



1 June 2020

AUDIT AND ETHICS COMMITTEE – 9 JUNE 2020

A meeting of Audit and Ethics Committee will be held at 5.30pm on Tuesday 9 June 2020 via Microsoft Teams.

Due to the current COVID19 pandemic, members of the public may view the meeting via the livestream available on 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 28 January 2020.

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 2019/20
5. Informing the Audit Risk Assessment for Rugby Borough Council 2019/20
6. Audit Progress Report and Sector Update 2019/20
7. Accounting Policies Update 2019/20
8. Strategic Risk Register and Risk Management Update
9. Internal Audit Plan and Update 2020/21
10. Annual Report of the Corporate Assurance Improvement Manager
11. 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. COVID 19 Risk Register
2. Whistle Blowing Incidents – Standing Item – to receive any updates
3. 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 Cranham, McQueen, Mistry and Pacey-Day

Named Substitutes: Councillors Butlin, Mrs O'Rourke, Roodhouse and Stokes

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 2019/20

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Interim Chief Financial Officer

Portfolio: Corporate Resources

Ward Relevance: Not ward specific

Prior Consultation: n/a

Contact Officer: Jon Illingworth, Financial Services Manager and
Interim Chief Financial Officer
jon.illingworth@rugby.gov.uk
01788 533410

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

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|--------------------------------------|--|
| Statutory/Policy Background: | The Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015 The Code of Audit Practise |
| Summary: | The External Audit Plan 2019/20 has been developed by our appointed external auditor (Grant Thornton) and sets out the proposed external audit work and fee relating to the 2019/20 annual audit at Rugby. This includes a specific update in relation to COVID-19 |
| Financial Implications: | The proposed fee for the 2019/20 annual audit can 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: | There are no equality and diversity implications arising from this report. |
| Options: | Not applicable |
| Recommendation: | The updated External Audit Plan and fee for 2019/20 be approved. |
| Reasons for Recommendation: | The External Audit Plan 2019/20 proposes an appropriate level and scope of external audit work to audit the 2019/20 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 - 9 June 2020

External Audit Plan 2019/20

Public Report of the Interim Chief Financial Officer

Recommendation

The updated External Audit Plan and fee for 2019/20 be approved.

Background

In March, Grant Thornton, the Council's appointed external auditor, submitted their External Audit Plan and fee proposal for the 2019/20 annual audit following consultation with the Chief Financial Officer and Deputy Chief Financial Officer. The External Audit Plan is attached at Appendix 1.

The meeting which was scheduled to review the document was cancelled as a result of the COVID-19 pandemic.

In response to the pandemic, a further update has been provided and is attached at Appendix 2.

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

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Subject Matter: External Audit Plan 2019/20

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|--|
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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 |
|---------------|---|
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External Audit Plan

Year ending 31 March 2020

Rugby Borough Council
24 March 2020



Contents



Your key Grant Thornton
team members are:

Grant Patterson

Key Audit Partner

T: (0121) 232 5296

E: grant.b.patterson@uk.gt.com

Jim McLarnon

Audit Manager

T: (0121) 232 5219

E: james.a.mclarnon@uk.gt.com

Martin Stevens

Assistant Manager

T: (0121) 232 5313

E: martin.p.stevens@uk.gt.com

| Section | Page |
|---------------------------------------|------|
| 1. Introduction & headlines | 3 |
| 2. Key matters impacting our audit | 4 |
| 3. Significant risks identified | 5 |
| 4. Other risks identified | 6 |
| 5. Other matters | 9 |
| 6. Materiality | 10 |
| 8. Value for Money arrangements | 11 |
| 9. Audit logistics & team | 12 |
| 10. Audit fees | 13 |
| 11. Independence & non-audit services | 15 |
| Appendix | |
| A. Audit quality – national context | |

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 Authority 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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1. Introduction & headlines

Purpose

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

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 Rugby Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

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:

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance; and
- Value for Money arrangements in place at the Authority 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 Authority 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 Authority is fulfilling these responsibilities.

