



21 June 2021

AUDIT AND ETHICS COMMITTEE – 29 JUNE 2021

A meeting of Audit and Ethics Committee will be held at 5.30pm on Tuesday 29 June 2021 in the Council Chamber at the Town Hall, Rugby.

Members of the public may view the meeting via the livestream from the Council's website.

Mannie Ketley
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 30 March 2021.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors; and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. External Audit Plan 2020/21
5. Informing the Audit Risk Assessment for Rugby Borough Council 2020/21
6. Treasury Management 2020/21 Annual Report
7. Annual Report of the Corporate Assurance and Improvement Manager
8. Internal Audit Plan 2021/22
9. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents – Standing Item – to receive any updates.
2. Fraud and Corruption Issues – Standing Item – to receive any updates.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers are attached.

Membership of the Committee: Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Bearne, McQueen, Mistry and Ms Watson-Merret

Named Substitutes: Councillors Mrs A'Barrow, Mrs O'Rourke, Mrs Roberts and Roodhouse

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

AGENDA MANAGEMENT SHEET

Report Title:	External Audit Plan 2020/21
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	29 June 2021
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	Not ward specific
Prior Consultation:	N/A
Contact Officer:	Jon Illingworth, Section 151 and Chief Finance Officer, 01788 533410 or jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities:	This report relates to the following priority(ies): <input type="checkbox"/> Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) <input type="checkbox"/> Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) <input type="checkbox"/> Residents live healthy, independent lives, with the most vulnerable protected. (HC) <input checked="" type="checkbox"/> Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 <input type="checkbox"/> This report does not specifically relate to any Council priorities but
Summary:	The External Audit Plan 2020/21 has been developed by our appointed external auditor (Grant Thornton) and sets out the proposed external audit work and fee relating to the annual audit at Rugby.
Financial Implications:	The proposed fee for the 2020/21 annual audit will need to be met from existing budget provision.

Risk Management Implications:	There are no risk management implications arising from this report.
Environmental Implications:	There are no environment implications arising from this report.
Legal Implications:	The are no legal implications arising from this report.
Equality and Diversity:	The are no equality and diversity implications arising from this report.
Options:	Not applicable
Recommendation:	The updated External Audit Plan and fee for 2020/21 be approved.
Reasons for Recommendation:	The External Audit Plan 2020/21 proposes an appropriate level and scope of external audit work to audit the statement of accounts and give an opinion on the Council's value for money arrangements. Appointed Auditor's work and findings and the charges relating to their work.

Audit and Ethics Committee - 29 June 2021

External Audit Plan 2020/21

Public Report of the Chief Officer - Finance and Performance

Recommendation

The External Audit Plan and proposed fee for 2020/21 be approved.

Background

Grant Thornton, the Council's appointed external auditor, has submitted their External Audit Plan and fee proposal for the 2020/21 annual audit (attached as an Appendix) following consultation with the Chief Financial Officer.

A representative from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Subject Matter: External Audit Plan 2020/21

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A



Rugby Borough Council audit plan

Year ending 31 March 2021

Rugby Borough Council
29 June 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Sector wide issues

- MHCLG has amended regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September for a period of two years. At the end of this period, MHCLG will review whether there is a continued need to have an extended deadline.
- CIPFA/ LASAAC have announced deferral of IFRS 16 for local authorities to 1 April 2022.
- The FRC thematic reviews published have identified areas for improvement which are relevant to local government in regard to IFRS 15 (revenue from contracts with customers), cash flow statements and the financial reporting effects of COVID-19

Impact of Covid 19 pandemic

- The impact of COVID-19 has been unprecedented on service provision, and the Council have seen a reduction in revenue from discretionary fees and charges.
- Property markets remain volatile in 2020/21 due to the ongoing impact of the pandemic.
- The Q3 budget monitoring report notes that the potential risk of increased pressure and loss of income included in the Q3 forecast total due to COVID is £3.1m.
- Several COVID-19 measures implemented in 2020/21 will need consideration in order to determine whether there is income and expenditure to be recognised in the CIES.

Other Local issue

- The Council have undergone a reorganisation of executive management in the period
- A business plan is in place to incorporate a Local Authority trading company (LATC) to undertake property development in the borough with a partner organisation

Our response

- We will work flexibly in partnership with officers to endeavour to deliver to the revised statutory deadlines.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Strategic Director for Resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work. This will specifically consider the impact of COVID-19.
- Our work on grant funding will establish whether new sources of revenue received in the period have been accounted for appropriately on a principal or agent basis, conditions have been met and income is classified correctly.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 5
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. We identified a significant risk in regards to the valuation of properties – refer to page 6.
- We are in ongoing dialogue with management in regard to new, innovative developments such as subsidiary companies and will consider these from a Value for Money and accounting perspective

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Rugby Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the *Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Warwickshire County Council*. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Ethics committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Ethics Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

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

- Management override of controls
- Valuation of land and buildings and investment properties
- Valuation of the net defined benefit pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.1m (PY £1.1m) for the Council, which equates to 1.85% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £55k (PY £55k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Medium term financial sustainability

Audit logistics

Our interim visit took place in March and April and our final visit will take place in July to August. Our key deliverables are this Audit Plan and our Audit Findings Report. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £63,825 (PY: £48,325) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in revenue recognition (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Rugby Borough Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment property	<p>The Authority revalues its land and buildings (including HRA dwellings) on a rolling five year basis, and investment properties on an annual basis.</p> <p>In the intervening years, to ensure the carrying value in the Authority financial statements is not materially different from the current value or fair value at the financial statements date, the Authority seeks assurance from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end
	<p>We therefore identified valuation of the Authority's land and buildings and investment properties as a significant risk.</p>	
Valuation of the net defined benefit pension fund liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Ethics Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management which will be presented to the Audit and Ethics Committee in June 2021 in a separate document named 'Informing the Audit Risk Assessment'. Members of the Committee are required to consider these responses and confirm that they are consistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Progress against prior year audit recommendations

We identified the following issue in our 2019/20 audit of the Council's financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings Report. We are pleased to report that management have implemented our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p data-bbox="322 691 607 715">Fixed assets not revalued</p> <p data-bbox="322 746 1120 858">As part of the final accounts process, management write a letter to expert Godfrey-Payton seeking representation that in their professional judgement, there has been no material movement in the value of assets not subject to revaluation as part of the five-year rolling programme.</p> <p data-bbox="322 874 1120 959">In 2019/20, we requested that management substantiate assertions that there have been no material movement by performing a quantitative assessment of assets not revalued using market data.</p> <p data-bbox="322 975 1120 1139">This identified a small number of assets that when simply indexed using national indices provided indicators that they could have moved materially since the last revaluation date. Ultimately, we challenged and gained assurance through discussion with management's expert that based on the provisions of the RICS Red Book and local factors that these assets were not materially misstated.</p> <p data-bbox="322 1155 1120 1240">However, this has highlighted an area where improvements of arrangements in place between valuations as part of the rolling programme of revaluations could be improved.</p> <p data-bbox="322 1256 1120 1452">We recommend that in addition to the letter of support received from management's expert, an exercise is undertaken annually to compare assets not revalued to movement in indices and market data to ensure the carrying amount of other land and buildings is not materially different to the fair value. Where anomalies are identified, these should be discussed with management's expert and addressed accordingly through explanation or targeted revaluation outside of the rolling programme.</p>	<p data-bbox="1162 691 2121 775">Management, in conjunction with management's expert, have been proactive in reviewing the procedures in place in regard to the rolling programme of revaluations. This includes a detailed review of assets not revalued in the period.</p> <p data-bbox="1162 791 2121 930">As part of the accounts closedown process, management have agreed to prepare a working paper demonstrating potential movements in the aforementioned assets not revalued with reference to relevant indices. Where potential movements are significant, explanation will be sought with corroborative evidence to support the value reported in the financial statements as at 31 March 2021.</p>

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.1m (PY £1.1m) for the Council, which equates to 1.85% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for Senior officer remuneration due to public interest in this area of the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

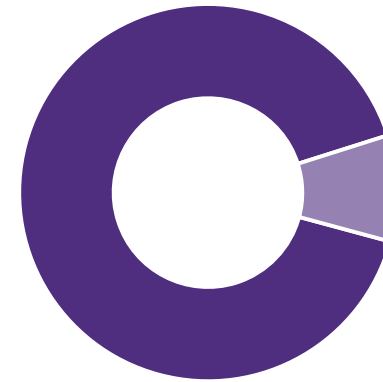
Matters we will report to the Audit and Ethics Committee

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 and Ethics Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) '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) 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55k (PY £55k).

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

Prior year gross operating costs

£59.5m



■ Prior year gross operating costs

Materiality

£1.1m

Council financial statements materiality (PY: £1.1m)



£55k

Misstatements reported to the Audit and Ethics Committee (PY: £55k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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



Medium term financial sustainability

The Council have set a balanced budget for 2021/22 which includes a savings target of £518k and a number of key decisions including the contribution to reserves for future periods. However, there is a currently a shortfall over the lifetime of the medium term financial plan of £2,895k, in addition to savings already budgeted. This represents a significant challenge for the authority against a backdrop of much uncertainty in terms of the future of Local Government financing and the ongoing pressures created by the COVID-19 pandemic.

Risk response

In response to the risk identified, we will perform further work to understand:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium term plans
- How the Council plans to bridge its funding gaps and identifies achievable savings
- How the Council plans finances to support sustainable delivery of services
- How the Council ensures its financial plan is consistent with other plans; and
- How the Council identifies and manages risks to financial resilience

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Avtar Sohal, Key Audit Partner



Avtar will be the main point of contact for the Chair, Chief Financial Officer and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Avtar will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Avtar will sign your audit opinion.

Jim McLarnon, Audit Manager



Jim will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Committee meetings with Avtar, and supervise Allison in leading the on-site team. Jim will undertake reviews of the team's work and draft clear, concise and understandable reports

Allison Thomas, Audit Incharge



Allison will be the day to day contact for the audit, organising our visits and liaising with authority and pension fund staff. She will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Rugby Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £42,325. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £9,000 (22%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Chief Financial Officer.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Rugby Borough Council Audit	£46,825	£48,325	£63,825
Total audit fees (excluding VAT)	£46,825	£48,325	£63,825

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£42,325
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
Audit fee 2019/20	£48,325
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540, 240 and 700	£6,500
Proposed increase to agreed 2019/20 fee	£15,500
Total audit fees (excluding VAT)	£63,825

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.








None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits subsidy claim (HBAP)	19,600	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,600 in comparison to the total fee for the audit of £65,325 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	We have not prepared the form which we review and do not expect material misstatements to the financial statements to arise from this service.
		Management	Changes to the return and the factual accuracy of our report will be agreed with informed management.
Certification of Pooling of Housing Capital Receipts return	2,300	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,300 in comparison to the total fee for the audit of £65,325 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	We have not prepared the form which we review and do not expect material misstatements to the financial statements to arise from this service.
		Management	Changes to the return and the factual accuracy of our report will be agreed with informed management.










Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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AGENDA MANAGEMENT SHEET

Report Title: Informing the Audit Risk Assessment for Rugby Borough Council 2020/21

Name of Committee: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Report Director: Chief Officer - Finance and Performance

Portfolio: Finance, Performance, Legal and Governance

Ward Relevance: Not ward specific

Prior Consultation: N/A

Contact Officer: Jon Illingworth, Section 151 and Chief Finance Officer, 01788 533410 or jon.illingworth@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: Yes

Corporate Priorities: This report relates to the following priority(ies):
 Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C)
 Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E)
 Residents live healthy, independent lives, with the most vulnerable protected. (HC)
 Rugby Borough Council is a responsible, effective and efficient organisation. (O)
[Corporate Strategy 2021-2024](#)
 This report does not specifically relate to any Council priorities but

Summary: This is a report from our appointed external auditor (Grant Thornton) which seeks to ensure that there is effective two-way communication between the Audit and Ethics Committee and the external auditor regarding the risks relating to the 2020/21 external audit of the Council.

Financial Implications:	There are no financial implications arising from this report.
Risk Management Implications:	There are no risk management implications arising from this report.
Environmental Implications:	There are no environment implications arising from this report.
Legal Implications:	The are no legal implications arising from this report.
Equality and Diversity:	The are no equality and diversity implications arising from this report.
Options:	Not applicable
Recommendation:	The committee to confirm that it is satisfied with the arrangements currently in place identified in the appended report.
Reasons for Recommendation:	The external auditor has a professional responsibility to ensure that there is effective two-way communication between the auditor and the Council's Audit and Ethics Committee to help reduce the risk of material misstatement.

Audit and Ethics Committee - 29 June 2021

**Informing the Audit Risk Assessment for
Rugby Borough Council 2020/21**

Public Report of the Chief Officer - Finance and Performance

Recommendation

The committee to confirm that it is satisfied with the arrangements currently in place identified in the appended report.

Background

Grant Thornton, the Council's appointed external auditor, has submitted a report (attached as an Appendix) on the arrangements currently in place to inform the audit risk assessment for the Council.

A representative from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Subject Matter: Informing the Audit Risk Assessment for Rugby Borough Council 2020/21

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A



Informing the audit risk assessment for Rugby Borough Council 2020/21

Avtar Sohal
Director
0121 232 5420
Avtar.S.Sohal@uk.gt.com



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Rugby Borough Council's external auditors and Rugby Borough Council's Audit & Ethics Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Ethics Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Ethics Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Ethics Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Ethics Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Ethics Committee and supports the Audit & Ethics Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit & Ethics Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

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Purpose

This report includes a series of questions on each of these areas and the response we have received from Rugby Borough Council's management. The Audit & Ethics Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

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General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The Council has faced the challenges arising from the Covid-19 pandemic which has impacted on all aspects of the Council's activities ranging from service delivery, expenditure supporting the community, income streams and its own operating activities with staff working remotely.</p> <p>The Covid-19 pandemic will also create a level of uncertainty on the Council's own reporting through its financial statements as the experts used to provide balance sheet estimates have less certainty, given the current economic situation, in the valuation of assets.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Rugby Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The accounting policies that are adopted are reviewed and approved by Audit and Ethics Committee as part of the planning process for the year's closedown of accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Yes, the Council holds both an investment and borrowing portfolio, covering a variety of instruments, as part of normal treasury management activity.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>The Council's normal course of business has changed as a result of the Covid-19 pandemic, in line with Government policy and requirements. Other than the Covid-19 response, no.</p>

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	As part of the valuation of non-current assets, undertaken by external valuers, an assessment is made of any requirement for impairment. There has been no impairments identified by internal officers as part of the day to day service management.
6. Are you aware of any guarantee contracts?	There were no financial guarantee contracts in 2020/21. The Council has entered into an arrangement from 1 April 2021 for the development of the Sherbourne Recycling Facility, in partnership with other local authorities, for which a guarantee has been given to Coventry City Council. This arrangement has been included in Events After the Reporting Period. There is no impact on the financial statements for 2020/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Rugby Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The authority is part of the EM Lawshare Framework Using the following providers Bevan Brittan Browne Jacobson Freeths Geldards Sharpe Pritchard Weightmans Anthony Collins In terms of Barrister Chambers we regularly use No5 Chamber.

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General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	There have been no such reports by service providers during 2020/21.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset Services – Contracted Treasury Management Advisors PS Tax – Contracted VAT advisors

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Ethics Committee and management. Management, with the oversight of the Audit & Ethics Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Ethics Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Rugby Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Ethics Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Ethics Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Ethics Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Rugby Borough Council's management.

