate agencies (including NAFN, the National Anti-Fraud Network) to see if the applicant has another mortgage elsewhere and to check the persons registered at the address from electoral records
- Requiring applicants to provide details as to how they intend to finance the purchase. If monies are being gifted, the Council will require the applicant to provide confirmation from the third party that these funds are available and seek proof of identification.

The proposed Internal Audit Plan for 2018/19 includes reviews of Housing Tenancy Management and Right to Buy, where Internal Audit will consider the procedures in place to prevent and detect fraud.

g. Licensing

Following the advent of the Immigration Act 2016, the Licensing team now conducts right-to-work checks to prevent illegal working in the private hire and taxi sector. A similar provision was made from April 2017 for checks to be carried out in the wider licensing regime.

These measures assist in preventing illegal working, unlawful employment of workers and unlawful payments to employees.

The Council was successful in detecting a taxi driver who had been working illegally in the country for a number of years. The matter was referred to the Immigration Authority through the checking process and the offender is no longer licensed by the Council.

The proposed Internal Audit Plan for 2018/19 includes an audit of Licensing that will consider the procedures in place to prevent and detect fraud.

h. Insurance

The Council continues to work with its insurers who regularly provide briefings and advice to enable officers to remain vigilant to potential fraudulent claims.

All claims continue to be rigorously reviewed at every stage to ensure that anything suspicious is identified and the appropriate outcome is achieved.

Claimants are advised that the information provided may be shared by the insurers with other appropriate bodies responsible for the prevention and detection of fraud, such as the Claims and Underwriting Exchange Register and the Theft Register.

5. **Plans for 2018**

The focus of activity will remain on prevention and deterrence as Internal Audit looks to continue to develop the Counter Fraud Hub. The following actions are planned for 2018:

- The Chief Audit and Control Officer will complete a Fraud Risk Assessment exercise in conjunction with Chief Officers and Senior Management, taking into account published guidance from central government, CIPFA, NFI or similar and other relevant organisations.
- An outcome of this process will be to develop a fraud risk register to identify fraud risks.
- Management will continue to work with Internal Audit to review and improve the systems and key controls in areas where fraud risk is assessed as high or medium.
- Continue to raise awareness amongst employees, members and key stakeholders about the risk of fraud in all areas of the Council's operations. This will include:
 - Development of the webpages for the intranet and internet
 - Regular circulation of fraud awareness emails
 - Consideration of introducing a counter fraud eLearning package.
- Complete the NFI data matching work including the latest matches in respect of Council Tax Single Person Discount and the forthcoming Business Rates pilot.
- Keep informed of national developments in counter fraud so that the Council can continue to respond positively to new ideas, initiatives and examples of best practice.

Joint report of the Interim Deputy Chief Executive and the Chief Audit and Control Officer**INTERNAL AUDIT – REVIEW OF EFFECTIVENESS 2017/18**1. Purpose of report

To approve the review of the effectiveness of the system of internal audit for 2017/18 and the actions required to achieve full compliance with the Public Sector Internal Audit Standards.

2. Detail

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices (i.e. the Public Sector Internal Audit Standards that are mandatory for all principal local authorities).

The Regulations also refer to the need to carry out and consider the findings of an annual review of the effectiveness of the system of internal audit. It is appropriate for this Committee to consider the findings of such a review.

Earlier reviews have included elements of self-assessment, client feedback, external auditor's opinion of Internal Audit and a peer review. This latest review has been completed in two parts:

- An internal self-assessment review against 'proper practice'.
- An External Quality Assessment by a qualified, independent assessor from outside the organisation (a periodic requirement of the Standards).

The outcome of the review indicates that Internal Audit is substantially compliant with the Standards with some areas for development and improvement. The summary results from each aspect of the review are included within the appendices to this report along with an improvement plan to address those areas where the arrangements are not fully compliant. Although the External Quality Assessment report is still to be finalised, any further actions will be incorporated into an updated improvement plan that will be provided to the next meeting of this Committee.

Recommendation

The Committee is asked to RESOLVE that the review of the effectiveness of the system of internal audit be approved.

Background Papers

Nil

APPENDIX 1

SUMMARY OF REVIEW**Background**

The Public Sector Internal Audit Standards (the 'Standards') were introduced in April 2013. The Standards, along with the sector specific Local Government Application Note developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA), are effective for UK public sector internal audit service providers and are mandatory for all principal local authorities.

The Accounts and Audit Regulations 2015 make reference to the need to carry out and consider the findings of a review of the effectiveness of the system of internal audit. The responsibility to conduct such a review rests with the Council and it is for this Committee to consider the findings of such a review.

Earlier reviews have included elements of self-assessment, client feedback, external auditor's opinion of Internal Audit and a peer review. This latest review for 2017/18 has been completed in two parts:

- An internal self-assessment review against 'proper practice', consisting of the Standards and the Local Government Application Note for the Standards.
- An External Quality Assessment (EQA) by a qualified, independent assessor from outside the organisation (a periodic requirement of the Standards).

Part 1: Internal Assessment (Self-Assessment)

In recent years the review of effectiveness has been based upon a self-assessment against proper practice. The findings of these reviews suggested that the Council's Internal Audit arrangements were largely compliant with the Standards.

What should the review cover?

The review is all about assessing effectiveness. It should cover all aspects of the Internal Audit activity and enable conformance with the Standards to be evaluated. CIPFA has produced the Local Government Application Note to supplement the Standards and to facilitate the evaluation process. This includes a self-assessment checklist containing around 300 questions which provides a judgement as to how far the system of internal audit complies with 'proper practice'.