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

| | |
|-------------------------------------|--|
| Significant risks | <p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Valuation of pension fund net liability – the Council's pension fund asset and liability as reflected in its Balance Sheet represents a significant estimate in the financial statements. • Valuation of property, plant and equipment – The carrying value of property, plant and equipment on the Balance Sheet represents a significant estimate in the financial statements. • Management override of control – Under ISA240 it is presumed that the risk of management override of controls is present in all entities <p>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.</p> |
| Materiality | <ul style="list-style-type: none"> • We have determined planning materiality to be £1.1m (PY £1m) for the Authority, which equates to 1.95% of your prior year gross expenditure (cost of services). • 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 officers' remuneration disclosures. • 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 £50k). |
| Value for Money arrangements | <p>The estimated outturn for 2019/20 is break-even and the Council has agreed to utilise the Business Rates Equalisation Reserve to deliver a balanced budget in 2020/21 to help provide it with the necessary time to develop savings plans to deliver required savings of £3m over the period 2021/22 to 2023/24. Given these challenges we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.</p> |
| Audit logistics | <p>Our interim visit is split between February and March and our final visit will take place in July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £49,825 (PY: £46,825) for the Authority, subject to the Authority meeting our requirements set out on page 13.</p> |
| Independence | <p>We have complied with the Financial Reporting Council's Ethical Standard 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..</p> |

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

For Rugby Borough Council, at the end of Q3 the total approved general fund budget is £16.740m and based on forecasts it is anticipated the 31 March 2020 position will be breakeven. The Council have delivered savings of £343k in the year and are on track to deliver the remaining £155k required.

At 31 March 2020, the anticipated general fund balance will be £1.665m. An internal transfer will be recommended in the final quarter to increase this to the minimum required level identified by the section 151 officer of £2.256m.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Council until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Council will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (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 more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

IFRS 16 implementation

The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application.

The primary change under the new standard will be the recognition of a right of use asset and liability for all leases previously accounted for as an operating lease, with certain exceptions.

In accordance with IAS 8, disclosures of expected impact of IFRS 16 should be included in the Authority's 2019-20 financial statements.

Finance staff have undertaken an extensive exercise to identify and review current lease arrangements in preparation for the transition.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- It is too early to reliably measure the impact of the UK's exit from the European Union however we will continue to monitor the situation and consider as necessary the need for relevant disclosure in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.
- Our proposed work and fee, as set out further in our Audit Plan, has been discussed with the Head of Corporate Resources & Chief Financial Officer and is subject to PSAA agreement.

- We will evaluate the processes the Authority has adopted to assess the impact of IFRS 16 on its 2020/21 financial statements and whether the estimated impact has been disclosed in the 2019/20 financial statements and this is complete.
- This will continue to be pertinent in 2020/21 when the standard becomes effective and right of use assets and liabilities as well as the associated Income and Expenditure impact are recognised.

3. 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 |
|--|--|--|
| <p>The revenue cycle includes fraudulent transactions</p> | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted as we have concluded that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • 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> |
| <p>Management over-ride of controls</p> | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The 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, which was one of the most significant assessed risks of material misstatement.</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 |
|---|--|---|
| <p>Valuation of the pension fund net Liability</p> | <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 statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£49m in the Authority's balance sheet as at 31 March 2019) 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 one of the most significant assessed risks of material misstatement.</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 any 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. |

Significant risks identified (continued)

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|--|--|---|
| <p>Valuation of land and buildings (Periodic revaluation with desktop valuation in intervening years)</p> | <p>The Council revalues its council dwellings on a rolling five year basis, other land and buildings (including surplus assets) in the general fund and housing revenue account on a rolling four year basis and investment property annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£223m net book value as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>As council dwellings are the most significant class (£189m at 31 March 2019) in the intervening years, such as 2019/20, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority also undertakes a desktop review which is signed off by its valuation expert to ensure that there is no material difference.</p> <p>Additionally, management will need to ensure the carrying value of other land and buildings in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations, as one of the most significant assessed risks of material misstatement.</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 to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value or the fair value (for surplus assets) at year end. |

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 Report in July 2020.