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Fraud risk assessment

Question	Management response
<p>1. Have Rugby Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>A full assessment of fraud risks was conducted across all Council departments in 2016/17 and again in 2018/19. The review resulted in an action plan, delivery of which was overseen by the Corporate Assurance and Improvement team. This included the finance department. The process will be repeated again in 2020/21. The finance team maintains an operational risk register, with support from the Corporate Assurance and Improvement team, which includes evaluation of fraud related risks. The risk of fraud is specifically considered at the planning stage for every internal audit.</p> <p>The corporate governance framework is reviewed by the Audit & Ethics Committee; this includes the risk of fraud in relation to the control environment. The Committee considers all internal audit reports where there is limited or no assurance. The annual report from the Corporate Assurance and Improvement Manager on the adequacy of internal control, governance and risk management arrangements will also identify any significant fraud risk areas. Investigations of suspected fraud are undertaken by the Corporate Assurance and Improvement team. The Corporate Assurance and Improvement Manager keeps the Executive Director and s151 officer informed of any fraud investigations and provides the Audit & Ethics Committee with a fraud activity report at each meeting. Any issues related to fraud/ control breaches are also reported to and considered by the Strategic Risk Management Group.</p> <p>Fraud, bribery and corruption training has been delivered to all managers and members. Fraud awareness training is also being delivered to all departments as part of a rolling plan. Furthermore, the internal audit plan includes proactive counter fraud assurance work. In 2019 all employees were required, via metacompliance, to confirm their receipt and understanding of the Council's anti fraud, bribery and corruption arrangements. This included a knowledge test. The arrangements for managing the risk of fraud are considered adequate.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The riskiest areas at present are considered to be in relation to payments to new suppliers and non compliance with procurement rules in relation to such suppliers.</p>

Commercial in confidence

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Rugby Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There is one ongoing case, the details of which have been reported separately to Grant Thornton. Remedial actions have also been discussed. External audit will be kept informed of progress.</p> <p>In relation to governance, please see Question 1, which outlines the arrangements in place.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Rugby Borough Council where fraud is more likely to occur?</p>	<p>Please refer to separate report completed by the Corporate Assurance and Improvement service, which has previously been shared with external audit (copy available on request). Fraud related risks are also specifically considered and evaluated for each department, and documented on operational risk registers.</p> <p>The corporate COVID 19 risk register highlights the risk of non compliance with controls during the pandemic and arrangements for mitigating this. This risk register has also been reported to and considered by the Audit & Ethics Committee and is overseen by SMT.</p> <p>The opinion of the Corporate Assurance and Improvement Manager is that the control environment for preventing and detecting fraud is generally sound, though it cannot guarantee that fraud will not take place.</p> <p>A concern has arisen in 2020/21 in relation to the Property Repairs Service; this along with remedial actions has been discussed separately with external audit.</p>
<p>5. What processes do Rugby Borough Council have in place to identify and respond to risks of fraud?</p>	<p>A full review is carried out by the Corporate Assurance and Improvement team every 2-3 years. The most recent review was completed in 2018/19 and resulted in Substantial assurance. A copy of the report has been provided to external audit provided. The previous review was completed in 2016/17 and the next one will be completed in 2021. An anti fraud, bribery and corruption strategy is in place along with a Fraud Response plan. These have been cascaded to staff along with the confidential reporting code.</p>

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Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Rugby Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>An annual internal audit plan is in place, which results in an annual opinion provided to the Council by the Corporate Assurance and Improvement Manager. The most recent report, for 2019/20, provided a Substantial level of assurance to the Council.</p> <p>Fraud risks, including segregation of duties, are considered and evaluated as standard, during the planning stage for each internal audit review.</p> <p>As noted above, one recent area of concern has been reported to external audit.</p> <p>Controls in place to mitigate the risks of fraud are documented on risk registers, which are available on request.</p> <p>The Corporate Assurance and Improvement Manager is not aware of any areas where there is potential for override of controls or inappropriate influence over the financial reporting process.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None identified.</p> <p>The financial statements are subject to internal quality assurance control checks including:</p> <ol style="list-style-type: none"> checks for high risk activities and analytical reviews with the objective of identifying any significant year on year variances. <p>A risk assessment process related to the preparation of accounts is completed based upon the audit issues raised by both Internal and External Audit. The monthly monitoring of service revenue and capital budgets will identify any risk of material misstatements.</p> <p>External experts are used for major areas that require estimation and the basis of these estimates are reviewed to ensure that they are reasonable.</p>

Commercial in confidence

Fraud risk assessment

Question	Management response
<p>8. How do Rugby Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>There is a Code of Conduct in place for all employees and members which outlines the Council's expectations for business practice and ethical behaviour. Registers of gifts and hospitality in place. Employees have been made aware of the anti-fraud, bribery and corruption strategy, fraud response plan and confidential reporting code. They have been required to confirm they have read and understood these documents and to take a short online test on the contents of the fraud response plan. There are a number of mechanisms through which employees are encouraged to report their concerns; these are set out in the Fraud Response Plan and Confidential Reporting Code.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Fraud risks are not evaluated by "post" but rather by service area. A full review was completed across all departments in 2018/19. An action plan was developed and delivery monitored by the Corporate Assurance and Improvement team. A further review will be completed in 2021/22.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Most of the related party transactions that could give rise to potential fraud are those in which councillors have a direct interest. Risks are mitigated, by the councillor declarations of interest and non-participation in debates linked to these declarations.</p>

Commercial in confidence

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit & Ethics Committee? How does the Audit & Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The reporting of fraud issues and risks to the Audit & Ethics Committee is made by various methods:</p> <ol style="list-style-type: none"> 1) Investigation reports by the Corporate Assurance and Improvement Manager as a result of the Whistleblowing Policy. 2) The Annual Governance Statement contains the arrangements for managing fraud risks and is reviewed by the Audit & Ethics Committee. 3) Fraud, corruption and whistle blowing are standing items on the Audit & Ethics Committee agenda. 4) The annual report of the Corporate Assurance and Improvement Manager details the counter fraud assurance work completed each year and this is considered by the Audit & Ethics Committee. <p>There has been 1 significant case reported in 2020/21, details of which have been reported to the s151 officer, Monitoring Officer, Executive Director, Audit & Ethics Committee and external audit.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>There is one ongoing case, which is referred to elsewhere in this response document.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>There have been no reports under the Bribery Act during 2020/21.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Ethics Committee, is responsible for ensuring that Rugby Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Ethics Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

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Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Rugby Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>It is managers' responsibility to ensure that all relevant laws and regulations for their service area are complied with. This requirement forms part of their contract of employment. When a service is audited, one of the areas reviewed is compliance with relevant laws and regulations. Where breaches are identified the Corporate Assurance and Improvement Manager and Monitoring Officer should be informed. The Monitoring Officer will advise the Council's Senior Management team and councillors as appropriate.</p> <p>There are also wide constitutional powers granted to the Monitoring Officer to investigate matters.</p> <p>The Council also has a Confidential Reporting Code under the Constitution.</p>
<p>2. How is the Audit & Ethics Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance over compliance with the Council's Constitution is provided through the Annual Governance Statement reported to Audit and Ethics Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None.</p>

Commercial in confidence

Impact of laws and regulations

Question	Management response
5. What arrangements does Rugby Borough Council have in place to identify, evaluate and account for litigation or claims?	Any potential claims are received by either the Councils' Legal Services team or the Risk Management and Insurance Officer. All claims registered with the latter are passed directly to the Council's insurers.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	As with a number of other local authorities nationally, a review of the eligibility to recover VAT for certain elections has been undertaken by HMRC and the Council has repaid any VAT overclaimed.

Related Parties

Issue

Matters in relation to Related Parties

Rugby Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Rugby Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

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Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Rugby Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Rugby Borough Council • Whether Rugby Borough Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>Related parties are reviewed as part of the year end closure of accounts, and include reviews of Members' and Senior Officers' activities and of relationships with other local authorities and partnership arrangements.. There have been no significant changes since the audit of the 2019/20 financial statements.</p>
<p>2. What controls does Rugby Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Councillors and officers cannot and do not participate in decisions where they are a related party. Annual accounts disclosures for related parties and transactions are reviewed for completeness by the Finance Team and the Council's Monitoring Officer as part of the Annual Declaration of Interests.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council has financial regulations in place for entering into contracts and for authorising payments to third parties. Members and Officers are required to declare any conflicts of interest where appropriate. A review is undertaken each year of activities with related parties and any anomalies identified.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>2020/21 has been an unusual year in that the Council has had to respond to the impact of Covid-19 which has meant that it has received significant additional funding from government leading to significant payments to third parties. Where there was discretion in payments made, the payment process was approved by the Interim Chief Finance Officer. Where the Council was passporting payments through, a review of eligibility was undertaken by the Internal Audit Team to ensure that payments were appropriate.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Commercial in confidence

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The major areas within the financial statements where estimation is required to provide year end balance sheet values are</p> <ul style="list-style-type: none"> • Non current assets • Financial instruments, particularly those for longer term investments • Expected credit losses and bad debt provisions • Pension liabilities <p>In each of these cases, there is an element of subjectivity in determining valuations. In respect of non-current assets, pensions and financial instruments, external experts are used to support the Council and in respect of any expected credit losses or bad debt provision previous performance is used to support forward looking estimate.</p>
<p>2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The use of external experts minimises the risk of material error in carrying values. Discussions are held with the external experts, and challenge where there are significant movements between years, to ensure that the basis of estimates, and any limitation in those estimates is understood and fully disclosed</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>The Council ensures that staff skills are maintained through attendance by staff at key accounting training events so that sector wide issues can be identified. Also, as part of the discussions with external experts, it is expected that issues of particular significance will be raised for consideration where appropriate.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Where there are significant movements from year to year or where there are issues that have occurred which are considered to have a potential impact on estimates, for example the Covid-19 pandemic, then these will be discussed with the relevant external expert.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>The Council has continued to review the advice of external experts used in the determination of estimates to ensure that assumptions used and the outcomes are clearly understood.</p>

Commercial in confidence

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Council reviews its activities to identify those areas where there are material items on the balance sheet and where there are potential for significant movements from year to year, particularly in the current climate where there is significant economic uncertainty. The major areas where estimates are required relate to valuations of non-current assets, financial instruments, pension liabilities. The Council uses external experts to provide support in determining carrying values on the balance sheet. The Council also takes advice from its in-house legal team in respect of provisions, particularly where the Council is involved in litigation to help determine the likelihood and extent of any potential liabilities.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Where external experts are used to provide values for accounting estimates, there will be regular dialogue with the expert to understand the basis of and any limitations to their estimates. Checks will also be undertaken on any significant movements between years, or where there is no movement and one would be expected, so that a complete understanding of the estimate can be gained. Where appropriate, experts are challenged on their assumptions to determine their robustness and to seek updated valuations if necessary.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Monitoring of work undertaken by experts is mainly undertaken on receipt of their outputs, both in terms of the actual valuation and in the accompanying report stating how the estimate was reached. Comparisons are made with previous years to determine any movement and assess whether these are reasonable.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	In addition to the discussion and oversight of the external experts, a review of valuations is undertaken with the Section 151 officer prior to finalisation of the accounts. This discussion will include setting out how the estimate has been reached and what challenge process has been undertaken with the external valuer. Where internal estimates have been determined these have been based on reasonable assumptions of discounted cashflows to bring the estimate to a present day value. The major estimates in the accounts relate to non-current assets, financial instruments, pension liabilities and provisions.

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Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, the Council believes so.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>The committee will review policy documents including the Capital Strategy Incorporating the Treasury Management and Investment Strategy</p> <p>On an annual basis a report is presented to the committee in order for the years accounting policies to be approved</p> <p>Compliance against the CIPFA Financial Management Code will also be reported to the committee was the compliance review is undertaken</p> <p>The Council's financial statements are reported directly to and approved independently by the Audit and Ethics Committee.</p>

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Valuations are made by an external valuer (local RICS/CIB Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews	Capital Accountant notifies the valuer of the programme of rolling valuations or of any conditions that warrant an interim revaluation through the valuation instruction, prepared in line with the CIPFA code of Practice and RICS guidance	Yes –use of local RICS/CIB Member for valuations	Valuations are made in line with RICS guidance and prevailing market conditions with reliance on expert. Valuations, by their very nature are subject to uncertainty due to market fluctuations.	No
Estimated remaining useful lives of land and buildings	The following asset categories have general asset lives: · Buildings 5-60 years · Equipment/vehicles 3-25 years · Plant 3-25 years · Infrastructure 7-40 years Budget officers are asked to review their capital charges annually for any asset lives changes.	Consistent asset lives applied to each asset category Capital Accountant requests a further review at year end.	Yes –use of local RICS/CIB Member for valuations	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years, although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. Overall, the length of life would reflect the views of the external qualified RICS or CIB Member	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	Valuations are undertaken by an externally appointed RICS/CIB qualified valuer in accordance with the Guidance on Stock Valuation for Resource Accounting	The external valuer is issued a valuation instruction in line with recommended practise.	Yes –use of local RICS/CIB Member for valuations	Valuations by their very nature are subject to uncertainty due to market fluctuations. Where significant variations occur, discussions are held with the external valuation to understand the underlying reasons for change.	No
Investment property valuations	Valuations are made by an externally appointed RICS/CIB qualified valuer each year. Valuations are based on relevant market data from properties with similar characteristics.	The external valuer is issued a valuation instruction in line with recommended practise.	Yes –use of local RICS/CIB Member for valuations	Valuations by their very nature are subject to uncertainty due to market fluctuations. Where significant variations occur, discussions are held with the external valuation to understand the underlying reasons for change.	No
Depreciation and Amortisation	Depreciation is provided for on all relevant non-current assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets	Yes –use of the Local RICS/CIB Member for valuation	The length of the life is determined at the point of acquisition or revaluation. Assets that are not fully constructed are not depreciated until they are brought into use.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed each year 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.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Yes –use of the local RICS/CIB Member for Valuation	Valuations are made in line with RICS guidance –reliance on expert	No
Fair Value Measurements	Council Values financial instruments at fair value based on classification and measurement approach that reflects the business model for holding financial assets and their cashflow characteristics	Review service provided by treasury consultants	Yes –treasury consultants	Take advice from finance Professionals.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The Council is an admitted body to Warwickshire Pension Fund. The administering authority (Warwickshire County Council) engages the actuary – Hymans Robertson – who provide the estimate of the pension liability and the calculated actuarial gains and losses figures. These figures are based on making % adjustments to the closing values of assets/liabilities.	Take advice from professionals. The Council are provided with an actuarial report from the consulting actuary - Hymans Robertson (LGPS).	Yes external actuary advice	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Accruals	Financial Services collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest information has been used	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for Liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	The Financial Services team calculate the provision	No	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 by the Council.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for Business rates appeal	Rugby Borough Council has been using the national average of 4.7% of gross rates to calculate future appeal losses since the introduction of the 2017 list and the check challenge appeal (CCA) system.	The Financial Services team calculate the provision alongside Analyse Local data.	Analyse Local	The whole CCA process takes a couple of years, so data comes through very slowly. There is a high probability that many business owners or agents will not submit a CCA until the Government announces a deadline for the 2017 list, as there was a big surge at the end of the 2010 list. It has been very difficult to get any information on checks, challenges or appeals from the VOA. The RBC Revenues Team only find out of their existence when a successful RV change is reported on our weekly VOA property schedules. These frustrations are shared at the quarterly meetings of the Coventry & Warwickshire Business Rates Pool and most authorities use the 4.7% approach due to lack of alternative data.	No
Impairment allowance for doubtful debt	A provision is estimated using a proportion basis of an aged debt listing	The Financial Services team calculate the provision	No	Consistent proportion used across aged debt	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	S151 Officer makes an assessment based on quantitative and qualitative factors which may be of import to the readers of the accounts. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Heads of Service notify the S151 Office of matters, of a significant nature, that may have occurred.	This would be considered on individual circumstances	This would be considered on individual Circumstances.	No
Finance lease liabilities	The Council has one lease that is accounted for as a finance lease. The lease agreement is for 999 years with a charge of one peppercorn per annum, if requested.	The liabilities are nil in the financial statements.	No	The lease is for 999 years at a nominal amount so there will be no changes for the foreseeable future	No



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AGENDA MANAGEMENT SHEET

Report Title:	Treasury Management 2020/21 Annual Report
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	29 June 2021
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Section 151 and Chief Finance Officer, 01788 533410 or jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities:	This report relates to the following priority(ies): <input type="checkbox"/> Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) <input type="checkbox"/> Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) <input type="checkbox"/> Residents live healthy, independent lives, with the most vulnerable protected. (HC) <input checked="" type="checkbox"/> Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 <input type="checkbox"/> This report does not specifically relate to any Council priorities but
Summary:	The report sets out the Treasury Management activities for 2020/21.
Financial Implications:	The report ensures that Cabinet is aware of the final Treasury Management position for 2020/21.

Risk Management Implications:	Risk management considerations are set out within the report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	As this report complies with the Treasury Management Code of Practice, which was approved by Council, no other options have been considered.
Recommendation:	1) The Treasury Management report for 2020/21 be considered. 2) The actual treasury management indicators (Appendix A) be noted.
Reasons for Recommendation:	To provide Members with relevant information to make informed decisions around Treasury Management Activity and, in line with best practice, comply with the Code of Practice.

Audit and Ethics Committee - 29 June 2021

Treasury Management 2020/21 Annual Report

Public Report of the Chief Officer - Finance and Performance

Recommendation

- 1) The Treasury Management report for 2020/21 be considered.
- 2) The actual treasury management indicators (Appendix A) be noted.

1. INTRODUCTION

On 25 February 2020, in accordance with the CIPFA Code of Practice for Treasury Management in the Public Sector, Council approved the Treasury Management Strategy for 2020/21 – 2022/23. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.

Detailed at Appendix 1 is the annual report which was also included on the agenda for Cabinet on 28 June as an en-bloc item.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Subject Matter: Treasury Management 2020/21 Annual Report

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Agenda No 13**AGENDA MANAGEMENT SHEET**

Report Title:	Treasury Management 2020/21- Annual Report
Name of Committee:	Cabinet
Date of Meeting:	28 June 2021
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Section 151 and Chief Finance Officer, 01788 533410 or jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	Yes
Forward Plan:	Yes
Corporate Priorities:	This report relates to the following priority(ies): <input type="checkbox"/> Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) <input type="checkbox"/> Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) <input type="checkbox"/> Residents live healthy, independent lives, with the most vulnerable protected. (HC) <input checked="" type="checkbox"/> Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 <input type="checkbox"/> This report does not specifically relate to any Council priorities but should be considered by Cabinet to comply with the Code of Practise
Summary:	The report sets out the Treasury Management activities for 2020/21.
Financial Implications:	The report ensures that Cabinet is aware of the final Treasury Management position for 2020/21.
Risk Management Implications:	Risk management considerations are set out within the report.

Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	As this report complies with the Treasury Management Code of Practice, which was approved by Council, no other options have been considered.
Recommendation:	The Treasury Management report for 2020/21 and the actual treasury management indicators (appendix A) be noted
Reasons for Recommendation:	To provide Members with relevant information to make informed decisions around Treasury Management Activity and, in line with best practice, comply with the Code of Practice.