It is important that the effectiveness of the system of internal audit is not solely judged against the extent of compliance with the Standards since the review is about effectiveness not process. The purpose is also to give the Committee and the Council a degree of comfort that the work and views of Internal Audit can be relied upon and used within the Annual Governance Statement.

Evidence in support of the review

In addition to the checklist the following also provide evidence to support the review:

- The Internal Audit Charter
- Reports setting out the annual Internal Audit Plan for the forthcoming year
- Reports on the results of completed audits and setting out significant findings
- An annual report on the performance of Internal Audit.

Results of the Self-Assessment and Improvement Plan

A great deal of progress has been made to strengthen the role of Internal Audit at a corporate level, not least through the formal reporting procedures to this Committee.

The outcome of the self-assessment indicates that Internal Audit is substantially compliant with the Standards. Whilst areas where improvements could be made have been identified, these are not felt to be fundamentally undermining the work of Internal Audit, its role within the organisation or the Chief Audit and Control Officer's ability to assess the Council's internal control environment.

The checklist provided with the Local Government Application Note to the Standards has been taken into account in identifying areas where improvements can be made. A proposed improvement plan is provided at appendix 2 and implementation of this plan will help ensure that Internal Audit continues to provide an effective service in accordance with proper practices.

Part 2: External Quality Assessment

In addition to an annual self-assessment, the Standards also require that an external assessment of the internal audit activity must be conducted at least once every five years by a qualified, independent assessor from outside the organisation.

The Chief Audit and Control Officer has considered this requirement with colleagues at the Nottinghamshire and Derbyshire Audit Group,. A joint procurement exercise was conducted with Erewash and Mansfield District Councils and the contract to complete the External Quality Assessment was awarded to Gateway Assure Limited.

The assessment was completed by Mr Robin Pritchard, the Chief Executive of Gateway Assure. Mr Pritchard is CIPFA qualified and has 38 years internal audit experience at a senior level. His is also an experienced Assessor having assessed a large number of Council's internal audit teams against the Standards.

Assessment Format

The assessment took place in January 2018 and involved a review of the Internal Audit documentation, working practices, Committee reports and discussions with the Chief Audit and Control Officer, the Interim Deputy Chief Executive, the Head of Finance Services and the Chair of this Committee. As part of this process the assessor reviewed a number of audit files and working papers.

This approach enabled the Assessor to measure the Internal Audit's conformance with the Standards against the recommended checklist and other best practice.

The purpose of the review was to provide an external and independent quality review in accordance with the Standards. This was not merely a compliance exercise. The Assessor also highlighted aspects of the service that is regarded as best practice, as well as summarising where further developments can be made to enhance the value of the service provided.

Summary Conclusions

The report has only been received in draft form. However, it will be useful for the Committee to note the summary findings at this stage to compliment the self-assessment undertaken in order to support the annual review of effectiveness.

The draft report concludes that the Council's Internal Audit service complies with the expectations of the Public Sector Internal Audit Standards. This should provide Members with confidence in the assurance work that is provided by Internal Audit. The review acknowledges that the service benefits from an experienced and consistent team with a range of relevant qualifications, and receives positive feedback from Senior Management and from Members.

The Assessor's observations were summarised within categories relating to Resources, Competency and Delivery with the service graded as being developing, established or excelling. It is pleasing to report that Internal Audit has been assessed as follows:

- Resources – “Excelling” – Processes in this area are fully embedded within every day practices and reflect best practice that is at least consistent with the expectations of the Standards.
- Competency – “Established” – Processes in this area are embedded within every day practices; the EQA has identified a number of areas in which further development is desirable.
- Delivery – “Established” – Processes in this area are embedded within every day practices; the EQA has identified a number of areas in which further development is desirable.

Furthermore, the outcome of the review has been benchmarked against other providers in both the sector and the wider industry and this shows that the team compares favourably in comparison with its peers.

As would be expected, the draft report has made a number of recommendations aimed at highlighting where further development can be made to enhance the value of the service being provided. These are in relation to the use of risk-based auditing which will provide increased levels of assurance to the Council and assist in improving the profile of Internal Audit and the subsequent feedback that is received from clients. In summary these include:

- The service should continue to move to an approach that reflects full recognition of the risk factors recognised by the Council both at a strategic planning level and when conducting assignments.

- The use of opinions should be reviewed to better reflect the risk appetite of the Council and should reflect identification and escalation of recommendations graded as significant that match risk definitions within the risk management system.
- The Chief Audit and Control Officer's Annual Report should be enhanced to reflect assurance related to awareness of the significant risks being faced by the Council.
- The further development of risk management systems within the Council to reflect an assurance framework would enable greater recognition of key mitigating controls and the other sources of assurance with which internal audit effort should be co-ordinated in order to support the Annual Governance Statements process.
- Some revisions to the Internal Audit process may be beneficial in terms of improving efficiency and transparency of the assurance being provided.

The final EQA report will be provided to Members in due course.

Unfortunately, there has not been sufficient time for the Chief Audit and Control Officer to fully consider and actively respond to the recommendations made by the Assessor at this stage.

It is therefore proposed that an updated improvement plan will be presented to the next meeting of this Committee, incorporating the recommendations and proposed actions from the EQA report. In the meantime progress will be made to move towards full implementation.