4. Other risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) | <p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).</p> <p>Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings. |

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 Report in July 2020.

5. 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 and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - 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 about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

The concept of 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

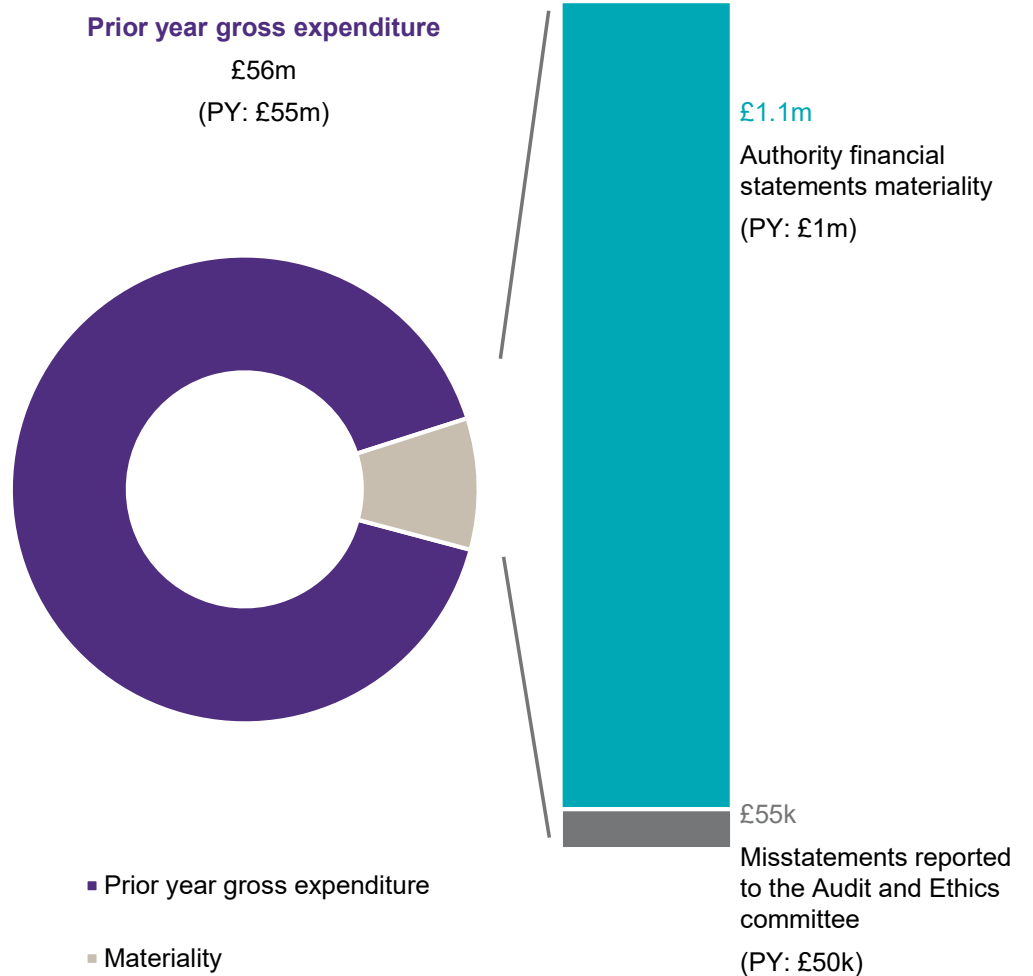
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.1m (PY £1m) for the Authority, which equates to 1.95% of your prior year gross expenditure for the year. 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.

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 Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55k (PY £50k).

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.