Agenda No

Cabinet - 28 June 2021

Treasury Management 2020/21- Annual Report

Public Report of the Chief Officer - Finance and Performance

Recommendation

The Treasury Management report for 2020/21 and the actual treasury management indicators (Appendix A) be noted.

1. INTRODUCTION

- 1.1 On 25 February 2020, in accordance with the CIPFA Code of Practice for Treasury Management in the Public Sector, Council approved the Treasury Management Strategy for 2020/21 – 2022/23. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year. The code requires local authorities to comply with three key principles:

KEY PRINCIPLE 1 Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

KEY PRINCIPLE 2 Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

KEY PRINCIPLE 3 They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

- 1.2 This report covers the treasury activities for the financial year 2020/21.
- 1.3 Part of the Council's treasury activity is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources available within the Council. The wider treasury activities also include managing the Council's cash flows, its existing borrowing activities, and investment of surplus funds. These activities are structured to manage risk foremost, and

then to optimise performance.

2. **ECONOMIC REVIEW 2020/21 – NATIONAL PICTURE – provided by Link Asset Services (Corporate Treasury Advisors)**

- 2.1 **Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021.
- 2.2 The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.
- 2.3 **Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 2020/21 and 2021/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3 March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26.

3. **ECONOMIC REVIEW 2020/21 – LOCAL PICTURE**

Impact of Covid-19 on Past and Future Treasury Management Activities

- 3.1 Underpinning the Council's activities for 2020/21 has been its response to the Covid-19 pandemic, which, whilst impacting significantly on service delivery has also had consequential impacts on the Council's Treasury Management activities as Government has made significant resources available for Councils to deliver services and funding to the local area and economy. COVID-19 has had a major impact on the Council's 2020/21 treasury management activities.

- Increased cash balances due to large government grants – The Council received a total of £50.179m during the year to be passed on to businesses within the borough
- Reprofiling of capital programme including the high rise scheme

Prospect for Interest Rates

- 3.2 In light of the economic impact of the Covid-19 pandemic, the Council's treasury management advisor (Link Asset Services) has recently updated their interest rate forecasts (including investment and borrowing rates) up to March 2022 where the rate is expected to be 0.15% based on a 12 month deposit. This updated view on interest rates is currently being used by the Council to assess the impact on both its investment and borrowing strategies in 2021/22. Interest rates were reduced during 2020/21 and continue to remain at an all-time low resulting in poor levels of return for many new investments being made post the start of the pandemic.

4. COUNCIL'S INVESTMENT STRATEGY

- 4.1 The Council has continued to focus on protection of the Council's resources by ensuring that investments are made with organisations that are considered to have a sound financial standing based on their counterparty creditworthiness.
- 4.2 During the period of the Covid-19 pandemic sovereign and organisation credit ratings have been subject to change by all of the three main rating agencies (Fitch, Moody's and S&P); indeed Fitch downgraded the UK's sovereign rating from AA to AA- at the end of March 2020.
- 4.3 Following rating actions to-date, all banks previously approved continue to meet the approved rating criteria as prescribed in the Council's 2020/21 Annual Investment Strategy and officers continue to monitor developments as they arise. New bank deposits will only be considered on a short-term basis until more certainty on how banks will ultimately be rated becomes known.
- 4.4 For financial institutions rating changes have been limited to the lowering of "Outlooks" to negative; although in some cases "Negative Watches" (warning of an upcoming rating downgrade) have been assigned.
- 4.5 There were no cash flow issues arising during the pandemic and the bank account remained liquid and in credit.
- 4.6 As part of the response to the Covid-19 pandemic, the Council, along with all other local authorities received substantial levels of grant funding from Government with Rugby specifically receiving £50.1m. Local authorities were at the forefront in either acting as the Government's direct agent in paying out grants to local businesses or in providing the response to support the local economy and as a result paid out substantial Grants to local businesses. As Government grants were paid in advance, and sometimes significantly in advance of paying out, this did not have any adverse effect upon the Treasury Management Strategy although there were some difficulties in being able to place spare cash as there were at times, significant surplus cash available for investment across the country.

5. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21

- 5.1 The level of capital expenditure incurred by the Council, and its financing, forms one of the required prudential indicators. The table below shows total capital expenditure for the year and how this was financed.

	2020/21 Actual £000s	2020/21 Estimate £000s
Total capital expenditure	15,522	36,810
Resourced by:		
Capital receipts	1,242	5,258
Capital grants and other contributions	3,210	2,434
Capital reserves	2,070	3,432
Revenue	3,389	19,986
Unfinanced capital expenditure	5,611	5,700

- 5.2 Full details of capital expenditure and explanations of variances from budget can be found within the Financial and Performance Monitoring Outturn Report also included on this agenda. The fall in capital expenditure between estimate and outturn relates to slippage in the programme principally around:
- Slippages timelines in procurement of design, architectural, and building contract services for the redeveloped Biart Place and Rounds Gardens sites due to the COVID-19 Pandemic.
 - Availability of open market and S106 house purchases within the Housing Acquisition Fund.
 - Slippage in the delivery of the HRA property programme as a result of the COVID-19 pandemic restrictions impacting on the officers being able to access properties to carry out work.
 - Slippage in the delivery of the general fund programme as a result of COVID-19 restrictions and officers being deployed elsewhere to support the organisations response to the emergency.
- 5.3 The Council undertakes capital expenditure on long term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need (although this does result in a loss of interest on resources which would otherwise be invested); or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need (unfinanced capital expenditure, therefore resulting in an increase in interest costs and eventual loan repayment).

6. THE COUNCIL'S OVERALL BORROWING NEED

- 6.1 The Council's underlying need to borrow is called the **Capital Financing Requirement** (CFR). This figure is a gauge for the Council's debt position and

represents 2020/21 and historic net capital expenditure which has not yet been charged to revenue. The process for charging this capital expenditure to revenue is a statutory requirement and is called the **Minimum Revenue Provision (MRP)***. The Council has the option to charge more than the statutory MRP each year through Voluntary Revenue Provision (VRP). The Council's CFR for the year is shown below and represents a key prudential indicator. The total CFR can also be reduced by the application of additional capital resources (such as unapplied capital receipts.)

*In effect this is the amount required to be set aside for the eventual loan repayment.

Capital Financing Requirement	31 March 2021 Actual £000s	31 March 2021 Original Indicator £000s
Opening balance 1 April 2020	82,592	94,898
Plus: unfinanced capital expenditure	5,611	5,700
Less: MRP/Repayment of Loan	(1,459)	(1,864)
Closing balance 31 March 2021	86,745	98,734

6.2 This table demonstrates that the Council's long-term borrowing need has decreased from that predicted at the beginning of 2020/21. However, this is predominantly related to the items listed at 5.2 above and will increase in 2022/23 and beyond as substantial delivery works at the former multi-storey flats' sites come on stream after being substantially delayed by the Covid-19 Pandemic.

6.3 Current and future estimated MRP and interest costs (updated from the most recent General Fund and HRA Medium Term Financial Plans) are detailed in the table below:

	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
MRP/VRP (Debt repayments)	1,459	1,506	1,595	1,624
Net Cost of Borrowing (Interest repayments)	1,022	2,271	2,396	1,977
Direct Revenue Financing (DRF)	3,441	3,235	2,144	1,844
Total Revenue Implications	5,922	7,012	6,135	5,445

6.4 These values may change as a consequence of the rescheduling of HRA debt subject to refined estimates of works relating to high rise blocks in Rugby.

6.5 The 2018-23 Medium Term Financial Strategy envisaged tapering the Council's reliance on New Homes Bonus (NHB) income within the core income budget, in order to achieve financial self-sufficiency. Additional allocations over and above the reported figures had been transferred and ringfenced for Direct Revenue Financing (DRF) (previously known as revenue contributions to capital outlay (RCCO)) to reduce the reliance on borrowing to finance the General Fund capital programme.

- 6.6 However, in light of forecasts regarding the long-term future of the NHB scheme these contributions have now been removed from the General Fund programme from 2021/22 onwards. The implication of this change is that the Council will need to either:
- finance a greater proportion of its capital programme using existing revenue resources or from borrowing;
 - seek to reduce the overall programme; or
 - prioritise schemes that include either revenue generation or cost efficiencies in delivery.
- 6.7 The borrowing strategy approved as part of the 2020/21 Treasury Management Strategy highlighted the approaching substantial works to be undertaken in the redevelopment of the Council's multi-storey flat sites and the rise in its HRA Capital Financing Requirement from 2020/21 onwards. As previously reported, in April 2020 the Council was able to secure a further £40m of borrowing to add to the HRA debt pool in advance of these works. Utilising the HRA Certainty rate introduced by the Chancellor in his March budget, the Council was able to secure a 50-year PWLB maturity loan at 1.27% securing a cost of capital at 1.23% below its HRA business plan forecast of 2.50%. This leaves the Council with a grand total of £66.479m being available for the scheme.

The table below shows that as a consequence of this the authority is 'overborrowed' as at the 31 March 2021 by £66.255 (£153.000m forecast gross debt vs. £86.745m forecast Capital Financing Requirement). This will mean that the authority incurs a 'cost of carry' (paying interest costs which cannot be wholly mitigated from temporary investment income) whilst it holds borrowing awaiting capital expenditure to be undertaken. However, the forecast long term saving of 20 - 30 basis points by borrowing in advance of need (c£66,000,000 over a 50 year term) will more than mitigate the short term differential in cost of carry (c.£0.120m - £0.150m) Table 8.1 shows the reductions in this over borrowed position by 2024.

	2020/21 £000s
Gross Debt	153,000
Capital Financing Requirement	86,745
Under/(Over) Borrowing	(66,255)

7. TREASURY POSITION AT 31 MARCH 2021

- 7.1 The table below shows a snapshot of the Council's position as at 31 March 2021 (not for the whole of 2020/21) compared with the previous year. This situation will of course change daily as investments are adjusted to meet cash flow requirements.

	31/03/2021		31/03/2020	
	£000s	Average Rate (%)	£000s	Average Rate (%)
Borrowings:				

PWLB	85,800	1.8	54,300	2.3
Market Deals	13,700	3.7	13,688	3.7
Local Authorities	53,500	0.93	87,000	1.4
Total Debt Outstanding	153,000	2.1	154,988	2.4
Investments:				
In house	127,380	1.31	133,046	1.2
Total Investments Outstanding	127,380		133,046	

(PWLB = Public Works Loan Board)

8. BORROWING IN THE YEAR:

- 8.1 The movement in outstanding debt was (£1.988m) (including temporary borrowing) as shown below:

	£000s
Debt outstanding at 1 April 2020	154,988
Write back of Brokerage Fees	12
Borrowing in year	77,000
Less: Repayments in year (Inc. temporary borrowing)	(79,000)
Debt Outstanding at 31 March 2021	153,000

Future Maturity Analysis of Loans (illustrates future changes in debt portfolio)

	2021/22 £000s	2023/24 £000s	2024/25 £000s
PWLB/Banks	8,900	7,342	0
Local Authorities/Housing Associations	40,000	0	0
Total	48,900	7,342	0

9. BREACHES OF TREASURY MANAGEMENT STRATEGY

- 9.1 Under the CIPFA Code of Practice, any breaches of the Council's Treasury Management Strategy needs to reported to Members with an explanation of the causes of the breach.
- 9.2 It can be reported that during 2020/21 there were no breaches to report.
- 9.3 However, during the 2021/22 financial year, there have been two separate breaches identified. As part of the 2020/21 strategy the Council set a limit for the maximum exposure to the Councils operational bank account of £5.000m overnight. As explained earlier, the Council has had, at times, difficulty in placing money for investment as there has been a surplus of cash available in the market. This has been partly due to all local authorities receiving grant funding in support of the COVID-19 pandemic at the same time. With the Council not being able to place money with other local authorities, as they had surplus cash, there were limited avenues for placing the Council's cash and there was significant competition from other local authorities who were also trying to invest.

- a) On the 1 April 2021 the Council's operational bank account had an amount of £5.281m overnight, a breach of £0.281m.
- b) On the 17 May 2021 the Council's operational bank account had an amount of £5.576m overnight, a breach of £0.576m.

9.4 In order to prevent this happening again the council has reactivated the DMO (Debt Management Office) account along with being in the process of securing a MMF platform with Link Asset Management which should allow greater flexibility to invest sums of money for the short term

10. INVESTMENTS IN THE YEAR

Internally Managed Investments

10.1 The net movement in the year was a decrease of £5.666m as shown below:

	£000s
Opening Balance at 1 April 2020	133,046
Investments in year	150,000
Less: Repayments in year	(155,666)
Closing balance at 31 March 2021	127,380

10.2 Note that investments made, and subsequent repayments received, are grossed up as a result of the accumulation of daily short-term activities.

Investment Performance for 2020/21

10.3 The returns achieved through the investment strategy undertaken by the Council are shown below:

	Average Investment	Rate of Return (Net of Fees)	Benchmark Return (3 Month LIBID Rate)	Original Estimate
	£m	%	%	%
Internally managed	112.6	1.31	0.05	1.01

Future Maturity Analysis of Investments

	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s
Banks and Building Societies	30,450	5,500	0	0
Local Authorities/Housing Associations	24,490	20,940	15,500	10,000
Total	54,940	26,440	15,500	10,000

11. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

11.1 The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 23 February 2021.

- 11.2 The treasury management indicator setting the limit on principal sums invested for more than 365 days is recommended to remain as per the limit approved by Council on 21 July 2020:

	2020/21 £000s	2021/22 £000s	2022/23 £000s
Current Limit on principal invested beyond 365 days	70,000	70,000	70,000

- 11.3 The limit reflects the increasing cash flows impacting upon the Council's investment portfolio over time. It also facilitates matching cash inflows associated with major proposed schemes such as the redevelopment of the multi-storey flats sites and cash outflows to mitigate the initial cost of carry on long term borrowing

12. NEW ACCOUNTING STANDARDS

- 12.1 From 1 April 2022, the Council will be required to adopt International Financial Reporting Standard 16, Leases, (IFRS16). This standard will require the Council, as a lessee, to recognise the value of assets it is using under a lease arrangement on its balance sheet, with a corresponding liability recognising the corresponding lease liability. This effectively means that the Council will be changing its treatment of operating leases, with the exception of low value or short term leases, to finance leases.
- 12.2 After initial recognition, the value of assets leased will need to be revalued regularly on the same basis as Property, Plant and Equipment. Lease payments will be accounted for as payments of principal and interest.
- 12.3 The recognition of an asset on the Council Balance Sheet will effectively increase the Capital Financing Requirement meaning that the Council will also have to consider the requirement to account for Minimum Revenue Provision (MRP).
- 12.4 The recognition of a lease liability on the balance sheet will have a direct impact on the Council's prudential indicators. Prior to the adoption of the new accounting standard, the Council will undertake an impact assessment of the change in lease accounting and advise members of the changes.

13. ESG INVESTMENTS

- 13.1 There is a significantly greater awareness of the approach to 'ethical' investments and the Council's consideration of Environment, Social and Governance (ESG) issues when making an investment

ESG Factors

- 13.2 Following are examples of ESG issues.

- a) Environmental risks created by business activities have actual or potential negative impact on air, land, water, ecosystems and human health. Company environmental activities considered ESG factors include

managing resources and preventing pollution, reducing emissions and climate impact, and executing environmental reporting or disclosure. Environmental positive outcomes include avoiding or minimizing environmental liabilities, lowering costs and increasing profitability through energy and other efficiencies, and reducing regulatory, litigation and reputational risk.

- b) Social risks refer to the impact that companies can have on society. They are addressed by company social activities such as promoting health and safety, encouraging labour-management relations, protecting human rights and focusing on product integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism, and improving brand loyalty.
- c) Governance risks concern the way companies are run. It addresses areas such as corporate brand independence and diversity, corporate risk management and excessive executive compensation, through company governance activities such as increasing diversity and accountability of the board, protecting shareholders and their rights, and reporting and disclosing information. Governance positive outcomes include aligning interests of shareowners and management and avoiding unpleasant financial surprises.

13.3 There is an overriding requirement for the Council to consider investments in the context of, security, liquidity and yield as the core principles of the Treasury Management Strategy. Although not specifically highlighted in the Treasury Management Strategy which maintains complete flexibility subject to the investment meeting the counter party ratings, the Council will be mindful of ESG when placing future strategic investments in the in line with ESG principles.

13.4 The Council is currently undertaking reviews of various ESG Investments. For example both Barclays and Lloyds, along with most other main high street banks, now offer “Green” accounts which specifically use only ESG sourced funds to investment in such as Solar Energy Companies and Wind Turbine Companies. A study will be undertaken to look at the viability and yield of these investments before any such investments take place.

APPENDIX A

TREASURY MANAGEMENT INDICATORS 2020/21

1. Security: average credit rating

To measure the security of its portfolio, the council compares the historic risk of default of its investments against a maximum target rate.

As an example, *based on historic data*, a AAA (least risk) rated investment has 0% chance of default within one year and a 0.05% chance of default within three years. A BBB+ (most risk) rated investment has a 0.24% chance of default within one year and a 1.21% chance of default within three years.