APPENDIX 2

PROPOSED IMPROVEMENT PLAN – MARCH 2018

No	Area for improvement	Timescale	Responsibility
1.	Continue to develop Internal Audit's role in relation to corporate anti-fraud and corruption policy and procedures.	December 2018	Interim Deputy Chief Executive Chief Audit and Control Officer
2.	Undertake a new risk assessment of the arrangements for assurance engagements in areas where the Chief Audit and Control Officer has an operational responsibility.	September 2018	Interim Deputy Chief Executive
3.	Invite the Chief Executive, Interim Deputy Chief Executive and the Chair of this Committee to contribute feedback relating to the performance of the Chief Audit and Control Officer.	December 2018	Head of Finance Services
4.	Consider the use of dedicated audit management software and develop knowledge and appropriate application of computer-assisted audit techniques.	December 2018	Chief Audit and Control Officer
5.	Develop a formal process to complete a risk assessment at the commencement of each audit and to document this as part of the agreed Terms of Reference.	June 2018	Chief Audit and Control Officer
6.	Develop the formal Quality Assurance and Improvement Programme with a view to expanding performance indicators and introducing formal client questionnaires.	September 2018	Interim Deputy Chief Executive Chief Audit and Control Officer
7.	Further development work to establish a formal assurance mapping methodology to identify and determine the approach to using other sources of assurance.	December 2018	Chief Audit and Control Officer
8.	Undertake an evaluation of the Council's ethical governance arrangements and report the findings.	December 2018	Chief Audit and Control Officer
9.	Develop a specific methodology to assist a value for money opinion to be formed for each audit assignment.	September 2018	Chief Audit and Control Officer

Report of the Chief Audit and Control Officer

INTERNAL AUDIT PLAN 2018/191. Purpose of report

To provide the Committee with details of the Internal Audit Plan for 2018/19.

2. Detail

The Public Sector Internal Audit Standards requires the Chief Audit and Control Officer, as the designated 'chief audit executive', to prepare an annual risk based audit plan.

The Internal Audit Plan governs each year's activity. A report is produced for management at the completion of each audit assignment with recommendations for improvement. Regular progress reports covering Internal Audit activities are submitted to this Committee for scrutiny. The Committee can request further audit reviews to be undertaken and can request other Committees to further investigate matters arising from any activities within their remit.

The proposed Internal Audit Plan for 2018/19 is included in the appendix for consideration. The plan has been prepared in accordance with the principles of the Internal Audit Charter. The plan has recognised the Council's priorities as outlined in the Corporate Plan and links closely to corporate risk management processes, having been prepared with due consideration to the identified strategic risks. The Chief Audit and Control Officer has also considered the useful comments received during meetings and through correspondence with individual members of the General Management Team and Senior Management Team.

Recommendation

The Committee is asked to RESOLVE that the Internal Audit Plan for 2018/19 be approved.

Background papers

Nil

APPENDIX

INTERNAL AUDIT PLAN 2018/19

1. INTRODUCTION

1.1 Background

This Internal Audit Plan sets out the proposed coverage for Internal Audit work in 2018/19. The mandate for the plan is derived from the Public Sector Internal Audit Standards ('the Standards') produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA).

The Standards require the periodic preparation of a risk-based plan, which must be linked to a strategic high-level statement of how the service will be delivered and developed in accordance with the Internal Audit Charter and how this links to the Council's objectives and priorities.

The core work of Internal Audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. The Standards and the Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Governance, Audit and Standards Committee (the designated audit 'board') should review and assess the annual internal audit work plan, although the development of the risk-based plan remains the responsibility of the Chief Audit and Control Officer after consultation with senior management and the Committee.

1.2 Internal Audit Charter

The Standards require the purpose, authority and responsibility of internal audit activity to be formally documented in a charter document. The Governance, Audit and Standards Committee approved the current Internal Audit Charter on 29 November 2017.

Internal Audit will govern itself by adhering to the Standards, which are based upon the Institute of Internal Auditors' mandatory guidance including the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing*. Supplementary guidance issued and endorsed by the relevant internal audit standard setters as applicable to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual. Non-conformance with the Standards shall be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

1.3 Aims of the Plan

Internal Audit activity is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

The Internal Audit Plan will support an opinion based on an assessment of the design and operation of the internal control environment and the adequacy and effectiveness of controls noted from risk-based audit assignments carried out during the year. The aim of the plan is to:

- Deliver a risk-based audit programme through a detailed risk assessment of systems and services across the Council
- Be proactive in looking at what risks the Council is facing and trying to minimise the impact of these risks through Internal Audit work
- Add value by providing practical, value-added recommendations in areas of significant risk and by working with senior management in attempting to save resources and enhance controls where possible
- Provide assurance to Senior Management and the Governance, Audit and Standards Committee.

1.4 Developing the Plan

The Internal Audit Plan is designed to support the Chief Audit and Control Officer's annual opinion on the overall adequacy and effectiveness of the control environment. The required basis for forming this opinion is:

- An assessment of the design and operation of the overall internal control environment, governance and risk management arrangements
- An assessment of the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments that are reported during the course of year.

It follows that an effective risk-based audit plan should focus resources into areas of principal risk. The plan has been prepared in accordance with the requirements of the Internal Audit Charter and has been informed by:

- A review of the risks contained within the Strategic Risk Register and with due regard to the Annual Governance Statement
- Consultation with Senior Management to identify key auditable areas based on an assessment of corporate priorities and current and future issues and risks
- An understanding of the challenges to the Council to deliver its objectives within legislation and the current environment.

The allocations set out in the plan for each review will include time spent on researching and preparing the audit programme, completing site work, testing and the drafting and review of the report. The timings assume that the expected key controls will be in place and working effectively. Further substantive testing may be required where a review assesses the controls to be providing limited or little assurance and additional time may be required to carry out such testing.