7. Value for Money arrangements

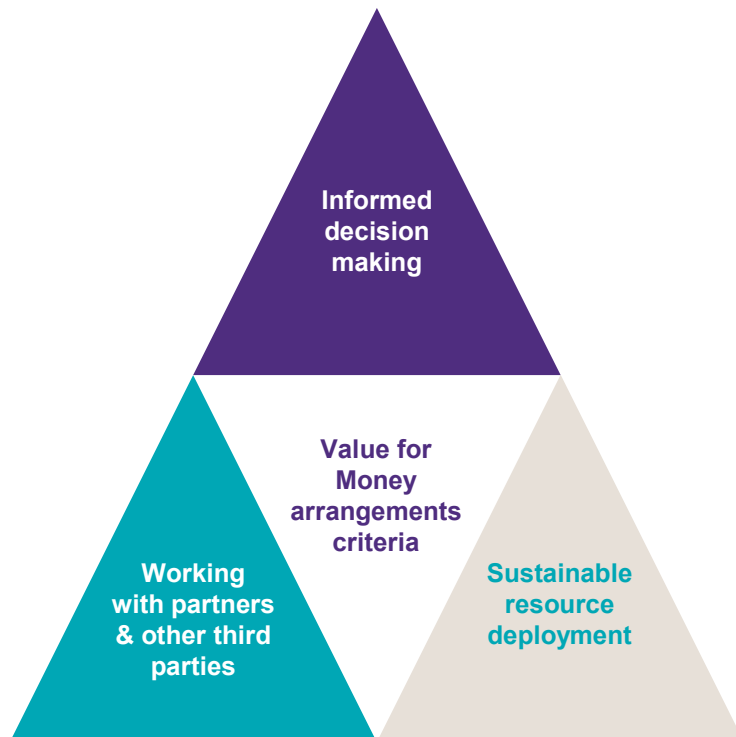
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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



Financial sustainability and delivery of plans

The Council have a good track record of delivering in year budgets and targets. However, the Council has recognised it faces significant risks in respect of the possible loss of existing growth due to the Business Rates Reset, uncertainties around the outcome of the Fair Funding Review providing a reduction in its assessed funding need and significant changes and possible end of the New Homes Bonus scheme which it has used to reduce the impact of austerity to date.

The out-turn for 2019/20 is expected to be better than expected by around £0.5m due to an increase in business rates retention which has enabled the Council to increase and then utilize the business rates equalization reserve to produce a balance budget for 2020/21.

However, for the period 2021/22 to 2023/24 the Council needs to identify £3m of recurrent savings and requires a savings delivery plan in order to document how these values will be achieved. The Council plans to produce detailed action plans for achievement and the delivery of the savings as part of its financial and performance reporting for 2020/21. Understanding and assessing its arrangements to do this will be key to its medium term sustainability and our considerations.

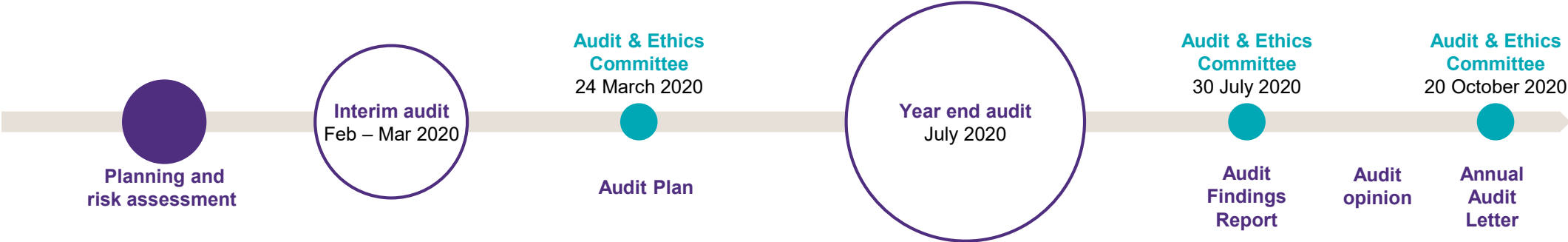
Given these challenges we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains. However, this remains a significant risk in 2019/20 against the backdrop of a challenging Local Government landscape which is subject to high levels of uncertainty.