	Target	Actual	Achieved
Historic risk of default	0.25% (max)	0.027%	Yes

2. Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk – that all borrowing falls due for repayment at the same time. The maturity structure of fixed rate borrowing was:

	Upper Limit	Lower Limit	Actual	Achieved
Under 12 months ^{1,2}	50%	0%	40%	Yes
12 months and within 24 months	50%	0%	27%	Yes
24 months and within five years	60%	0%	5%	Yes
Five years and within 10 years	60%	0%	8%	Yes
10 years to 50 years	75%	0%	20%	Yes

¹Includes temporary borrowing for cash flow purposes.

²The Council's repayment profile for HRA self-financing debt includes significant sums in forthcoming years meaning that the proportion of borrowing falling due within one year will increase in relation to the overall debt portfolio. The Upper Limit on this indicator was re-set to 50% in 2018/19 and future years to accommodate this situation and allow scope for increased use of temporary borrowing from other local authorities at below PWLB rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3. Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. It is used in conjunction with the liquidity indicator to ensure sufficient cash resources are available without penalty during the short to medium term. The total principal sums invested to final maturities beyond the year end were:

	2020/21 £000s	2021/22 £000s	2022/23 £000s
Limit on principal invested beyond year end	70,000	70,000	70,000
Actual principal invested beyond year end	17,000	49,380	34,440
Achieved	Yes	Yes	Yes

Name of Meeting: Cabinet

Date of Meeting: 28 June 2021

Subject Matter: Treasury Management 2020/21- Annual Report

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

AGENDA MANAGEMENT SHEET

Report Title: Annual Report of the Corporate Assurance and Improvement Manager

Name of Committee: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Report Director: Chief Officer - Finance and Performance

Portfolio: Finance, Performance, Legal and Governance

Ward Relevance: None

Prior Consultation: Chief Officer - Finance and Performance

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, 01788 533451 or chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):
 Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C)
 Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E)
 Residents live healthy, independent lives, with the most vulnerable protected. (HC)
 Rugby Borough Council is a responsible, effective and efficient organisation. (O)
[Corporate Strategy 2021-2024](#)
 This report does not specifically relate to any Council priorities but

(C) Climate
(E) Economy
(HC) Health and Communities
(O) Organisation

Summary: The report sets out the Corporate Assurance and Improvement Manager's annual opinion of the overall adequacy and effectiveness of the Council's internal control environment, with an appended summary of the audit work undertaken to formulate the opinion.

Financial Implications:	No direct implications.
Risk Management Implications:	No direct implications. This report forms part of the evidence that supports the Council's Annual Governance Statement and provides assurance over the adequacy and effectiveness of the Council's internal controls to manage its key risks.
Environmental Implications:	No implications.
Legal Implications:	No implications.
Equality and Diversity:	No implications.
Options:	None.
Recommendation:	The report be considered and noted.
Reasons for Recommendation:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 29 June 2021

**Annual Report of the Corporate Assurance and
Improvement Manager**

Public Report of the Chief Officer - Finance and Performance

Recommendation

The report be considered and noted.

1. Introduction

1.1 The Accounts and Audit Regulations and the Public Sector Internal Audit Standards (the Standards) require the Corporate Assurance and Improvement Manager (CAIM) to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The Standards also specify that the report must contain:

- an internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

2. Report Details

Opinion on the Overall Adequacy and Effectiveness of the Council's Control Environment

2.1 It is the responsibility of the CAIM to provide the annual Internal Audit opinion and to detail the basis for this opinion. Based upon the work undertaken by Internal Audit during 2020/21, the CAIM's overall opinion is that **Substantial Assurance** can be given that there is an adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives. Whilst some elements of the control environment require attention, agreed actions have been put in place to address those issues and responsible managers have agreed reasonable timetables for their implementation. The progress made by management in implementing the agreed actions has been generally sound.

2.2 **Appendix A** to this report provides a copy of the Internal Audit Annual Report which includes the CAIM's opinion on the control framework for 2020/21 and the basis for this opinion.

Effectiveness of Internal Audit

- 2.3 The Annual Report also includes an overview of the performance of the Internal Audit service against its key performance measures and ways in which it has added value to the Council during 2020/21.

Compliance with the Public Sector Internal Audit Standards

- 2.4 An external quality assessment of the internal audit service was completed in 2017/18 and the results were reported to and considered by the Audit and Ethics Committee. The report concluded that there were “no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity”. The report also highlighted “some minor actions needed to ensure full compliance with the standards, especially to makes the terms of reference more explicit”. The formal recommendations arising from the assessment have all been implemented. The Corporate Assurance and Improvement Manager can also confirm that the requirements of the Quality Assurance and Improvement Programme, (included with this report at Appendix B), have been met for 2020/21. A further self-assessment has been completed by the Corporate Assurance and Improvement Manager, the results of which are incorporated within the annual report. The Internal Audit service, in the opinion of the Corporate Assurance and Improvement Manager, is operating in general conformance to the Standards. The next external quality assessment is due in the 2022/23 financial year but can be commissioned sooner if required.

Statement of Organisational Independence and Objectivity

- 2.5 If independence or objectivity is impaired in fact or appearance, the CAIM is required to disclose this. The CAIM can confirm that the internal audit service is independent and objective, and this is currently demonstrated in a number of ways:
- The CAIM reports directly to the Chief Officer for Finance and Performance (s151 officer) and the Audit and Ethics Committee, and has unfettered access to the Executive Director, and Chair of the Audit and Ethics Committee.
 - Any attempts to unduly influence the scope of audit reviews or the contents of reports will be reported by the CAIM to the Executive Director and the Chair of the Audit and Ethics Committee.
 - All officers responsible for internal audit work are required to complete an annual Register of Interests declaration form, which is in turn reviewed by their line manager. In the case of the CAIM, the annual declaration of interests is reviewed by the Chief Officer for Finance and Performance. Auditors are required to report any interests that might compromise the impartiality of their professional judgements – or give rise to a perception that this impartiality has been compromised. Any conflicts of interest are avoided when allocating assignments.
 - The Audit and Ethics Committee approves any consultancy activity included in the Audit Plan.

- 2.6 As previously reported to the Committee, the role and responsibilities of the CAIM extend beyond internal auditing. There would be an actual or perceived impairment to independence and objectivity were the CAIM to undertake internal audit reviews of areas for which he is operationally responsible for. Specific safeguards have been established in order to avoid any actual or perceived impairment to independence and objectivity; these safeguards have been reported to, considered and approved separately by the Committee.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Subject Matter: Annual Report of the Corporate Assurance and Improvement Manager

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
Appendix A	Annual Report of the Corporate Assurance and Improvement Manager
Appendix B	Internal Audit Quality Assurance and Improvement Programme

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A



APPENDIX A

ANNUAL REPORT OF INTERNAL AUDIT

2020/21

Date: June 2021

Annual Report of Internal Audit 2020/21

1. BACKGROUND

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Corporate Assurance and Improvement Manager to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its governance statement.
- 1.2 The Standards specify that the annual report must contain:
- An Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - A summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
 - A statement of the extent of conformance with the Standards including progress against the improvement plan arising from any external assessments.

2. INTERNAL AUDIT OPINION 2020/21

- 2.1 Based upon the work undertaken by Internal Audit during the year, the Corporate Assurance and Improvement Manager's overall opinion on the Council's system of internal control is that:

Substantial Assurance can be given that there is an adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives.

Of the 15 graded assignments undertaken for 2020/21, all (100%) resulted in an opinion of either High or Substantial Assurance.

The progress made by management in implementing the actions arising from audits has been good. 74% of agreed actions arising from audits were implemented within the agreed timescale and a further 18% were implemented late, resulting in an overall implementation rate of 92%. This is a slight improvement compared with the previous year, which represents a good performance in the context of the pandemic. There were 17 agreed actions which were overdue as at 31st March 2021. A total of 67 agreed actions have been implemented by the Council during 2020/21 as a result of internal audit work.

No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.2 It is pleasing to report that despite the challenges posed by the Covid 19 pandemic, the Corporate Assurance and Improvement team has been able to deliver an annual

internal audit plan in accordance with the requirements of the Public Sector Internal Audit Standards. The basis for the annual opinion is derived from an assessment of the range of individual opinions arising from assignments within the agreed internal audit plan that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing any control weaknesses.

2.3 A summary of Audit opinions is shown in Table 1 below:

Table 1 – Summary of Audit Opinions 2020/21*

<u>Assurance Area</u>	<u>High</u>	<u>Substantial</u>	<u>Limited</u>	<u>No</u>
Financial	1	5	0	0
IT*	0	0	0	0
Counter Fraud*	0	1	0	0
Governance & Ethics	2	2	0	0
Strategic & Operational Risks	1	4	0	0
Total	4	11	0	0
Summary	27%	73%	0%	0%

* In relation to Counter Fraud, in addition to the audit of expenses, fraud risks are evaluated and tested on a sample basis as standard practice for all audits. Whilst no assurance work has been completed for IT in 2020/21, the Corporate Assurance and Improvement Manager supported a full review of the Information Governance framework. A new suite of policies were developed and implemented, which were subject to independent external review. IT assurance work is scheduled for 2021/22 and is already in progress at the time of writing.

3. REVIEW OF AUDIT COVERAGE

3.1 The Auditor's Opinion for each assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean:

Table 2 – Assurance Categories

Assurance Level	Design of Control Framework	Operation of Controls
HIGH	There is a robust framework of controls making it likely that corporate/ service objectives will be delivered.	Controls are operated continuously and consistently, with only infrequent minor lapses.
SUBSTANTIAL	The control framework includes generally sound key controls that promote the delivery of corporate/ service objectives.	Controls are applied, although some lapses and/ or inconsistencies were identified.
LIMITED	There is an absence of key controls, with an increased risk that corporate/ service objectives will not be achieved.	There have been significant and extensive breakdowns in the operation of key controls.
NO	There is an absence of basic controls resulting in inability to deliver corporate/ service objectives.	The fundamental controls are not being operated or complied with.

The Auditor's Opinion of the level of risk exposure is based on an assessment of the level of the likelihood of corporate/ service objectives not being achieved, and an assessment of the impact of any failure to achieve objectives. The assessments are conducted in line with the Council's Strategic and Operational Risk Matrix. In order that risks may be prioritised according to their severity, the Council operates a traffic light system. Risks are scored within one of the following levels:

Risk Rating	Risk Score	Prioritisation of Action
HIGH	8 – 16	Immediate Attention
MEDIUM	4 – 6	Moderate Risk, Mitigation Action Required
LOW	1 – 3	Regular Review

3.2 Summary of Audit Work

Table 3 details the assurance levels resulting from all audits undertaken in 2020/21 and the assessment of the levels of risk exposure:

Table 3 – Details of Audit Opinions Issued in 2020/21

Audit Area	Assurance Opinion	Risk Exposure Opinion
Finance		
Payroll	High	Low
Mandatory Business Grants	Substantial	Low
Discretionary Business Grants	Substantial	Low
Self Isolation Grants	Substantial	Low
Additional Mandatory Business Grants	Substantial	Low
Additional Restrictions Grants	Substantial	Low
IT		
IT Governance Framework and Policies	Not Applicable	Not Applicable
Counter Fraud		
Expenses	Substantial	Low
Governance & Ethics		
Annual Governance Statement	Substantial	Not Applicable
Health & Safety – COVID 19	High	Not Applicable
Health & Safety – DSE Assessments	Not Applicable	Not Applicable
Complaints, Compliments & Suggestions	Substantial	Medium
Local Government Transparency Code	High	Low
Member Development	Not Applicable	Not Applicable
Strategic & Operational Risks		
Equal Pay/ Single Status	Substantial	Medium
Risk Management	Substantial	Not Applicable
HR Capability & Disciplinary	Not Applicable	Not Applicable
Follow up of Recommendations	Substantial	Medium
Planning, Development & Enforcement Income	High	Low

Outlined at pages 12 to 22 is a short summary of the findings of each of the audits completed. It should be noted that many of these findings have previously been reported as part of the defined cycle of progress update reports provided to the Audit & Ethics Committee.

3.3 Implementation of Internal Audit Recommendations

Internal Audit follows up on progress against all recommendations arising from completed assignments to ensure they have been appropriately implemented in a timely manner. Updates are provided to the Audit & Ethics Committee during the course of the year. Details of the outstanding audit recommendations are provided in Table 4 below:

Table 4 – Outstanding Audit Recommendations

Summary: Outstanding Audit Recommendations as at March 2021

Audit	Not yet due	Overdue	Within time	Extended time	Out of time	Cancelled	Total Recs
Council Tax and NDR Fraud	0	1	0	0	4	1	6
Risk Management	1	0	0	0	0	0	1
Absence Management	0	1	4	3	0	0	8
Creditors	0	2	3	0	2	0	7
Data Protection Governance	1	1	3	4	0	0	9
Fraud Risk Review	0	1	4	6	1	0	12
Health and Safety Follow Up	0	9	1	1	2	0	13
Patch Management	2	0	4	0	0	0	6
Freedom of Information	0	1	6	1	0	0	8
Local Government Transparency Code	2	0	6	7	3	0	18
Complaints, Compliments & Suggestions	2	0	4	1	1	0	8
IT Security	1	0	0	2	0	0	3

Audit	Not yet due	Overdue	Within time	Extended time	Out of time	Cancelled	Total Recs
Cash & Bank	4	0	6	4	0	0	14
Customer Service Centre Demand Management	4	1	0	0	3	0	8
Housing Rent Arrears	6	0	1	0	3	0	10
Digitalisation	2	0	1	5	0	1	9
IT Business Continuity	4	0	0	1	0	0	5
Completeness of Income	2	0	6	0	1	0	9
HR Capability & Disciplinary	5	0	5	0	1	0	11
Totals	36	17	54	35	21	2	165

Notes:

Extended time: This is where the Corporate Assurance and Improvement Manager had agreed an extension to the original timescale.

Out of time: This is where the action was implemented later than the agreed timescale.

4. HOW HAS INTERNAL AUDIT ADDED VALUE?

- 4.1 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support, advice and insight to assist the Council in new areas of work or to proactively review and improve the control framework.
- 4.2 Beyond delivery of the core assurance assignments, the service added value in a number of additional areas during 2020/21. Examples are set out in Table 5 below:

Table 5 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Support towards the Council's Counter fraud activity in the following areas: <ul style="list-style-type: none"> • Support towards embedding the Anti-Fraud, Bribery and Corruption Strategy and Fraud Response Plan. • Completion of one corporate investigation, with support from other managers as required. • Provision of assurance work in relation to Payroll, Expenses, Planning Income, and various mandatory and discretionary business grants schemes. 	Greater strategic and procedural clarity, leading to a more consistent and coherent organisational approach to tackling the risks of fraud, bribery and corruption. Greater awareness amongst staff.
Covid 19 Business Grants – the service mobilised at speed, supporting the Council in setting up brand new systems of governance and control, so that the various grant schemes were implemented at speed, but with measures in place to safeguard the public purse.	Local businesses received the vital support they needed in a timely manner.
Completion of an independent review and appraisal of the Council's arrangements for managing Covid 19 Health & Safety risks.	Provides assurance to stakeholders that the Council has implemented sound arrangements for managing the risks of Covid 19 transmission on its premises.
Attendance and participation in the Council's pandemic tactical group, providing risk management advice and input where required.	Decisions were taken with awareness, consideration and management of the risks involved, leading to more successful outcomes.

Area of Activity	Benefit to the Council
Risk Management – co-ordination and support to prepare, implement and monitor the Council's framework for managing corporate Covid 19 risks.	Implementation of best practice in relation to risk management, leading to more successful outcomes.
Corporate Health & Safety Squad – being an active advisory member of the group, supporting the creation of a dedicated health & safety risk register and action plan, and performance metrics.	Ensuring that Council has safe ways of working in a way which protects employees and the public.
Member Development – a review of the approach adopted by other authorities in this area, highlighting examples of good practice.	Support to the review and update of the programme for member development, which will help to make the training more effective.
IT Governance Framework – the service co-ordinated a policy cell comprising key officers from across the Council. The policy cell prepared and implemented a new framework of policies around information governance and agile working. The new policy framework was subject to external review, which confirmed the documents were well written.	Reduced risks around data access and handling, and agile working. Policies reflect the Council's changed ways of working.
Health & Safety DSE Assessments – the team conducted a review, working with HR and the Safety & Resilience team, to identify officers who were working from home but had not completed a DSE assessment reflecting this. Officers were then chased to ensure the assessments were completed. The team also confirmed that satisfactory arrangements were in place for following up on the results of the DSE assessments.	Officers who switched to home working during the pandemic did so whilst operating their DSE in a safe way.
HR Capability & Disciplinary - analysis conducted of disciplinary, grievance and capability cases to establish whether there are any recurring themes, how the Council learns lessons from such cases, and how they are used to reinforce the values and behaviours framework.	Recurring themes identified and reviewed, so that lessons are learnt and the values and behaviours framework is embedded.
A total of 67 agreed actions have been implemented by management following completion of internal audit work. Furthermore, the internal audit service has, where appropriate, recommended actions to reduce or eliminate wasteful or inefficient processes.	Reduction in exposure to risk and improved organisational efficiency and effectiveness.