The plan will be regularly reviewed. If additional risks are identified and/or there are changes to priorities during the year, the plan will be reconsidered in conjunction with the Deputy Chief Executive. Any significant changes to the plan will be reported back to the Governance, Audit and Standards Committee for approval.

1.5 Resourcing the Plan

The net resources available in 2018/19 are 375 audit days.

The amount of assurance work proposed is set at 300 days. This equates to a slight increase of 2% when compared to planned assurance work delivered in 2017/18. The coverage in terms of the number of high/medium risk assurance audits proposed to be delivered will be similar.

A further 10 days will be provided to support the Council and its wholly owned leisure company, Liberty Leisure Limited, with assurance work relating to its leisure centre operations and the events programme.

The plan includes provision for 30 days to be completed as part of the ongoing Internal Audit collaboration with Erewash Borough Council.

In addition, the plan includes 40 days for corporate fraud and corruption prevention activity. The Governance, Audit and Standards Committee approved an updated Fraud and Corruption Policy in March 2017. The Council's approach to fraud and corruption proposes that Internal Audit will take a prominent role in leading and co-ordinating anti-fraud and corruption activities. Internal Audit will be supported in this by procuring specialist fraud investigation services as necessary from local partners including Erewash Borough Council.

Finally, 25 days are allocated towards audit follow-up work and 'contingency' for special investigations, projects, value for money work and consultancy.

1.6 Reporting and Relationships

The Internal Audit Charter establishes the reporting and relationships. This includes the reporting arrangements for individual assignments and for the periodic reporting of activities to the Governance, Audit and Standards Committee. The relationships with Members, Chief Officers, Senior Management, the external auditors and other assurance providers are also determined in the Charter.

In accordance with the Standards, the Chief Audit and Control Officer will deliver a formal assessment of the design and operation of the overall internal control environment, governance and risk management arrangements and an opinion on the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments reported during the year. This opinion will be formally recorded in the Internal Audit Annual Review Report to be presented to the Governance, Audit and Standards Committee.

Internal Audit will also bring to the attention of the Deputy Chief Executive and the Committee any significant internal control issues that it feels should be declared in the Council's Annual Governance Statement.

1.7 Performance Monitoring

The work of Internal Audit is regularly reviewed to provide assurance that it complies with the Standards, conforms to other relevant professional standards and meets the requirements of the Internal Audit Charter.

Service delivery will be monitored as part of a quality assurance and improvement programme. This will include the regular reporting progress to the Governance, Audit and Standards Committee, self-assessment and external quality assessment against the Standards, assessment of client feedback and production of performance indicators.

2. **AUDIT RESOURCES**

The table below identifies Internal Audit resources available in 2018/19.

	Chief Audit and Control Officer	Senior Internal Auditor	Senior Internal Auditor	Other	TOTAL
Gross Allocation	260	260	260	-	780
Annual Leave #1	35	35	30	-	100
Public Holidays	7	7	7	-	21
Sickness #2	7	7	7	-	21
Training/Seminars	5	5	5	-	15
Audit General	70	5	5	-	80
Audit Erewash	10	10	10	-	30
Non-Audit #3	115	4	4	-	123
Vacancy #4	-	-	15	-	15
	249	73	83	-	405
Audit Days	11	187	177	-	375

Notes:

#1 Annual leave includes full entitlements for a 12-month period.

#2 Allocation is well below the corporate sickness average per FTE.

#3 The majority of the allocation for 'non-audit' work reflects the Chief Audit and Control Officer's management of the other control aspects of the Audit and Control section, such as insurance and risk management, corporate performance management/business planning, procurement and grant aid, together with an involvement in corporate management and democratic issues.

#4 Assumed additional leave purchase. No further vacancy anticipated in 2018/19.

3. SUMMARY OF AUDIT DAY ALLOCATIONS

The following table summarises the allocation of days to each department.

	<u>Audit Days</u>
Deputy Chief Executive's Department	
- Corporate	18
- Revenues, Benefits and Customer Services	74
- Finance Services	21
- Other Department	42
Chief Executive's Department	
- Corporate	16
- Housing	53
- Other Department	21
Interim Strategic Director's Department	
- Corporate	10
- Other Department	45
Assurance Work	300
Trading Companies – Liberty Leisure Limited	10
Corporate Counter Fraud Activities	40
Contingency (including Internal Audit Follow-up Work, Special Investigations, Projects, Value for Money and Consultancy)	25
Net Audit Days	375
Annual Leave/Public Holidays/Sickness	142
Training and Seminars	15
Audit General	80
Audit Erewash	30
Non-Audit/Vacancy	138
Gross Days	780

4. **DETAILED INTERNAL AUDIT PLAN**

The following tables provide a detailed breakdown of the audits planned for 2018/19. These reviews have been categorised as follows:

- Category A, being the review of key financial systems, such as Council Tax, Rents and Benefits that are the Section 151 Officer's audit priority areas and which are reviewed annually.
- Category B, being high profile and/or high-risk systems that should be reviewed and followed-up on a yearly basis.
- Category C, being the audit of operational activities that have been identified as medium to high risk that should be reviewed on at least a cyclical basis.