In response to this risk we will:

- 1) Review performance in the period by comparing outturn position to budgeted for revenue and capital budgets, as well as assessing any achievement or shortfall of savings targets where applicable.
- 2) Hold enquiries of key officers to understand the process in place for future medium term financial planning and where available, review underlying documentation to ensure assumptions are reasonable.

We will keep the Audit and Ethics Committee updated with our assessment.

8. Audit logistics & team



Grant Patterson, Key Audit Partner
 Overall quality control; accounts opinions; final authorisation of reports; attendance at Audit and Ethics Committee.



Jim McLarnon, Audit Manager
 Overall audit management; consideration of VFM work; quality assurance of audit work and outputs



Martin Stevens, Audit Incharge
 Management of audit fieldwork, coordination of work completed by CAST and audit assistants; coordination of work of specialists and advisors where delegated by the Manager

Client responsibilities

Where clients 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 clients. 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 deadline 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
 - 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.

9. Audit fees

Planned audit fees 2019/20

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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been discussed with the Head of Corporate Resources and Chief Financial Officer and is subject to PSAA agreement.

| | Actual Fee 2017/18 | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---|--------------------|--------------------|-------------------------|
| Council Audit Scale Fee | £54,968 | £42,325 | £42,325 |
| Fee variation | £0 | £4,500 | £7,500 (see page 14) |
| Total audit fees (excluding VAT) | £54,968 | £46,825 | £49,825 |

Assumptions:

In setting the above fees, we have assumed that the Authority 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](#), which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

| Audit area | £ | Rationale for fee variation |
|---|---------------|---|
| Scale fee | 42,325 | |
| Raising the bar | 2,500 | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. |
| Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19 | 1,750 | We plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. |
| PPE Valuation – work of experts | 1,750 | As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. |
| New standards/ developments | 1,500 | This year we will be responding to the introduction of IFRS 16, this requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS 8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements. |
| Revised scale fee (to be approved by PSAA) | 49,825 | |

10. Independence & 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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

| Service | £ | Possible threats | Safeguards |
|---|--------|---|---|
| Audit related: | | | |
| Certification of Housing capital receipts grant | 2,300 | Self-Interest (because this is a recurring fee) | 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 and £10,000 in comparison to the total fee for the audit of £49,825 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. |
| Certification of Housing Benefits subsidy claim | 10,000 | Self review | We have not prepared any elements of the submission and are carrying out work on the information submitted to DWP/ MHCLG by the Council. |
| | | Management | The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. |
| Non-audit related: | | | |
| N/A | - | N/A | N/A |

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 Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit & Ethics Committee. 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.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.ie/about/transparency-report/>

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Audit and Ethics committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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External Audit Plan Update

Rugby Council
Year ending 31 March 2020

27 April 2020



Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Rugby Borough Council ('the Authority') as included in our Audit Plan dated 24 March 2020, for those charged with governance.

The current environment

In addition to the audit risks included in our Audit Plan dated 24 March 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19 at this time but we will keep matters under review.

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

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 |
|-----------------|---|---|
| Covid-19 | <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence |

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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AGENDA MANAGEMENT SHEET

Report Title: Informing the Audit Risk Assessment for Rugby Borough Council 2019/20

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Interim Chief Financial Officer

Portfolio: Corporate Resources

Ward Relevance: Not ward specific

Prior Consultation: N/a

Contact Officer: Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer
jon.illingworth@rugby.gov.uk
01788 533410

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

| | |
|--------------------------------------|--|
| Statutory/Policy Background: | The Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015 The Code of Audit Practise |
| 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 2019/20 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: | There 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 - 9 June 2020

**Informing the Audit Risk Assessment for
Rugby Borough Council 2019/20**

Public Report of the Interim Chief Financial Officer

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 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: 9 June 2020

Subject Matter: Informing the Audit Risk Assessment for Rugby Borough Council 2019/20