5. HOW WELL IS INTERNAL AUDIT PERFORMING?

5.1 Internal Audit maintains a number of agreed performance measures to enable ongoing monitoring by Senior Management and the Audit & Ethics Committee. Outturns against these indicators for the year ended 31st March 2021 are set out in Table 6 below:

Table 6 – Internal Audit Performance Indicators

Theme	Title of Performance Indicator	2020/21	2019/20	2018/19	2017/18
Delivery	Average end to end time for audits (number of days) - new measure from 2018/19	88 days	110 days (see note below)	92 days	N/A (not measured)
Adding Value	Customer Satisfaction – Average Rating 3 = Good 2 = Satisfactory 1 = Poor	3.00	2.88	2.83	N/A (insufficient data)
Timeliness	Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion	8.3	4.5	7.6	6.2
Effectiveness	Implementation of Agreed Actions by Officers – Percentage implemented within agreed timescale	74%	76%	93%	72%

Notes:

1. Whilst the data shows a year on year increase in the average end to end time, there was a spike upwards to 133 days at the end of Q2 2019/20 due to delays in signing off reports, since when the end to end time has been reduced by 45 days. This followed the introduction of a new approach for clearing reports with management.
2. It took longer to complete file reviews during 2020/21, which has impacted on the timeliness data above. This was due to pandemic related work pressures; however performance in this area was still satisfactory.

6. COMPLIANCE WITH PROFESSIONAL STANDARDS

- 6.1 The Public Sector Internal Audit Standards (the Standards) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.
- 6.2 The objectives of the Standards are to:
- Define the nature of internal auditing within the public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for evaluation of internal audit performance and to drive improvement planning.
- 6.3 An external quality assessment of the internal audit service was completed in 2017/18 and the results were reported to and considered by the Audit & Ethics Committee. The report concluded that there were "no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity". The report also highlighted "some minor actions needed to ensure full compliance with the standards, especially to makes the terms of reference more explicit". The formal recommendations arising from the assessment have all been implemented.
- 6.4 The Corporate Assurance and Improvement Manager can also confirm that the requirements of the Quality Assurance and Improvement Programme have been met for 2020/21, with one exception in relation to Terms of Reference documentation and review. Early in the pandemic, the government announced grant support payment schemes for businesses, and the Council had to act at speed to set up new systems and processes for administering these schemes, and providing assurance that payments were accurate and bona fide. The Council was under intense external pressure to start processing grant payments quickly. The internal audit service needed to respond at speed and did so. Whilst discussions took place and there was agreement on the role of internal audit, these discussions were not formally documented at the time. The risks arising from the service not responding in a timely manner (i.e. delayed payment of grants to businesses and/ or fraudulent payments being made) outweighed any risks around not formally documenting internal audit's role in advance. This matter was reported to the Audit & Ethics Committee during 2020/21.
- 6.5 A further self assessment has been completed and the service, in the opinion of the Corporate Assurance and Improvement Manager, and notwithstanding the comments in paragraph 6.4 above, is operating in general conformance to the Standards. The next external quality assessment is due in the 2022/23 financial year but can be commissioned sooner if required.

7. SUMMARY OF AUDIT FINDINGS

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Payroll	High	Low	<p>The Audit found a well-established sound system of controls in place to provide assurance that payroll records are accurate and complete. These controls were found to be adhered to with only minor issues identified for consideration.</p> <p>The payroll of the council has been maintained without issue during the pandemic crisis to the team's credit. As the 'new normal' is being established, officers will be looking to move processes to a more digital basis and implementing these as soon as practicable.</p>
Mandatory Business Grants	Substantial	Low	<p>The Corporate Assurance and Improvement Team independently reviewed a large sample of grant applications prior to payments being processed, for accuracy and potential fraud. 46% of the small business grants were checked before they were issued, resulting in eight grants being removed from the payment run. This means that significantly less fraudulent activity should be discovered and need to be clawed back after the event. Indeed, to date there has been only one confirmed case of a fraudulently obtained grant. Post-payment checks were carried out on the remaining 54% of grants, using the Cabinet Office Spotlight solution, which did not reveal any causes for concern.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Discretionary Business Grants	Substantial	Low	<p>Given the scheme's discretionary nature, the Corporate Assurance and Improvement Team reviewed all 152 applications under this scheme prior to payments being processed. This provides assurance that payments were made in line with the scheme as designed and approved, were accurate and that fraud risks were being mitigated. Post-payment checks were carried out on 80% of grants where they were paid to Limited Companies, using the Cabinet Office Spotlight solution. These checks did not reveal any causes for concern.</p>
Self Isolation Grants	Substantial	Low	<p>The Council made 244 mandatory or discretionary self isolation payments, totalling £122k, in the year to 31st March 2021. The Corporate Assurance team provided advice and support during the local scheme set up to ensure that controls were suitably designed. This was to ensure applications were bona fide and appropriately assessed, authorised and processed. A sample of 25 transactions (10%) was randomly selected to test. Testing included checking the payment was properly recorded and approved, evidence had been received, the claim was eligible, and that the payment was sent to the correct bank details. 17 Statutory payments and 8 Discretionary payments were reviewed.</p> <p>The results of the testing were satisfactory. However, one discretionary claim should have been paid under the statutory scheme, and a recommendation has been made to correct this.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Additional Mandatory Business Grants	Substantial	Low	<p>In response to the ongoing Covid-19 pandemic, the government announced a second national lockdown in November 2020, followed by further periods of local and national restrictions. Further grants were made available to be distributed to businesses via local authorities. This is in addition to the Retail, Hospitality and Leisure Grant fund and Small Business Rates Grant from March 2020 and discretionary grant scheme from May 2020 (see above for a summary of the internal audit work on these schemes).</p> <p>The Corporate Assurance and Improvement team review confirmed that the necessary systems and processes were in place for each scheme to ensure grant applications were genuine, whilst also ensuring payments were made in a timely manner to businesses who needed them. Applications were made online, with applicants self-declaring they were eligible. Other checks included bank statements, supporting documentation, web searches, local knowledge and the government's Spotlight tool to check Companies House information.</p> <p>The Corporate Assurance and Improvement (CAI) Team reviewed at least one mandatory grant for every business prior to payment, plus 100% of the Restart Grants.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Additional Restrictions Grants	Substantial	Low	<p>The Corporate Assurance and Improvement (CAI) team were involved initially, in an advisory capacity, in the discussions with the Economic Development Manager and ICT team about the development of the policy and the application form, and the testing of the form. The team also reviewed and advised on the planned arrangements for administering the scheme. This helped to ensure that the necessary systems and processes were in place for each scheme to ensure grant applications were genuine, whilst also ensuring payments were made in a timely manner to businesses who needed them.</p> <p>The CAI team initially expected they would be supporting the activities of the Economic Development Team by conducting sample based testing prior to payments being processed, with Economic Development carrying out triage and case validation/ checking.</p> <p>However, for various reasons the CAI Team's role evolved from providing assurance for the ARG scheme to increasingly administering the scheme. Whilst there is high confidence that the scheme has been well administered and controlled, the Corporate Assurance and Improvement Manager has proposed that an independent audit be completed in 2021 to provide additional assurance that payments were accurate, complete, bona fide and processed in line with the scheme criteria.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Expenses	Substantial	Low	<p>The auditor tested a random sample of 100 expenses transactions, 50 each for 2019/20 and 2020/21. The controls for the approval and processing of these claims provided a high level of assurance.</p> <p>There were known instances prior to the audit where, owing to a glitch on the Agresso financial system, in a small number of cases the same person both submitted and authorised the payment. The review separately examined all such claims over £10 in value made after 1 January 2019. The latest such claim was identified as being approved by the claimant in August 2020. The Officers concerned have all been reminded, by email on 1st December 2020, of both their responsibilities and the rules with a warning that futures cases may be addressed as a formal conduct issue. The finance team are updating the financial instructions to reinforce this message. It remains possible for staff to approve their own expense claims if they happen to be an authoriser in Agresso. The Council is investigating the mechanisms which could be deployed to avoid claimants being able to approve their own expenses. If no mechanism can be found, then quarterly monitoring should be instigated to identify and act upon any future instances of claimants approving their own expenses payments.</p> <p>It was also recommended that the Council consider consolidating the savings realised by adopting different ways of working during the</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Expenses (continued)	Substantial	High	<p>pandemic, record this as a corporate saving, and adjust cost centre budgets accordingly.</p> <p>Members are allowed to claim travel and subsistence expenses when carrying out official duties on behalf of the Council. Testing confirmed that allowances and expenses are paid in accordance with the Members' Allowance Scheme. In line with legislation all allowances and expenses paid to members are published annually.</p>
Annual Governance Statement	Substantial	Not Applicable	<p>The overall governance framework provides a substantial level of assurance of effectiveness, although a number of further development areas have been highlighted. Delivery of the Action Plan will be monitored during 2021/22.</p>
Health & Safety – COVID 19	High	Not Applicable	<p>Given the scale of the potential impacts on Council services, employees and the community should there be a significant outbreak of coronavirus in the workplace, the Council commissioned an independent external review of its arrangements for working safely during the pandemic. The purpose was to provide validation of the corporate risk assessment, in order to support the Council in preventing and reducing the transmission of Coronavirus in the workplace.</p> <p>The review concluded that the Council's validation result was a "Pass" across all of the 38 areas assessed. The pass criteria was based upon checklists for general health and safety risk assessments and sector specific UK Guidance for Coronavirus.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Complaints, Compliments & Suggestions	Substantial	Medium	<p>Management has demonstrated significant progress in implementing agreed actions arising from the original audit completed in 2019/20. As a result, the level of assurance is now assessed as being Substantial.</p> <p>Of the 8 actions due for implementation, 6 were evidenced as implemented; and 2 actions were not yet completed, although it was noted that they were both in progress and the agreed implementation date has been revised.</p> <p>The auditor also reviewed a sample of complaints and, apart from one which had a response time of 16 days, the remainder were responded to well within the target timeframe.</p>
Local Government Transparency Code	High	Low	<p>The Local Government Transparency Code (LGTC) Audit of September 2019 found that of the 13 sets of mandatory information only three were being published in accordance with the Code in regard to both content and timeliness, resulting in a Limited level of assurance. This review sought to provide assurance that the Council is now complying, as a minimum, with the mandatory elements of the Code on an ongoing basis.</p> <p>During, and immediately following the audit the Corporate Assurance & Improvement Team worked with both the Communications department and responsible managers to ensure that the prescribed data was published in an accessible format on the Council's website. The RPMS system was set up with indicators to act as a reminder & follow up</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Local Government Transparency Code (continued)			<p>mechanism for both the managers to regularly issue the data to the Communications team, and for the information to be uploaded to the website. The Communications team created a specific Information & Data area on the website which now clearly holds not only the LGTC mandatory information, but also accounting and general 'Open Data' that is required to be published under other legislation.</p> <p>A review of the LGTC information currently held on the website confirmed that, apart from two minor exceptions, for required data sets the information published is complete, up to date and easy to locate. The required Parking data was published but had not been updated for the latest financial year, however this was corrected when highlighted to the team.</p>
Equal Pay/ Single Status	Substantial	Medium	<p>The assignment was to provide assurance that the pay of men and women carrying out equal work are remunerated comparably, and that honorarium and market supplements are consistently applied without impact on the single status arrangements.</p> <p>Each position in the council has a Job Profile which was evaluated and graded as part of the single status arrangements in 2010. Any significant amendments to these roles or subsequent new positions are reviewed using an online version of the same evaluation system and 'audited' by another member of the HR team. Additional payments such as Honoraria & Market Supplements are applied as temporary cash elements and do not alter the evaluated grade/salary of the post.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Equal Pay/ Single Status (continued)			<p>Sampling of roles where employees of both genders carried out broadly similar roles confirmed that staff were being paid at an equivalent grade. No evidence was established of any potential discrimination of pay between genders.</p> <p>Sampling confirmed that job evaluations carried out in the last two years, on roles in place at the time of the original Single Status review, had a clear and reasonable rationale for being re-evaluated.</p> <p>The council has approximately 15% of its workforce currently receiving a Market Supplement in primarily professional or technically specialist roles. The audit trail of documentation surrounding the case for, approval and review of these Market Supplements was however found to be inconsistent. There is no documented Market Supplement policy or procedure in place and recommendations have been made to address this.</p> <p>No complaints or allegations of inequality in pay have been made since the Single Status review was conducted and no evidence of such was found. Nor was any discovered of potential discrimination between the payments being made to men and women.</p>

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Risk Management	Substantial	Not Applicable	The team reviewed all of the Council's operational risk registers, and the stated internal controls being relied upon to help manage each risk. The team then compared this with the coverage of internal audit work over the last 5 years, the intention being to identify and significant controls which have not been reviewed by internal audit, and which are not covered by the long list of audit areas upon which internal audit plans are based. The review confirmed that the significant controls are already covered by the long list of audits, and as such any areas which haven't yet been reviewed will be covered by planned internal audit activity over the next 2 years.
Follow up of Recommendations	Substantial	Medium	Follow up work completed by the team confirmed that the progress made by management in implementing the actions arising from audits has been good. 74% of agreed actions arising from audits were implemented within the agreed timescale and a further 18% were implemented late, resulting in an overall implementation rate of 92%. This is a slight improvement compared with the previous year, which represents a good performance in the context of the pandemic. There were 17 agreed actions which were overdue as at 31 st March 2021. A total of 67 agreed actions have been implemented by the Council during 2020/21 as a result of internal audit work.

Audit Area	Assurance Opinion	Risk Exposure Opinion	Summary of Key Findings
Planning, Development & Enforcement Income	High	Low	<p>The objective of this audit was to evaluate the effectiveness and adequacy of the key processes and control functions for the accurate and complete accounting for planning application fees and s106 contributions and monitoring arrangements.</p> <p>Planning applications are charged at the nationally set fee and where pre-application advice is provided, these charges are clearly stipulated in a charging policy. The audit confirmed that there are robust procedures for recording income, income reconciliation and banking arrangements in place. The audit also confirmed that planning application decisions are not made before full, cleared payment has been received.</p>

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit & Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work, were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit & Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected, additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.



APPENDIX B

RUGBY BOROUGH COUNCIL

**INTERNAL AUDIT QUALITY
ASSURANCE AND IMPROVEMENT
PROGRAMME**

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1. INTRODUCTION

- 1.1 Internal auditing is defined as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. (Source: Public Sector Internal Audit Standards – PSIAS).
- 1.2 The Council’s internal audit function aims to meet the expectations of its stakeholders and deliver consistently high quality services. This requires a lot of hard work and commitment to identify and consistently apply effective professional practice. This is why PSIAS Standard 1300 requires the Corporate Assurance and Improvement Manager to develop and maintain a Quality Assurance and Improvement Programme (QAIP).
- 1.3 Standard 1310 of the PSIAS states that the QAIP must include both internal and external assessments. This acknowledges that high standards can be delivered by internal audit managers but it also implies that further improvements can be delivered by subjecting the internal audit service to periodic external assessments.
- 1.4 In relation to quality assurance and improvement there are three key requirements of the PSIAS, as follows:
 - Ongoing monitoring of the performance of the internal audit activity. This refers to the day to day supervision, review and measurement of internal audit activity that is built into policies and routine procedures.
 - Periodic self-assessments (or assessments by other persons within the organisation with sufficient knowledge) of internal audit practices to assess conformance with the PSIAS.
 - External assessments of conformance to the PSIAS once every five years by a qualified, independent assessor from outside the Council. External assessments can be in the form of a full external assessment, or a self-assessment with an independent external validation. The Council’s internal

audit service received a full external assessment in September 2017 and the next external assessment is due by September 2022.

- 1.5 It is also a requirement of the Standards that the nature of the QAIP and reviews of effectiveness are regularly reported to the Council's Audit & Ethics Committee and senior management.
- 1.6 The QAIP is designed to provide stakeholders with assurance that internal audit:
- Performs its work in accordance with the Audit Charter (approved by the Audit & Ethics Committee in November 2017), which is consistent with the PSIAS definition of Internal Auditing and the Code of Ethics;
 - Operates in an effective and efficient manner; and
 - Is perceived by stakeholders as adding value and leading to improvements in the Council's operations.
- 1.7 This QAIP covers all aspects of the Internal Audit activity in accordance with PSIAS Standard 1300 (Quality Assurance and Improvement Programme), including:
- Monitoring internal audit to ensure it operates in an efficient and effective manner (PSIAS Standard 1300);
 - Evaluating compliance with the PSIAS Definition of Internal Auditing and Code of Ethics (PSIAS Standard 1300);
 - Helping internal audit to add value and improve the Council's operations (PSIAS Standard 1300);
 - Undertaking both periodic and on-going internal assessments of internal audit (PSIAS Standards 1311 and 1312);
 - Commissioning an external assessment of internal audit at least once every five years, and communicating the results to the Audit & Ethics Committee and Senior Management (PSIAS Standard 1320); and
 - Communicating the results of this QAIP to Senior Management and the Audit & Ethics Committee (PSIAS Standard 1320), including disclosure of
 - The scope and frequency of internal and external assessments;
 - The qualifications and independence of the assessor(s) or assessment team including any potential conflicts of interest;
 - The conclusions of the assessors; and
 - Details of any corrective action plans.
- 1.8 The Corporate Assurance and Improvement Manager is responsible for the QAIP, which covers all areas of internal audit activity including consultancy engagements.