DEPUTY CHIEF EXECUTIVE'S DEPARTMENT	Category	Plan Days
Corporate		
Commercialisation/Business Strategy	B	8
Procurement	B	10
Revenues and Benefits Shared Services		
Benefits	A	20
Cash Receipting	A	8
Council Tax	A	12
NNDR	A	10
Rents (including Evictions)	A	12
Sundry Debtors	A	12
Finance Services		
Bank Reconciliation	A	3
Creditors and Purchasing	A	10
Key Reconciliations	A	2
Treasury Management	A	6
Property Services		
Asset Register (Estates/Asset Management)	A	12
Beeston Town Centre Redevelopment	B	6
Cemeteries	C	8
Commercial Properties/Industrial Units/Craft Workshops	C	8
Energy	C	8
Total Deputy Chief Executive's Department		155

CHIEF EXECUTIVE'S DEPARTMENT	Category	Plan Days
Corporate		
Corporate Governance	B	8
Risk Management (including Risk Assessment)	B	8
Housing		
Choice Based Lettings	B	12
Tenancy Management	B	10
Electrical Testing	B	6
Legionella Testing	B	5
Homelessness	C	10
Lifeline (Aids and Adaptations)	C	5
Right to Buy	C	5
Neighbourhoods and Prosperity		
Section 106 Agreements	C	5
Public Protection		
Safeguarding	C	8
Licensing	C	8
Total Chief Executive's Department		90

INTERIM STRATEGIC DIRECTOR'S DEPARTMENT	Category	Plan Days
Corporate		
Information Governance	B	10
Human Resources		
Payroll (including Officers Allowances)	A	10
Human Resources	B	8
ICT and Corporate Communications		
Computer	B	12
Environment		
Garden Waste Collection	C	5
Transport/Fleet Management	C	10
Total Interim Strategic Director's Department		55

LIBERTY LEISURE LIMITED	Category	Plan Days
Leisure Centre Operations (Bramcote Leisure Centre)	LL	8
Events	LL	2
Total Liberty Leisure Limited		10

Report of the Interim Deputy Chief Executive

REVIEW OF STRATEGIC RISK REGISTER1. Purpose of report

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

2. Detail

Following the report to the last meeting of this Committee and in accordance with the timescales set out in the Risk Management Strategy, the Strategic Risk Management Group met on 7 February 2018 to review the Strategic Risk Register. General Management Team (GMT) considered the proposals from the Strategic Risk Management Group on 15 March 2018. The objectives of the review were to:

- Identify the extent to which risks included in the Strategic Risk Register are still relevant
- Identify any new risks to be included in the Strategic Risk Register
- Review action plans to mitigate risks.

Details of proposed amendments to the Strategic Risk Register and action plans resulting from the above process are attached in the appendix. A risk map is also included in the appendix to assist the understanding of scores allocated to risks within the Strategic Risk Register.

A revised copy of the Strategic Risk Register incorporating the proposed amendments is available on the intranet. Details of further reviews of the Strategic Risk Register will be reported to future meetings of this Committee.

Recommendation

The Committee is asked to RESOLVE that the amendments to the Strategic Risk Register and the action plans to mitigate risks as set out in the appendix be approved.

Background papers

Nil

APPENDIX

Risk Map

High	<u>Important risks</u> - which may potentially affect the provision of key services or duties <p style="text-align: right;">6</p>	<u>Key risks</u> - which may potentially affect the provision of key services or duties <p style="text-align: right;">7</p>	<u>Immediate action</u> - to prevent serious threat to provision and/or achievement of key services or duties <p style="text-align: right;">9</p>
Impact	<u>Monitor as necessary</u> - less important but still could have a serious effect on the provision of key services or duties <p style="text-align: right;">3</p>	<u>Monitor as necessary</u> - less important but still could have a serious effect on the provision of key services or duties <p style="text-align: right;">5</p>	<u>Key risks</u> - which may potentially affect the provision of key services or duties <p style="text-align: right;">8</p>
Low	<u>No action necessary</u> <p style="text-align: right;">1</p>	<u>Monitor as necessary</u> - ensure being properly managed <p style="text-align: right;">2</p>	<u>Monitor as necessary</u> - less important but still could have a serious effect on the provision of key services or duties <p style="text-align: right;">4</p>
	Low	Likelihood	High

Summary of proposed amendments to strategic risks and action plans

Inherent Risk – Gross risk **before** controls and mitigation

Residual Risk – Risk remaining **after** application of controls and mitigating measures

STRATEGIC RISK REGISTER

List of risks in order of significance

Risk	Inherent Risk	Residual Risk	Changes
1. Failure to maintain effective corporate performance management and implement change management processes	9	5	No change.
2. Failure to obtain adequate resources to achieve service objectives	9	9	<p>The Land Disposals Policy has been added as a key control.</p> <p>An action has been added to work collaboratively with Nottinghamshire local authorities to maximise the recovery of business rates income.</p> <p>Actions to obtain approval for a Land and Property Disposals Policy; to consider applying to pilot 100% business rates retention in 2018/19; and to introduce a charging regime for planning fees in response to recent Government announcements have been deleted</p>
3. Failure to deliver the Housing Revenue Account (HRA) Business Plan	9	7	<p>The Void Management Policy has been added as a key control.</p> <p>An action has been updated to develop a council house building delivery plan. A further action has been updated to commission an independent review of the Retirement Living Service.</p> <p>The action to update the Allocations Policy to reflect legislative changes concerning new fixed term tenancies has been replaced with an action to draft a new Allocations Policy and undertake appropriate consultation.</p> <p>Two actions have been added to:</p> <ul style="list-style-type: none"> • Introduce a new Introductory and Fixed Term Tenancy Agreement and to update the Secure Tenancy Agreement following statutory consultation. • Seek approval for a new Repairs Policy.

Risk	Inherent Risk	Residual Risk	Changes
			Actions to review the cleaning and caretaking service; to seek approval for a new Void Management Policy; and to review the terms and conditions of the Tenancy Agreement have been deleted.
4. Failure of strategic leisure initiatives	9	9	The action to refurbish the Health Suite at Bramcote Leisure Centre has been deleted.
5. Failure to complete the re-development of Beeston town centre	9	9	<p>Beeston Town Centre Redevelopment Project Board and the summary risk register are added as key controls.</p> <p>Action points to agree heads of terms with the proposed cinema operator and to prepare all necessary documentation for the sale of part of the site for residential development have been added.</p> <p>The action point to facilitate a member workshop has been deleted.</p>
6. Not complying with domestic or European legislation	9	7	<p>The number of unlicensed houses in multiple occupation (HiMO) has been added as a risk indicator.</p> <p>An action point to ensure adequate staffing levels for HiMO licensing has been added.</p>
7. Failure of financial management and/or budgetary control and to implement agreed budget decisions	9	7	No change.
8. Failure to maximise collection of income due to the Council	9	7	Actions to identify and implement a suitable alternative to replace the paper based Transcash bill payment service at post offices and to consider and respond to the impact of Barclays Bank closing their branch in Eastwood have been deleted.
9. Failure of key ICT systems	9	6	No change.
10. Failure to implement Private Sector Housing Strategy in accordance with Government and Council expectations	9	5	The waiting time for disabled facilities grants (DFG) applicants has been added as a risk indicator.

Risk	Inherent Risk	Residual Risk	Changes
11. Failure to engage with partners/community to implement the Broxtowe Sustainable Community Strategy 2010 – 2020	9	5	No change.
12. Failure to implement effective Crime and Disorder Reduction Strategy	9	5	<p>Anti-Social Behaviour Panels has been added as a key control, with the number of individuals discussed at ASB Panels added as a risk indicator.</p> <p>The action to undertake consultation with regards to making a Public Spaces Protection Order at Chilwell Retail Park has been removed.</p>
13. Failure to provide housing in accordance with the Local Development Framework	9	9	<p>The Homes and Communities Agency (HCA) has been replaced as a key control with Homes England.</p> <p>The action point to optimise resources received from the Homes and Communities Agency has been replaced with an action point to optimise resources received from Homes England.</p> <p>New actions to commission a housing needs assessment and to develop a house building delivery plan have been added.</p>
14. Natural disaster or deliberate act, which affects major part of the Authority	9	7	The central government website Resilience Direct has been added as a key control.
15. Failure to mitigate the impact of the Government's welfare reform agenda	9	7	The action points to recruit to the new Financial Inclusion Officer and Tenancy Sustainment Officer posts in the Housing Department have been deleted.
16. Failure to maximise opportunities and to recognise the risks in shared services arrangements	9	7	No change.
17. Corporate and/or political leadership adversely impacting upon service delivery	9	7	No change.

Risk	Inherent Risk	Residual Risk	Changes
18. High levels of sickness	8	7	The age profile of the workforce has been added as a risk indicator.
19. Lack of skills and/or capacity to meet increasing initiatives and expectations.	8	5	The age profile of the workforce has been added as a risk indicator. An action point to assess the potential impact of a number of individuals leaving in a particular section or department over a short period of time has been added.
20. Inability to attract or retain key individuals or groups of staff	8	5	The action to undertake succession planning where appropriate has been updated to include particular emphasis on factors such as an ageing workforce and market forces.
21. Failure to fully utilise investment in ICT infrastructure	7	5	No change.
22. Processes or procedures not followed leading to ill informed decisions and/or abuse of Council facilities	7	5	The Disciplinary Policy and the Whistleblowing Policy are added as key controls. Actions to review the Employee Code of Conduct and Disciplinary Policy and to update the Whistleblowing Policy have been deleted.
23. Failure to comply with duty as a service provider and employer to groups such as children, the elderly, vulnerable adults etc.	7	5	The Customers with Additional Support Needs Policy has been added as a key control. An action point to commission an independent review of the Retirement Living Service has been added. The action point to seek approval for a Customers with Additional Support Needs Policy has been deleted.
24. Failure to ensure appropriate levels of data quality	7	5	No change.
25. Unauthorised access of data	7	5	No change.
26. High volumes of employee or client fraud	6	5	An action to report to the Governance, Audit and Standards Committee on counter fraud, corruption and money laundering prevention activity on an annual basis has been added.

Risk	Inherent Risk	Residual Risk	Changes
27. Failure to effectively communicate either externally or internally	5	5	No change.

Further Details

The following items are highlighted for the attention of Members.

1. Strategic Risk Management Group Attendance

Whilst only three members of the Strategic Risk Management Group attended the meeting on 7 February 2018, all members (with the exception of the absent Director of Legal and Planning Services) provided feedback and this has been reflected in the proposed amendments set out above.

The plans to reduce layers of top and senior management as outlined in the Employee Savings report to Finance and Resources Committee on 15 February 2018 should, once implemented, create an opportunity to review the membership of the Strategic Risk Management Group and ensure that it continues to fulfil its role within the Council's corporate governance framework.

2. Corporate Business Continuity Plan

The Interim Strategic Director and the Health and Safety Officer are reviewing the Corporate Business Continuity Plan. This will need to reflect the organisational and other changes that had taken place since it was last been reviewed. The Strategic Risk Management Group members will be required to assist with this process.

Report of the Interim Strategic Director

WORK PROGRAMME1. Purpose of report

To consider items for inclusion in the Work Programme for future meetings.