2. INTERNAL ASSESSMENTS

2.1 In accordance with PSIAS Standard 1300, internal assessments are undertaken through both on-going and periodic reviews.

Ongoing Reviews

- 2.2 Continual assessments are conducted through:
- Supervision of all engagements by the Corporate Assurance and Improvement Manager;
 - Structured, documented reviews of Terms of References, working papers and draft reports;
 - A detailed Audit Manual setting out the procedures used for each engagement to ensure consistency, quality and compliance with appropriate planning, fieldwork and reporting standards;
 - Quality control checklist completed for each assignment;
 - In the case of work carried out by the Corporate Assurance and Improvement Manager, review by another member of the team;
 - Feedback from clients obtained through satisfaction questionnaires issued at the closure of each engagement;
 - Monitoring of performance against agreed performance indicators and regular reporting to the Audit & Ethics Committee and Senior Management Team;
 - Periodic reporting to the Audit & Ethics Committee and the Chief Officer – Finance & Performance, setting out the content and progress on delivery of the improvement plan;
 - Review and approval of all draft and final reports, recommendations, levels of assurance and risk exposures by the Corporate Assurance and Improvement Manager;
 - Follow up and reporting on the implementation of actions agreed at the end of each engagement; and
 - Where appropriate, feedback on the quality of work during monthly one to one meetings.

Periodic Reviews

2.3 Internal periodic assessments are designed to assess conformance with the PSIAS and to ensure that internal audit is efficient and effective in meeting the

needs of its various stakeholders. Periodic assessments are conducted through:

- Progress and performance reports, presented to the Audit & Ethics Committee and periodically to the Senior Management Team;
- Annual risk assessments completed for audit planning purposes completed in March each year;
- An annual self-assessment against the PSIAS;
- An annual review of compliance against the requirements of this QAIP, including progress on delivery of the agreed improvement plan.

2.4 The results of internal assessments are included in an improvement plan which is continually monitored and included in the annual report and opinion of the Corporate Assurance and Improvement Manager. This is in turn used to inform the Council's Annual Governance Statement (AGS).

3. EXTERNAL ASSESSMENTS

3.1 External assessments will appraise and express an opinion about internal audit's conformance with the PSIAS and will include recommendations for improvement, as appropriate.

3.2 An external assessment will be conducted at least every 5 years, as required by the PSIAS. The appointment of the external assessor and the scope of the external assessment will be formally determined and approved by the Audit and Ethics Committee.

3.3 An external assessment was completed in September 2017 which provided an opinion on the level of compliance with the PSIAS and the Local Government Application Note. The assessment concluded that there were "no areas of non-compliance that would affect the overall scope or operation of the internal audit activity". A number of recommendations were made to ensure full compliance with the PSIAS. The report and associated action plan were reported to the Audit & Ethics Committee and Senior Management Team in November 2017, in line with the PSIAS.

3.4 The next external assessment is due in 2022/23. The scope of this review will be determined nearer the time. Any identified areas of significant non-compliance with the PSIAS will be included in the annual report of the Corporate Assurance and Improvement Manager and, if applicable, in the AGS.

4. REVIEW OF THE QAIP

4.1 This document will be subject to periodic review and will be updated accordingly following any changes to the PSIAS or the operating environment of internal audit.

5. TIMELINE OF ASSESSMENT WORK

5.1 The following table sets out the timeline and frequency of the assessment work:

Nature of Assessment Work	Timeline and Frequency
Engagement supervision	Ongoing
Reviews of Terms of References, working papers and draft reports	Ongoing
Compliance with the Audit Manual	Ongoing
Quality control checklist	At completion of each assignment
Review of audit work completed by the Corporate Assurance and Improvement Manager	As and when required
Customer feedback	At completion of each assignment
Progress and performance monitoring	Aligned with each Audit & Ethics Committee meeting (five times per year)
Progress reporting on improvement plan	Aligned with each Audit & Ethics Committee meeting (five times per year)
Corporate Assurance and Improvement Manager review and approval of: <ul style="list-style-type: none"> • Draft and final reports • Recommendations • Levels of assurance • Risk exposure assessments 	Ongoing
Follow up and reporting on the implementation of agreed audit actions	Aligned with each Audit & Ethics Committee meeting (five times per year)
One to one feedback on quality of audit work	Monthly
Audit plan risk assessments	Annually (March)
PSIAS self-assessments	Annually (May)
Review of compliance with this QAIP	Annually (May)
External assessment	Every 5 years (due in 2022/23)

AGENDA MANAGEMENT SHEET

Report Title: Internal Audit Plan 2021/22

Name of Committee: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Report Director: Chief Officer - Finance and Performance

Portfolio: Finance, Performance, Legal and Governance

Ward Relevance: None

Prior Consultation: Chief Officer - Finance and Performance
Senior Management Team

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, 01788 533451 or chris.green@rugby.gov.uk

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):
 Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C)
 Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E)
 Residents live healthy, independent lives, with the most vulnerable protected. (HC)
 Rugby Borough Council is a responsible, effective and efficient organisation. (O)
[Corporate Strategy 2021-2024](#)
 This report does not specifically relate to any Council priorities but

Summary: The report presents the Internal Audit Plan for approval.

Financial Implications: No direct implications.

Risk Management Implications:	No direct implications.
Environmental Implications:	No implications.
Legal Implications:	No implications.
Equality and Diversity:	No implications.
Options:	None.
Recommendation:	<ol style="list-style-type: none">1. That any additional work for inclusion in the internal audit plan be identified.2. That, subject to 1 above, the internal audit plan for 2021/22 be approved.
Reasons for Recommendation:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 29 June 2021

Internal Audit Plan 2021/22

Public Report of the Chief Officer - Finance and Performance

Recommendation

1. That any additional work for inclusion in the internal audit plan be identified.
2. That, subject to 1 above, the internal audit plan for 2021/22 be approved.

1. Background

- 1.1 The Public Sector Internal Audit Standards require the Internal Audit Plan to be reviewed and approved by the 'Audit Committee'. The Internal Audit Plan should be developed based upon an evaluation of the Council's key risks.

2. Internal Audit Plan

- 2.1 The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:
 - An assessment of the design and operation of the systems underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
 - An assessment of the range of individual opinions arising from the risk-based assignments, which will be reported throughout the year.
- 2.2 The Internal Audit Plan covers the two key component roles of Internal Audit:
 - The provision of an independent and objective opinion to the Section 151 Officer/Chief Officer for Finance and Performance and the Audit and Ethics Committee on the degree to which risk management, control and governance support the achievement of Council objectives; and
 - The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.
- 2.3 The internal audit plan has been developed using the approach approved by the Committee on 26 January 2021. The long list of potential areas for internal audit review (the "audit universe") has been reviewed and updated, by identifying key risks from the following sources:
 - Risk Management Framework, Strategic and Operational Risk Registers
 - The Corporate Strategy
 - Financial Statements
 - The results of internal audit work carried out during the last four years

- Cumulative knowledge and experience
 - Ongoing stakeholder engagement during 2020/21 – including with Members
- 1.4 The long list of potential audits formed the basis of stakeholder discussions with the new Senior Management Team/Chief Officers and key managers during April and May 2021, from which the planned audit coverage was refined and prioritised. At the stakeholder meetings senior management also provided details of additional areas of risk/concern which would benefit from internal audit assurance work and/or consultative support. Following this consultation, a draft Internal Audit Plan was compiled and approved by the Senior Management Team on 21 June 2021. The draft Internal Audit Plan is set out at **Appendix A** and covers a broad range of areas including financial risks, IT risks, fraud risks, governance and ethics risks, corporate/strategic risks, and operational/service risks.
- 1.5 The Chief Officer for Finance and Performance and the Corporate Assurance and Improvement Manager have reviewed the level of resources required to deliver the proposed risk based Internal Audit Plan. The level of resources required to deliver the plan has been assessed as **427** days. The level of resources required was calculated on a prudent basis, taking into account:
- Management time
 - Training and development
 - Sickness
 - Annual leave and bank holidays
 - Administrative time
 - The time already taken to finalise completion of the 2020/21 audit plan
- 1.6 An external provider, TIAA, is already contracted to deliver the IT audits under a framework agreement via Warwickshire County Council. The Council is also able to commission external contractors if necessary to help deliver non-IT audits; this helps to ensure the service is resilient and able to adapt to changing circumstances. Notwithstanding this arrangement, the plan is set out on the basis of no further significant disruption due to the pandemic. Should the pandemic situation worsen significantly for any reason, then there may be a knock-on effect on delivery of the internal audit plan, for example due to lengthy periods of staff sickness and/ or redeployments. However, given the service managed to deliver the internal audit plan for 2020/21 despite the level of disruption, this scenario is considered to be unlikely to arise.
- 2.7 The full long list of potential audits is also set out at **Appendix B**; this enables members to see the basis upon which assignments have been included or excluded from the Internal Audit Plan. The Plan is flexible and members can request amendments to the audits included.

3. Arrangements for Approving In Year Changes to the Internal Audit Plan

- 3.1 The Public Sector Internal Audit Standards require the Audit and Ethics Committee to act as the 'Gate Keeper' to any significant changes to the Internal Audit Plan. It may be necessary during the year to change the Plan in

response to emerging risks and to ensure that internal audit work adds the maximum value and remains aligned with the needs of the organisation.

- 3.2 Before authorising changes to the Internal Audit Plan, the Committee would need to be satisfied that such a change would not impact, negatively, on the ability for Internal Audit to provide an adequate level of assurance to the Council. In previous years the Committee agreed that, due to the timing of meetings, and to avoid delays in completion of audit work, it was more appropriate to grant the Executive Director delegated authority to approve such changes in consultation with the Chair. Such decisions were then subject to approval by the Committee at the subsequent meeting. It is proposed that this arrangement be continued for 2021/22.
- 3.3 In this context, significant changes to the Internal Audit Plan are regarded as any alteration in the allocation of resources of more than five days.
- 3.4 Given that the Internal Audit planning cycle for this year was delayed due to the Covid 19 pandemic and the senior management team restructure, the Committee agreed at the last meeting on 30 March that work could commence on delivery of this year's internal audit work, pending the Committee's formal approval of the plan at this meeting. Details of the assignments already in progress are set out in **Appendix A**. This decision was made in line with the delegated authority referred to in paragraph 3.2 above and has enabled work to proceed without delay.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 29 June 2021

Subject Matter: Internal Audit Plan 2021/22

Originating Department: Finance and Performance

DO ANY BACKGROUND PAPERS APPLY **YES** **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
Appendix A	Draft Internal Audit Plan 2021/22
Appendix B	Long List of Potential Audits

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<u>Financial Risks</u>				
Procurement & Contract Management	Finance & Performance	<p>Design and operation of controls designed to ensure that the Council complies with statutory and policy requirements, and to ensure that value for money is demonstrated throughout procurement activities. To include a review of rolling IT contracts – specifications, commissioning and management.</p> <p>Review of contract manager training, compliance with Contract Standing Orders, financial, project and risk management. Review of arrangements to monitor supplier resilience.</p>	Key area of Council activity with significant risks involved, and fundamental to the Council's Value for Money agenda.	30
Budget Setting and Monitoring	Finance & Performance	<p>Assurance that the budget setting process is robustly designed to mitigate the risk of significant error. Assurance that budget monitoring is sufficiently robust to identify and address any in year financial pressures.</p> <p>Review of the finance business partnering arrangements to ensure they are efficient and effective.</p>	Fundamental system, with efficient and effective operation being key to the Council's financial sustainability.	20

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Council Tax	Finance & Performance	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	Fundamental financial system; risk of fraud, error, financial loss.	20
Additional Restrictions Grants	Growth & Investment	Assurance that the Scheme was administered efficiently and effectively, in line with the agreed policy and in a way which safeguarded public funds.	Are of substantial expenditure. Given the Corporate Assurance and Improvement team's role in this scheme this review will be commissioned externally.	12
Treasury Management	Finance & Performance	Authorisation of transactions, compliance with Treasury Management Practices, assurance that there is an appropriate strategy in place, system access controls, accuracy and completeness of accounting records.	New system being implemented. Risk register highlights risk of financial losses on investments, higher than necessary debt, and insufficient cash.	18
CIPFA Financial Management Code – Consultancy Support	Finance & Performance	Support to the Chief Officer – Finance & Performance in establishing arrangements to ensure compliance with the new CIPFA Financial Management Code.	New governance arrangements being introduced, which the Council needs to follow and which will be subject to review by external audit.	10
			Total – Financial Risks	110

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<u>Counter Fraud Risks</u>				
Fraud Awareness	All	Ongoing, targeted provision of training to raise awareness of fraud - what is fraud, types of fraud, how the risks can be reduced, and what to do if fraud is suspected.	Supports delivery of the Anti-Fraud, Bribery and Corruption Strategy.	6
Fraud Risk Review	All	Review and update of risk assessments across the Council. Identification of any control improvements required.	Supports delivery of the Anti-Fraud, Bribery and Corruption Strategy.	10
Note: The risk of fraud/ bribery and corruption will be evaluated prior to the commencement of all audits and where appropriate testing will be carried out.				
			Total - Counter Fraud	16
<u>ICT Risks</u>				
Payment Card Industry Data Security Standards	Digital & Communications	Assurance that the standards are being complied with across the Council.	Stakeholder concern that the standards may not be met. <i>*in progress</i>	8
IT Helpdesk	Digital & Communications	Assurance that the helpdesk service is managed efficiently and effectively, within its agreed level of resources, in a way which meets the needs of the Council.	Key internal support service.	8

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Cyber Security	Digital & Communications	Independent review of the Council's arrangements for managing the risk of Cyber attack.	Area of significant national concern and risk of substantial impacts. <i>*in progress</i>	6
			Total - ICT	22
<u>Corporate Risks</u>				
Health & Safety – Consultancy Support	Regulation & Safety	Advice and support to assist the Council in co-ordinating and implementing its Health & Safety improvement action plans including management of risks, performance management and implementation of the new digital system.	Aligned with corporate objectives to ensure the Council operates in a way which protects both employees and the public. <i>*in progress</i>	12
HR Strategy	Executive Director's office	Assurance that the Council is on track to implement its HR Strategy, approved in April 2019. Review to confirm the strategy remains fit for purpose and reflects the Council's needs.	Successful implementation of the strategy is key to the Council achieving its objectives.	15
Data Protection & Records Management	All	Assurance that services have implemented and follow appropriate procedures to comply with Data Protection laws and regulations. Assurance that Council is operating in compliance with the Records Management Code of Practice.	Previous assurance work has focussed on the overall framework of governance and accountability. This assignment will examine working practices at operational level.	16

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Policies and Procedures	All	Support to identify the various policies and procedures in operation across the organisation, approval/ review date, and the document owner. Preparation of a central list of documents including links, so they can be placed in a shared area on the Intranet.	Greater awareness across the organisation which should improve compliance. Improved co-ordination of policy and procedural reviews. Policies and procedures are less likely to become out of date. <i>*in progress</i>	12
			Total – Corporate Risks	55
<u>Governance & Ethical Risks</u>				
Housing Project Governance			Key corporate construction projects with many high-level risks to be managed.	8
Working Groups Review - Consultancy		Identification and review of all the various working groups and Squads across the organisation. Review of the terms of reference/ purpose of each group. Identification of any areas of duplication and/ or areas of Council activity for which governance arrangements need to be enhanced. Development of recommendations to improve decision making.	The Council needs to be able to move at pace to deliver the new Corporate Strategy. This review will help to identify significant blockages/ barriers and improve the efficiency and effectiveness of decision making. <i>*in progress</i>	12
			Total – Governance & Ethical Risks	20

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<u>Operational Risks</u>				
Follow up work	All	Assurance that agreed actions arising from internal audit reviews have been implemented.	The work of internal audit would not be considered effective if this work was not completed.	16
Housing Rents – Local Authority Data Return	Communities & Homes	Review of the arrangements in place to prepare, review and submit the Council’s Local Authority Data Return to the Housing Rents Regulator.	New reporting requirements have been implemented. <i>*in progress</i>	8
Housing Management System – Data Pass	Communities & Homes	Validation testing of data being migrated to the new systems.	System changes bring increased risks and testing by internal audit prior to the new system implementation will add greater value.	5
Housing Management	Communities & Homes	Assurance that the new system, once implemented, is operating efficiently and effectively and delivering the expected outcomes. To include the administration of housing rents and arrears management.	New system being implemented.	30
Health & Safety Improvement Plan	Regulation & Safety	Assurance that the improvement plans developed for the Works Services Unit, and the Parks & Grounds services, are being implemented as planned.	Aligned with corporate objectives to ensure the Council operates in a way which protects both employees and the public.	20

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Licensing	Regulation & Safety	Provision of assurance that efficient and effective controls are in place to comply with all legislative requirements.	Complex area of administration, significant reputational risks.	20
Trade Waste	Operations & Traded Services	Review of the accuracy and completeness of billing, value for money of the service and financial sustainability.	This is a non-statutory traded service and, as such, the Council needs to ensure it is financially sustainable.	15
			Total: Operational Risks	114
<u>Additional Areas of Support</u>				
Annual Governance Statement		Assurance that the Council operates a robust framework of corporate governance, in accordance with the new "Delivering Good Governance in Local Government" framework.	Statutory requirement under the Accounts and Audit Regulations 2015. <i>*in progress – draft completed</i>	12
National Fraud Initiative		Ongoing co-ordination of the review of data matching, and assurance that investigations are conducted where required.	The Council participates in the National Fraud Initiative, in line with its Counter Fraud Strategy.	8

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2021/22

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Control Environment - Advice	All	Ongoing ad hoc advice to senior management and officers in relation to the control environment.	The earlier any significant risks are identified, the sooner they can be considered and any further changes in control implemented.	15
Corporate Investigation Work		Provision of independent investigatory support, in relation to allegations or suspicions of fraud, bribery and/ or corruption.	In line with the public interest and the Council's zero tolerance approach to fraud, bribery and corruption, as set out in the Strategy.	30
Contingency Allowance			An allowance to enable unforeseen events to be absorbed without the need to revise the approved audit plan. This represents the application of sound project management.	25
			Total: Additional Support	90
TOTAL DAYS				427 days

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

LONG LIST OF POTENTIAL AUDITS

Corporate Risks

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Business Continuity/ Emergency Planning	Strategic & Operational Risk Registers	Consistently referred to as being high risk. There have been recent resourcing issues in this area.	Assurance that plans are fit for purpose and that the agreement with CSW is operating effectively.	HIGH	No	<p>Full audit in 2016/17 provided substantial assurance.</p> <p>Resilience agreement in place with CSW. New Emergency Plan in place.</p> <p>An audit will be scheduled for 2022/23 following development of the new overarching BCP and associated key service BCPs.</p>
Fraud Risk Review	Internal Audit	In order to implement the new Counter Fraud Strategy, the Council will need to assess its fraud risks, in order to develop and implement an appropriate fraud response plan.	Assurance that appropriate risk assessments have taken place, and that appropriate mitigating controls are being developed and implemented.	MEDIUM	Yes	<p>Full review completed in 2016/17 and again in 2018/19. Substantial assurance.</p> <p>Review to be completed again in 2021/22, in line with the Anti-Fraud, Bribery and Corruption Strategy. This will help to identify and address any significant risks arising from control changes implemented during the pandemic.</p>

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Corporate Health & Safety	Health & Safety Operational Risk Register	Substantial damage to the Council in the event of a serious incident e.g. reputation, finance, fatality, loss of building.	Assurance that appropriate policies and procedures are in place and operated effectively, and that appropriate staff training, monitoring and remedial action is taken where necessary.	HIGH	Yes	<p>Internal Audit in 2017 and follow up review completed in 2019 both provided Limited Assurance.</p> <p>Action plan being monitored and progress updates being provided to Audit & Ethics. External review of COVID secure arrangements completed in 2020/21. DSE assessment compliance also reviewed in 2020/21. Internal Audit are present on the Health & Safety Squad in an advisory capacity; this support will continue in 2021/22.</p> <p>A separate internal audit will also be completed, reviewing progress on implementation of improvement plans by the Work Services Unit and Parks.</p>
Asset Maintenance	Internal Audit	Significant reputational and financial damage if the Council has not taken reasonable steps to ensure health & safety.	Assurance that the Council is operating in compliance with its statutory health and safety responsibilities in relation to asset maintenance.	MEDIUM	No	Review completed in 2019/20 covered compliance with statutory requirements in both housing stock and corporate property.

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Agency Staff	Internal Audit	Risk of poor Value for Money; excessive need for agency staff may indicate an ineffective workforce retention strategy.	Assurance that use of Agency Staff is for appropriate reasons, authorised in advance, and not used to circumvent procedures such as restrictions on filling vacant positions. Assurance that use is not for extended periods of time.	MEDIUM	Yes	Management has reported that the new contract with Commensura is operating well. The control framework will be reviewed as part of the contract management audit.
Business Improvement District	Stakeholder consultation meetings	Key element of the Town Centre Strategy.	Review of governance arrangements, and income and expenditure to provide assurance that monies are utilised for the purposes intended and that value for money is achieved.	MEDIUM	No	Reviewed in 2016/17 Limited Assurance Governance arrangements being reviewed, with support from the LGA. An Internal Audit will then be scheduled for 2022/23.
Climate Change and Carbon Management	Internal Audit	Council priority to deliver on its established aims in response to declaring a climate emergency.	Assurance that effective arrangements are in place to ensure that the Council achieves the aims set out by the Climate Emergency Working Group.	HIGH	No	It is currently early considered too early to assess progress. An independent external specialist is to be commissioned in order to benchmark the current position, against which progress in this area can then be measured.
Partnership/ Shared Service Governance	Strategic Risk Register	Risk of loss of sovereignty.	Appropriate arrangements to manage partnerships such that corporate objectives and VFM are achieved.	MEDIUM	Yes	Reviewed in 2017/18. Substantial assurance. Crematorium Joint Venture audit completed in 2019/20; high assurance. Operation of GLL contract to be included in contract management audit.

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Workforce Planning and Development	Common theme throughout the Council's strategic and operational risk registers.	Critical to the success of the organisation; higher risk due to the economic climate and recovery of the private sector. Workforce planning currently in progress.	Review of design and effectiveness of the Council's strategy to develop and retain its workforce in key areas.	MEDIUM	Yes	Consultative review completed in 2019/20. HR Strategy audit will include an assessment of progress in relation to workforce planning and development.
Consultancy Expenditure	Internal Audit	Poor Value for Money, failure to achieve intended outcomes.	Assurance that expenditure on consultants is appropriately controlled, that there are clear terms of reference, that intended outcomes are delivered and Value for Money is secured. Assurance that the requirements of IR35 are being met.	MEDIUM	No	Reviewed in 2016/17. Substantial assurance.
Financial Planning & Governance	Financial Reports	Challenging financial climate for local government.	Financial resilience, financial planning follows best practice. Financial strategy modelling is robust. Openness and transparency. Priority assessed as Medium because external audit have concluded again that the Council has effective financial management arrangements in place.	MEDIUM	No	Reliance has previously been placed upon assurances provided by external audit. An internal audit review has been considered but it is felt this would not add much value at present. The internal audit plan does include an audit of budget monitoring arrangements.

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Contract Management	Internal Audit	Failure to deliver outcomes and achieve value for money.	Contract manager training, compliance with Contract Standing Orders, financial, project and risk management. Review of arrangements to monitor supplier resilience.	MEDIUM	Yes	Reviewed in 2016/17. Substantial assurance. To include a review of the impact of contract manager training delivered in 2019/20.
Project Management	Internal Audit	Projects fail to deliver outcomes in a way which demonstrates value for money. Failure to achieve corporate objectives.	Project risk management, officer skills and expertise, design and operation of project governance and monitoring arrangements, consistency of application of good project management.	MEDIUM	Yes	Digitalisation programme reviewed in Q4 2019/20. Housing project governance consultancy review.
Capital Programme	Internal Audit	Risk of non-delivery of the programme and/ or poor use of monies.	Assurance that appropriate arrangements are in place to ensure delivery of the programme on time, and in a way which secures Value for Money.	MEDIUM	Yes	Contract management audit will include management of a sample of capital projects.
Fraud Awareness	Internal Audit	The Council is developing and implementing a new Counter Fraud Strategy	Training to raise awareness of fraud – what is fraud, types of fraud, how the risks can be reduced, what to do if fraud is suspected.	MEDIUM	Yes	Not Applicable Training to continue being provided on a rolling basis during 2021/22.
Member Development	Internal Audit	Risk of failure to hold officers to account, poor decision making, failure to achieve corporate priorities.	Review of arrangements designed to ensure that Members are equipped to effectively carry out their role, make effective decisions (where appropriate), and effectively scrutinise senior officers.	MEDIUM	No	Consultative review completed in 2020/21 to examine how other Councils ensure members are effectively developed.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Freedom of Information	Internal Audit	Significant risk of reputational damage. Failure to minimise costs of compliance.	To provide assurance that the Council meets its statutory obligations in relation to the Freedom of Information Act, and that the arrangements are efficient and effective.	LOW	No	Audit completed in 2019/20. Substantial assurance.
Equal Pay/ Single Status	Internal Audit	Risk of employee Equal Pay claims leading to significant financial loss and reputational damage.	Comparison of the pay of men and women carrying out equal work, identification and review of equal pay gaps, resolution of equal pay gaps, ongoing monitoring arrangements.	MEDIUM	No	Audit completed in 2020/21. Substantial assurance
Corporate credit/ purchase cards	Internal Audit	Potential fraudulent use of the card/s	Detailed review of transactions to provide assurance that purchases were appropriate and supported by valid receipts.	MEDIUM	No	Reviewed in 2017/18 Limited Assurance; follow up confirmed satisfactory completion of action plan.
Community Engagement and Consultation	Internal Audit	Risk of legal challenges if insufficient engagement and consultation is carried out.	Assurance that appropriate and effective community engagement and consultation arrangements are in place.	LOW	No	Considered low risk at present; will reconsider in 1 year.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Risk Management	Internal Audit	Failure to achieve organisational objectives.	Assessment of the effectiveness of the Council's arrangements to manage its risks, and the level of risk maturity of the Council. To review risk management controls and identify any assurance gaps. Programme of testing to be delivered to provide assurance that stated controls are operating in practice.	MEDIUM	No	Audit completed in 2018/19. Substantial assurance. Exercise completed in 2020/21 to review operational controls and identify any significant assurance gaps. Strategic risk register to be redesigned in 2021 and aligned with the new Corporate Strategy.
Data Protection/ GDPR/ Law Enforcement Directive	Internal Audit	Risk of significant financial loss and reputational damage	Assurance that the Council operates in compliance with the Data Protection principles when storing and sharing data.	MEDIUM	Yes	Completed in Q4 2018/19. Limited assurance Information Governance Group overseeing delivery of action plan. Further audit scheduled for 2021/22 to examine departmental arrangements for managing risk in this area, including Records Management.
Local Government Transparency Code	Internal Audit	Legal and reputational damage risk	Assurance that the Council is, as a minimum, operating in compliance with the mandatory elements of the Code.	LOW	No	Completed 19/20 Limited assurance. Follow up audit completed 2020/21 provided Substantial assurance.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Procurement	Internal Audit	Risk of statutory breaches, not delivering value for money, and fraud/ corruption.	Design and operation of controls designed to ensure that the Council complies with statutory and policy requirements, and to ensure that value for money is demonstrated throughout procurement activities. To include review of rolling IT contracts – specifications, commissioning and management.	MEDIUM	Yes	Full audit completed in 2016/17. Substantial assurance. Full audit planned for 2021/22, this will include a review of contract management.
Complaints, Compliments & Suggestions	Internal Audit	Reputational damage if complaints are not dealt with appropriately	Assurance that complaints are handled in an appropriate and timely manner, and that learning lessons are consistently applied.	MEDIUM	No	Completed 19/20. Limited assurance. Follow up audit 2020/21 completed in 2020/21 provided Substantial Assurance.
Values and Behaviours	Internal Audit	Legal and reputational damage, low employee morale	Assurance that expected standards of behaviour and values have been defined, are measured objectively and reported upon. To assess and report on actual attitudes and behaviours (culture) through a series of interviews and surveys. Could be attributes based upon a maturity model.	MEDIUM	No	Reviewed in 2017/18 and again in Q4 2019/20.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Ethical Governance	Internal Audit	<p>Legal and reputational damage; low employee morale.</p> <p>The PSIAS require the audit plan to cover the Council's ethical governance.</p>	<p>Review of the framework for ensuring the Council's activities are carried out in an ethical manner. This would include a review of the Code of Corporate Governance (Constitution), how decisions are made and the procedures / standards which are followed to ensure that these are efficient, transparent and accountable to local people. Including the use of delegated decisions. The review would also examine the monitoring of compliance against the code of conduct and ethical standards of councillors and officers including gifts, hospitality and declarations of interest. The review would also cover implementation and training on the Code of Conduct & ethical standards, and how the Council deals with complaints relating to the conduct of Councillors. The ethics role of the Audit & Ethics Committee will also be reviewed.</p>	MEDIUM	No	<p>The Council is reviewing the LGA Code of Conduct, and developing and implementing a new Code of Corporate Governance in 2021. Training on delegated decision making, the Constitution, report writing and forward planning will be provided.</p> <p>An Internal Audit review will then be carried out in 2022/23 to provide assurance in relation to application of the new Code of Corporate Governance.</p>

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan?</u>	<u>Comments/ Rationale for Excluding</u>
Right to Buy	Stakeholder Consultation	Risk of fraud/ money laundering/ financial loss/ reputational damage	Assurance sought that property transactions are at the correct prices based upon market rates, the Council has appropriate procedures to prevent fraudulent abuse of the Right to Buy scheme (for example through identity checks), that tenancy length conditions have been met, and that management are operating appropriate monitoring controls.	LOW	No	Considered low risk at present, will reconsider an audit in one year.

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Service Risks – Finance & Performance

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Including in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Creditors	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of incorrect payments, late payments, and fraud.	Accuracy and timeliness of payments, system accuracy, recovery of duplicate payments, accuracy of accounting records.	MEDIUM	No	Completed 19/20. Substantial assurance
Completeness of Income (Sundry Debts)	Internal Audit	Fundamental financial system. Risk of fraud, error, financial loss.	Assurance that income is billed in full and in a timely manner. This work will involve a review with service managers, comparing invoices issued by the Revenues team with records held by departments.	MEDIUM	No	Audit completed in 2019/20 provided Substantial assurance. Planning and Enforcement income audit, completed in 2020/21, provided High assurance.
Cash & Banking	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Assurance that income from all sources is received and accounted for in full in a timely manner. Review of system access controls, accuracy and completeness of accounting records.	MEDIUM	No	Completed in 2019/20 with Substantial assurance.
Fees and Charges	Internal Audit	The Council may not achieve financial self sufficiency if fees and charges are not set at optimum levels.	Assurance that fees and charges are subject to regular review and set at levels which are designed to achieve the optimal level of income. Assurance that fees and charges are being applied accurately and consistently, and that income is being collected.	MEDIUM	No	Reviewed in 2016/17. Substantial assurance provided. Completeness of Income also reviewed in 2019/20.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Including in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Main Accounting System	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Assurance that the Main Accounting System is secure, and adequately supports the production of accurate financial statements.	MEDIUM	No	Reliance placed on assurance work completed by external audit.
Non – Current (Fixed) Assets	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Valuations, additions and disposals, accuracy and completeness of accounting records.	MEDIUM	No	Reliance placed on assurance work completed by external audit.
Treasury Management	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of financial losses on investments, higher than necessary debt, and insufficient cash.	Authorisation of transactions, compliance with Treasury Management Practices, assurance that there is an appropriate strategy in place, system access controls, accuracy and completeness of accounting records.	MEDIUM	Yes	Carried out in Q4 2018/19. Substantial Assurance New system being implemented, as such an audit has been scheduled for 2021/22.
Budget Setting & Monitoring	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of significant budget setting errors.	Assurance that the budget setting process is robustly designed to mitigate the risk of significant error. Assurance that budget monitoring is sufficiently robust to identify and address any in year financial pressures.	MEDIUM	Yes	Last reviewed in 2014/15. Full assurance. Given the financial challenges faced by the Council, efficient and effective running of this system is critical. The review will also assess the effectiveness of Finance business partnering.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Including in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Council Tax and NDR Fraud	Internal Audit	Risk of financial loss and reputational damage, limited internal resource capacity to undertake proactive work in this area.	Review of the design of controls in place to mitigate the risk of Council Tax and/ or NDR fraud. Proactive sample testing of a sample of accounts to confirm the operation of controls and to provide assurance that fraud is not taking place.	MEDIUM	No	Reviewed in 2016/17. Substantial assurance.
Expenses including Members	Internal Audit	Risk of fraud and/ or error	Assurance that expenses processed and paid to members and officers are accurate and bona fide.	MEDIUM	No	Completed 2020/21 Substantial assurance.
NDR	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, processing and authorisation of reliefs, system access controls, maximisation of collection, accuracy and completeness of accounting records.	MEDIUM	No	Reviewed in 2016/17. Substantial assurance.
Council Tax	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	MEDIUM	Yes	Full audit completed in 2015/16. Full assurance. Counter fraud arrangements reviewed in 2016/17. Key financial system, as such an audit has been scheduled for 2021/22.
Performance management and data quality	Corporate Assurance and Improvement Operational Risk Register	Risk of ineffective management, failure to achieve outcomes, inappropriate targeting of resources.	Key management component to deliver efficient and effective outcomes.	MEDIUM	No	Data quality assurance programme in place. Self-assessment completed in 2019/20, data maturity review completed in 2020/21 and action plan in place.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Including in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Internal Audit	Public Sector Internal Audit Standards	Mandatory requirement.	External Quality Assessment (EQA) of the effectiveness of the service, including compliance with the Standards.	LOW	No	EQA completed in September 2017; no significant areas of noncompliance. The "Standards" require an external review every 5 years; the next one is due in 2022 and will be commissioned in one year's time.
Change Management and Control	Internal Audit	The Council's change methodology may not be effective.	Assurance that the change management methodology is effective and delivering the desired outcomes. Assurance that the implementation of change is subject to effective risk management and control. Such a review would need to be delivered by an independent person outside of the Corporate Assurance and Improvement team.	LOW	No	Considered low risk at present; will be reconsidered in one year.
Insurance	Internal Audit	The Council's insurance coverage might be inappropriate for its needs and might not represent value for money; claims processing arrangements might not be sufficiently robust.	Assurance that administration of the insurance function is efficient and effective and represents value for money.	MEDIUM	No	Carried out Q4 2018/19. High Assurance

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Service Risks – Leisure & Well-being

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Leisure Grants	Internal Audit	Reputational damage if funds are misused or not used for the purposes intended	Assurance that grant monies received are delivering the expected outcomes and that funds are used for the intended purposes.	LOW	No	Considered low risk at present; grant terms have to be complied with and assurance arrangements are specified as appropriate.
Play Service/ On Track	Stakeholder consultation	There are significant income targets for the service, with the potential to significantly reduce the net costs to the community.	Assurance that there are appropriately designed processes in place to accurately and completely record income. Assurance that all service related costs have been appropriately considered and understood when setting prices. Assurance that there are suitable arrangements in place to monitor income levels and take appropriate remedial action if targets are not being met.	MEDIUM	No	Reviewed in 2017/18. Limited assurance. All activity is now coded separately. Staff costs and utilisation are being recorded and monitored by activity. Business plan developed.
Benn Hall	Stakeholder Consultation	Investigation in 2016/17 highlighted procedural weaknesses	Assurance requested that income and expenditure is appropriately accounted for, with a particular focus on ticket sales, stock control and cash receipting.	MEDIUM	No	Reviewed in 2017/18. Limited Assurance; however, the agreed actions were followed up in 2018/19 and found to be implemented.
RAGM – Visitor Centre	Stakeholder consultation	Key front-line service. Risk of financial loss due to poor value for money, if business decisions are not soundly based.	Assurance that the Visitor Centre, including the shop, is efficiently and effectively managed.	MEDIUM	No	RAGM income completed 17/18, substantial assurance.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Parks and Open Spaces	Internal Audit	Council priority to enhance local, open spaces to make them places where people want to be, might not be achieved.	Assurance that the service is being run efficiently and effectively.	MEDIUM	No	Changes to the service are being implemented; will consider scheduling an audit in one year's time.