2. Background

Items which have already been suggested for inclusion in the Work Programme of future meetings are given below. Members are asked to consider any additional items that they may wish to see in the Programme.

3. Work Programme

23 July 2018	<ul style="list-style-type: none"> • Annual Review of Complaints 2017/18 • Statement of Accounts 2017/18 and ISA260 • Internal Audit Outturn 2017/18 • Review of Strategic Risk Register • Internal Audit Progress Report 2018/19 • External Quality Assessment – Improvement Plan Update
24 September 2018	<ul style="list-style-type: none"> • Internal Audit Progress Report 2018/19 • Review of Strategic Risk Register
3 December 2018	<ul style="list-style-type: none"> • Internal Audit Progress Report 2018/19 • Review of Strategic Risk Register
18 March 2019	<ul style="list-style-type: none"> • Internal Audit Plan 2019/20 • Internal Audit Progress Report 2018/19 • Review of Strategic Risk Register • External Audit Plan 2018/19

Recommendation

The Committee is asked to CONSIDER the Work Programme and RESOLVE accordingly.

Background papers

Nil



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Private & confidential

Zulfiqar Darr
Interim Deputy Chief Executive
Broxtowe Borough Council
Foster Avenue
Beeston
Nottingham NG9 1AB

Our ref JG/BBC/Grants/1617

29 January 2018

Dear Zulf

Broxtowe Borough Council – Certification of claims and returns – annual report 2016/17

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2016/17 for Broxtowe Borough Council (the “Authority”).

In 2016/17 we carried out certification work on the Housing Benefit Subsidy claim and the Pooling of Housing Capital Receipts return.

Housing Benefit Subsidy claim

The certified value of the claim was £21.7 million, and we completed our work and certified the claim on 30 November 2017. This was completed under the existing Public Sector Audit Appointment certification arrangements.

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work did not identify any issues or errors and we certified the claim unqualified without amendment. Consequently we have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Pooling of Housing Capital Receipts return

The Authority engaged with us separately to provide a report and certify, in our opinion, whether we have obtained sufficient appropriate evidence that the amounts shown in the return relating only to the work specific in DCLG's 'Assurance Instruction (Reasonable) CFB06 (16-17)(8-17)' are in all material respects, in accordance with the relevant terms and conditions as set by DCLG.

We certified the return on 30 November 2017. Our work did not identify any issues or errors and we certified the claim unqualified without amendment. Consequently we have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our Housing Benefits certification work in 2016/17 of £10,125. We are pleased to report that our actual fee was the same as the indicative fee.

Our fee for the Pooling engagement was subject to agreement directly with the Authority and was £3,600.

Yours sincerely



KPMG LLP



External Audit Plan 2017/2018

**Broxtowe Borough
Council**

March 2018

Summary for Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority needs to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. This represents a significant change for Broxtowe Borough Council and will need to be carefully managed in order to ensure the new deadlines are met. As a result, we have recognised a significant risk in relation to this matter.

In order to meet the revised deadlines it will be essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved, there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at £1,000,000.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £50,000.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated.
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure the accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will continue to work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

See pages 4 to 10 for more details

Summary for Audit Committee (cont.)

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk to date:

- **Financial resilience** – As a result of reductions in central government funding, and other pressures, the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan.
- We will review the arrangements for assuring delivery of the Authority's savings programme and review the delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan. In addition, we will evaluate the arrangements the Authority have in place in identifying further savings for future years.
- We will update our assessment throughout the year should any issues present themselves and report against these in our ISA 260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.
- **See pages 11 to 15 for more details**

Logistics

Our team is:

- Andrew Cardoza – Director
- Robert Chidlow – Senior Manager
- Louise Bostock – Assistant Manager

More details are in **Appendix 2**.

Our work will be completed in four phases from December 2017 to July 2018 and our key deliverables are this Audit Plan, an Interim Letter (if applicable), and a Report to Those Charged With Governance as outlined on **page 10**.

Our planned fee for the 2017/18 audit is £46,503 which is consistent with the prior year as this scale fee is published by PSAA. Due to additional work in 2016/17 we are pending confirmation of the final 2016/17 fee from the PSAA.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

01 | Financial statements:
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 | Use of resources:
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reported to the Audit Committee.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2017/18 and the findings of our VFM risk assessment.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to February 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

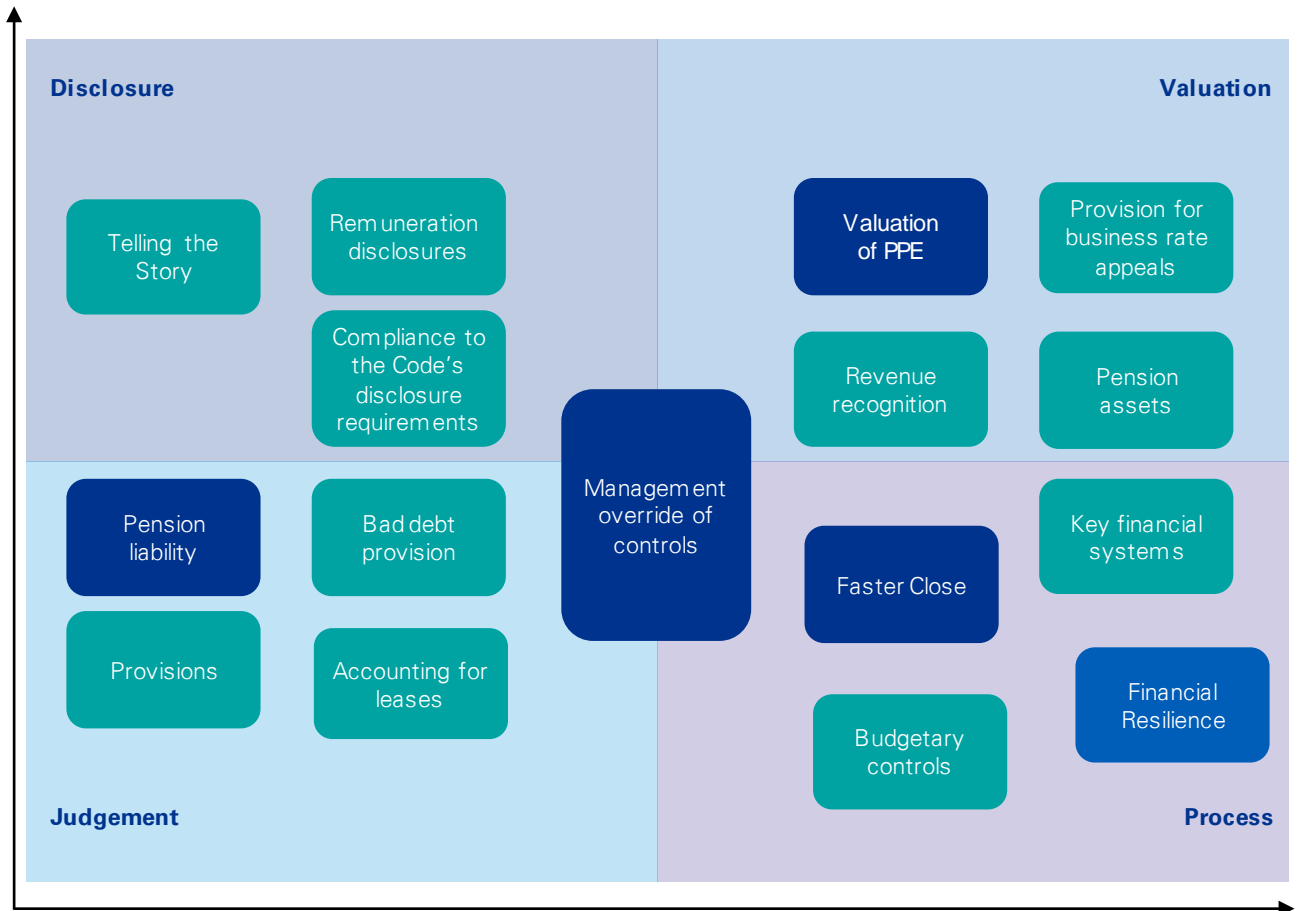
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ■ Significant risk ■ Other areas of audit focus ■ Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk: Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year since the valuation date.

In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk: Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire County Council Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.

Approach:

As part of our work we will review the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Barnett Waddingham.

We will review the appropriateness of the key assumptions included within the valuation with the use of a KPMG actuary. Our actuary will also review the methodology applied in the valuation by Barnett Waddingham.

In addition, we will review the overall actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk: **Faster Close**

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date whilst work is on-going in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £1,000,000 which equates to 1.8 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Authority Prior Year Normalised Gross Expenditure: £56.8 million

Materiality

£1,000,000

1.8% of Expenditure

(2016/17: £1,000,000,
1.5%)



Financial statements audit planning (cont.)

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50,000.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure
(Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

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 VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage



VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.



Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.



Identification of significant risks

Audit approach

The Code identifies a matter as significant '*if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage



Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports; and
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and outside the sector.



Concluding on VFM arrangements

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



Reporting

Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

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

Risk: **Financial Resilience**

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget and generating income required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.

The risk for the Authority is that given the unpredictability in the local government environment and cost pressures, it is not able to develop and deliver its strategy.

Approach: As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

VFM Sub-criterion: This risk is related to the following Value For Money sub-criterion

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

Other matters

Whole of government accounts (WGA)

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Authority. Deadlines for completion of this for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.



Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/18 audit. This letter also sets out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report to you in due course.

The planned audit fee for 2017/18 is £46,503, which is consistent with the PSAA scale fee.

Appendix 1:

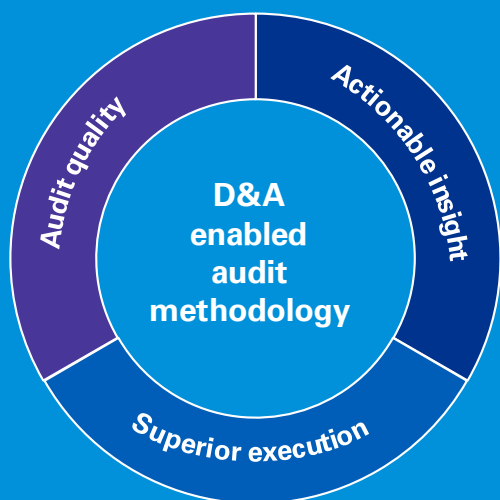
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around journals.



Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

Substantive testing

- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit Committee reporting.

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department.



Andrew Cardoza

Director

T: 0121 2323869

E: Andrew.Cardoza@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.'

I will be the main point of contact for the Audit Committee and Chief Executive.'



Robert Chidlow

Senior Manager

T: 0121 2323074

E: Robert.Chidlow@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.'

I will work closely with the Deputy Chief Executive and Head of Financial Services to ensure we add value.'

I will liaise with the Head of Resources and other Heads of Service.'



Louise Bostock

Assistant Manager

T: 0115 936 3649

E: Louise.Bostock@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF BROXTOWE BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Andrew Cardoza

KPMG LLP





kpmg.com/uk



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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