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Service Risks – Growth & Investment

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Planning Development and Enforcement	Internal Audit	High level of officer judgement involved in decision making, and this could lead to inconsistent treatment and decision making. Risk of fraud/ corruption/ bribery.	Assurance that planning admin, management and enforcement processes are consistently applied, efficiently and effectively, in line with the framework of Council policies and statutory requirements.	MEDIUM	No	Planning income audit completed in 2020/21. High assurance.
Land Charges	Internal Audit	Risk of financial loss and/ or reputational damage.	Maintenance and update of the land charges register, efficient and timely completion of search requests, accuracy and completeness of land charge search income, system access controls.	LOW	No	Responsibility transferring to central government.
Building Control	Internal Audit	Risk of financial loss and reputational damage.	Assurance that charging is timely and accurate, and that income is collected in full and correctly accounted for. Service managed by Warwick District.	LOW	No	Audit completed by Warwick District Council in 2018/19. Substantial assurance.

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Service Risks – Legal & Governance

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Legal Services	Legal Services Operational Risk Register	Risk register highlights risks of failure to deliver prompt service and to meet deadlines.	Timeliness of service provision, prioritisation of workload, efficiency and effectiveness.	LOW	No	Considered low risk at present. Will reconsider in one year.
Elections	Stakeholder consultation	Risk of legal and reputational damage	Assurance that elections are managed efficiently and effectively to ensure the smooth running of elections.	LOW	No	Completed in 18/19. High Assurance.
Stocks and Stationery	Stakeholder Consultation – Requested by Head of Communities and Homes	Assurance sought by the Head of Communities and Homes	Assurance sought that procurement processes are being correctly followed, that best value is obtained when purchasing supplies, and that the issue of stationery is appropriately controlled.	LOW	No	Reviewed in 2016/17. Substantial assurance.
Equalities Act 2010 Compliance	Operational Risk Register, Stakeholder Consultation	Accreditation review to take place in Q4 2016/17. The Council is currently accredited as 'excellent'.	Equality Framework for Local Government, quality of Equality Impact Assessments, Employee Awareness, recruitment practices, review of evidenced outcomes.	MEDIUM	No	Reviewed in 2016/17 Council accredited as "Excellent" in this area.

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Service Risks – Communities & Homes

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Benefits	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy of payments to claimants, system access control, recovery of overpayments, accuracy and completeness of accounting records. Assurance that the issues identified by the external audit review of the housing benefit subsidy claim have been addressed.	MEDIUM	No	Completed in 2018/19. Substantial assurance.
Homelessness and Housing Options	Internal Audit	Reputational damage and adverse media coverage.	Assurance that the Council is efficiently and effectively fulfilling its statutory duties to prevent homelessness in accordance with the Homelessness Reduction Act 2017.	MEDIUM	No	Amended processes and structure implemented. An audit will be scheduled for 2022/23.
Grants to Community Groups and Lottery	Internal Audit	Risk of fraudulent use of grant monies.	Assurance that grant monies are being used for the purposes intended and that expected outcomes are being achieved.	MEDIUM	No	Reviewed in 2018/19. Limited Assurance. Action plan implemented. Administration of the Lottery is managed by a third party.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Independent Living Service	Internal Audit	The service might not meet the needs of stakeholders and charges might be insufficient to cover expenditure.	Assurance that residents are receiving the service that they are paying for, and that quality and effectiveness of the service has been maintained following a restructure.	MEDIUM	No	Audit completed in 2018/19. Substantial assurance.
CCTV	Internal Audit/ Strategic Risk Management Group	A new CCTV policy has been adopted. Risk of data protection requirements being breached.	Assurance that all camera locations have been assessed, that data protection impact assessments have been completed, and that access to the system and images is effectively controlled.	MEDIUM	No	An audit was scheduled for 2019/20 but was deferred due to the Covid 19 pandemic. This review would require some onsite presence to assess locations, signage and access. Given that restrictions continue, this audit will be rescheduled for early 2022.
Housing Rents	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	HIGH	Yes	Full audit completed in 2015/16. Recovery and customer care elements reviewed in 2018/19, which resulted in Limited Assurance. Audit completed 2019/20 on housing rent arrears. This audit will be completed after the new Housing Management system has been implemented.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Travellers - Woodside	Internal Audit	Risk of failure to protect, engage with and support the local community.	Assurance that the Council's management of travellers' sites is compliant with the relevant legislation, and that the Council provides the same standards of management and support services to travellers' sites as to customers in other forms of social housing.	MEDIUM	No	An audit will be considered for 2022/23.

Service Risks – Regulation & Safety

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Licensing	Stakeholder Consultation	Changes in working practices and control design – new system being implemented.	Mapping of amended procedures and provision of assurance that efficient and effective controls are in place to comply with all legislative requirements.	MEDIUM	Yes	New system being implemented.
Car Parking and Enforcement	Internal Audit	Traditionally a risky area from an audit perspective.	Assurance that income is accounted for correctly and in full.	LOW	No	Enforcement audit completed in 2018/19. Income collection also examined in Completeness of Income Audit in 2019/20 Both resulted in Substantial assurance.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Pest Control	Internal Audit	Financial loss, reputational damage	Accuracy and completeness of income and expenditure, compliance with statutory obligations, value for money.	LOW	No	Considered low risk at present.
Food Safety	Internal Audit	Risk of reputational damage if a quality service is not delivered.	Assurance that inspection regimes are being delivered efficiently and effectively to protect the public.	MEDIUM	No	Subject to heavy regulation and considered low risk at present. An audit will be scheduled in 2022/23 once inspection regimes have recovered from the pandemic.
Environmental Health	Internal Audit	Risk of reputational damage if a quality service is not delivered.	Assurance that the service is being delivered efficiently and effectively in a way which protects the public.	LOW	No	Considered low risk presently. Will reconsider in one year.
Crematorium and Cemeteries	Stakeholder Consultation	Partnership governance risk	Review of the governance and operation of the Joint Venture with Daventry District Council. Assurance that recharges are appropriate and that any surplus is fairly distributed between the two authorities. Review of the efficiency and effectiveness of the services.	LOW	No	Internal audit review completed by Daventry District Council in 2019/20. Full assurance.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Community Safety Partnership	Internal Audit	Corporate priority of protecting the public might not be achieved. Change in operational structure implemented.	Assurance that the partnership is delivering its action plans and expected outcomes. Assurance that statutory requirements under the Crime and Disorder Act are being fulfilled.	MEDIUM	No	A full review of how the partnership operates is being carried out. Will consider scheduling an audit in 2022/23.
Warden Services	Internal Audit	Risk of reputational damage if a quality service is not delivered.	Assurance that the service is being run efficiently and effectively.	LOW	No	Considered low risk at present. Will reconsider in one year.

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Service Risks – Operations & Traded Services

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Fleet Management	Internal Audit	Risk of loss of operator's licence, risk of reputational damage	Compliance with operator licence regulations, value for money, planning of the fleet to ensure that operational needs are met, compliance with safety standards, purchasing and disposals.	MEDIUM	No	Reviewed in 2017/18. Limited assurance. Action plan implemented.
Transport – Fuel Usage	Transport Operational Risk Register	Risk of fuel loss due to theft.	Assurance that appropriate controls are operated to mitigate the risk of fuel theft, either by officers or by members of the public.	MEDIUM	No	Included in review of fleet management completed in 2017/18.
Trade Waste	Internal Audit	Risk of financial loss, reputational damage due to failure to deliver a quality service.	Accuracy and completeness of billing, value for money of the service, financial sustainability of the service, collection and recovery of outstanding income.	MEDIUM	Yes	Completeness of billing and recovery arrangements reviewed in 2019/20. This audit will focus on efficiency and effectiveness, and financial sustainability as a non statutory service.
Refuse & Recycling	Internal Audit	Risk of substantial reputational damage if a quality service is not delivered, or if the Council breaches statutory requirements.	Assurance that the service is operating efficiently and effectively, including compliance with applicable regulations.	MEDIUM	Yes	Review of implementation of health & safety improvement action plan.

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Street Cleansing	Internal Audit	Risk of reputational damage if a quality service is not delivered.	Assurance that the service is being run efficiently and effectively.	LOW	No	Considered low risk at present. Will reconsider in one year.
WSU Garage	Internal Audit	Expenditure might not represent value for money. Risk of reputational damage if facilities are used inappropriately by officers.	Assurance that the garage is being run efficiently and effectively, in compliance with applicable health and safety regulations. Assurance that expenditure represents value for money.	MEDIUM	Yes	Review of implementation of health & safety improvement action plan.
Streetscene	Environmental Services Operational Risk Register	Operational risk register highlights the risk of deterioration of assets.	Assurance that the bridge inspection regime is being operated as expected, and that repairs and maintenance is carried out in an effective and timely manner. Review of expenditure to provide assurance that it is efficient and effective, including a review of whether or not such spend is based upon necessity.	MEDIUM	No	Will consider scheduling an audit in 2022/23.

APPENDIX B DRAFT INTERNAL AUDIT PLAN 2021/22

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Tenant Recharges including Voids	Stakeholder consultation	New system implemented	Assurance that recharges are accurate and complete, and correctly reflect the Council's expenditure incurred when carrying out repairs. Assurance that there are appropriate arrangements in place to maximise the collection of outstanding income.	MEDIUM	No	Reviewed in 2018/19. Limited Assurance. Action plan implemented.
Housing Repairs including Handyman and Voids	Stakeholder consultation	New system implemented in 2016	Assurance that the Oneserve system is delivering its expected outcomes. Assurance that appropriately designed controls are in place, consistently applied. To include a review of performance management arrangements.	MEDIUM	No	Reviewed in 2018/19. Substantial assurance.
Housing Repairs Stock Control	Stakeholder consultation	New system. Robust stock control procedures are fundamental to ensure that the service runs efficiently, that material costs are appropriately controlled, and that opportunities for theft or fraud are minimised.	Assurance that appropriately designed and embedded stock control and stock taking procedures are in place.	MEDIUM	No	Reviewed in 2017/18. Substantial assurance.

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Service Risks – Digital & Communications

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
ICT Disaster Recovery/ Backup Procedures	ICT Services Operational Risk Register	Loss or outage of various systems is highlighted on the risk register; could cause significant disruption to services.	Appropriate arrangements in place to ensure, in the event of a disaster, that systems are restored in a prioritised and timely manner, and that there are appropriate arrangements to prevent loss of data.	MEDIUM	No	Reviewed in 2018/19. Substantial assurance.
IT Systems Admin	Stakeholder consultation	There might not be effective and controlled administration of the Council's IT network.	Administration of software and systems, including user access rights. Specific focus on administration of user account creation and deletion.	MEDIUM	No	Full review in 2016/17, substantial assurance provided. IT security audit completed in 2019/20 – Substantial assurance
IT Helpdesk	Internal Audit	Fundamental back office service.	Assurance that the helpdesk service is managed efficiently and effectively, within its agreed level of resources, in a way which meets the needs of the Council.	MEDIUM	Yes	Reviewed in 2016/17 with substantial assurance provided. A change of system has been implemented.
Payment Card Industry Data Security Standards Compliance	Stakeholder Consultation	Failure to comply with standards leading to reputational damage and loss of ability to process card payments.	General review of compliance with the standards across the Council.	MEDIUM	Yes	Reviewed in 2016/17. Follow up to provide assurance that the standards are being met.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
IT Security	Internal Audit	<p>Risk of data loss or theft, substantial reputational damage.</p> <p>Highlighted in the recent Fraud Risk Review.</p>	Assurance that appropriately embedded IT Security measures are in place. Assurance that the risks of fraud by IT officers who may have enhanced access to Council systems is appropriately mitigated.	MEDIUM	No	<p>Completed 2019/20 Substantial assurance.</p> <p>Will schedule a further review in 2022/23 once the new housing and asset management systems are in place.</p>
IT Strategy, Governance & Policies	Internal Audit	Effective ICT Governance is vital in ensuring that the ICT team are fully engaged with all services areas, can meet their needs and, in return, service areas also work in line with the Council's ICT requirements.	Assurance that appropriate and embedded ICT governance arrangements are in place, including strategy and policies. To include a joint ICT/ HR review of policies including ICT security and code of conduct, and agile working. Review of arrangements in place to ensure agile staff are being effectively managed.	MEDIUM	No	<p>Full audit completed in 2015/16. Substantial assurance.</p> <p>New IT governance framework implemented in 2020/21 with support from Internal Audit.</p>

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Cyber Security	Internal Audit	There have been a number of cyber-attacks, both nationally and internationally. It was confirmed that the Council's IT network has been independently accredited as having satisfactory defences against cyber-attack.	Assessment of the Council's arrangements for managing risk in the area, and development of further action plan.	MEDIUM	Yes	External review commissioned.
IT Business Continuity	Internal Audit	Risk of substantial service disruption and reputational damage.	Assurance that the IT Business Continuity Plan, which is undergoing review, is fit for purpose and has been adequately tested.	MEDIUM	No	Audited in 2019/20 with Substantial assurance provided.
Customer Service Centre Demand Management	Customer & Business Support Services Operational Risk Register	Risk of inconsistent approach to dealing with customers leading to reputational damage. Corporate Strategy aims to deliver digitally enabled services that residents can access.	Review organisational arrangements in place to ensure that customers are attended to in a fair consistent and timely manner. Assurance that customer use of self service digitalisation is being actively promoted, and that the service is operating efficiently and effectively.	MEDIUM	No	Audit completed in 2019/20. Substantial assurance provided.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Apprentices	Internal Audit	Apprenticeship scheme may not be effective.	Assurance that the apprenticeship scheme requirements are being complied with and take-up is being maximised. Review of the level of retention of apprentices and arrangements to ensure their integration within the organisation.	LOW	No	Considered low risk at present; will reconsider in one year.

Service Risks – Executive Directors

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Absence Management	Human Resources Operational Risk Register	Risk register highlights the risk of adverse impacts on services and teams caused by sickness absence. Leadership Team review currently in progress.	Assurance that policy and procedures are appropriately designed, and consistently applied to ensure that absence is effectively managed.	MEDIUM	No	Reviewed in 2018/19. Substantial assurance.
Recruitment and Selection	Internal Audit	Risk of fraud/ corruption. Recruitment may not meet the needs of the Council e.g. if the officer does not have the skills or potential to carry out the duties of the post.	Review of design and compliance with recruitment and selection procedures.	LOW	No	Considered low risk at present; will reconsider in one year.

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<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating & Priority</u>	<u>Included in 21/22 Audit Plan</u>	<u>Rationale for Excluding</u>
Payroll	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Payroll processing including deductions, administration of starters and leavers, system access controls, accuracy and completeness of accounting records.	MEDIUM	No	Full audit completed in 2015/16. Substantial assurance. Full Audit completed in 2020/21. High assurance.
HR Capability and Disciplinary	Internal Audit	CANDO values and behaviours framework would not be effective without being underpinned by capability and disciplinary procedures.	Assurance that there is a consistently embedded and effective framework in place for managing capability and disciplinary. This will include an analysis of cases to establish whether there are any recurring themes, how the Council learns lessons from such cases, and how they are used to reinforce the values and behaviours framework.	MEDIUM	No	2019/20 Consultancy review completed.