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

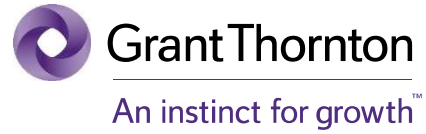
LIST OF BACKGROUND PAPERS

| 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 2019/20



Commercial in confidence

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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Table of Contents

| Section | Page |
|---------------------------------|-------------|
| Purpose | 4 |
| General Enquiries of Management | 6 |
| Fraud | 7 |
| Fraud Risk Assessment | 8 |
| Laws and Regulations | 13 |
| Impact of Laws and Regulations | 14 |
| Going Concern | 16 |
| Going Concern Considerations | 17 |
| Related Parties | 21 |
| Accounting Estimates | 23 |
| Appendix A Accounting Estimates | 25 |

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and 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 and Ethics Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and 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 and Ethics Committee and supports the Audit and 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 and Ethics Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- 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 the Authority's management. The Audit, Risk & Assurance 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 |
|--|---|
| 1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20? | None, however there will be a appreciation of the impact that the implementation of IFRS16 and the CIPFA financial management code which will impact on 2020/21 |
| 2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? | The accounting policies that are adopted are reviewed as part of the planning process for the year's closedown of accounts. |
| 3. Is there any use of financial instruments, including derivatives? | Yes, the Council holds both an investment and borrowing portfolio, covering a variety of instruments. |
| 4. Is Are you aware of any significant transactions outside the normal course of business? | None |

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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? | Our annual revaluation which is completed through an external advisor would pick up any impairments. No significant impairments have been reported through officers |
| 6. Are you aware of any guarantee contracts? | No |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? | None |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by the 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. |
| 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? | None |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were | Link Asset Services – Contracted Treasury Management Advisors PS Tax – Contracted VAT advisors |

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)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 Risk & Assurance 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 the Authority'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 the Authority's management.

Commercial in confidence

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>1. Have the 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>The corporate governance framework is reviewed by the Audit & Ethics Committee, for the risk of fraud in relation to the Council's control environment. The Audit & Ethics Committee consider all internal audit reports where there is limited/ no assurance, from a control environment and a risk of fraud perspective, this is in line with the agreed audit protocol. 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. In 2018/19 the Corporate Assurance and Improvement Manager completed a full risk assessment of fraud, bribery and corruption risks across all Council departments. The results were reported to the Strategic Risk Management Group and the Audit & Ethics Committee. Fraud, bribery and corruption training was delivered to all managers in March 2018, and members in April 2018. Fraud awareness training is also being delivered to all departments as part of a three year plan. Furthermore, the internal audit plan includes proactive counter fraud assurance work and the risk of fraud is evaluated as part of the scoping process for every internal audit assignment. 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>We carry out fraud risk assessments on the systems which support the production of the accounts, and the programmed of internal audit work includes proactive transactions based testing.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>At the time of writing (10th January 2020), no instances have been brought to the attention of the Corporate Assurance and Improvement Manager since 1 April 2019.</p> <p>See response under question1 above.</p> |

Commercial in confidence

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p> | <p>Please refer to separate report completed by the Corporate Assurance and Improvement service.</p> <p>Delivery of the action plan has and is being monitored and reported by the Corporate Assurance and Improvement team.</p> |
| <p>5. What processes do the 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 is provided. The previous review was completed in 2016/17.</p> <p>An anti fraud, bribery and corruption strategy is in place along with a Fraud Response plan. These have been cascaded to staff.</p> |
| <p>6. How would you assess the overall control environment for the Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not 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 2018/19, provided a Substantial level of assurance to the Council.</p> <p>Where segregation of duties cannot be maintained on a person by person basis they are maintained on a process by process basis. Any issues related to this would be covered in the internal audit programme.</p> <p>Areas of significant risk, mitigating controls and further action taken are set out in the enclosed report.</p> |

Commercial in confidence

Fraud risk assessment

| Question | Management response |
|---|--|
| <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 : I) checks for high risk activities and ii) analytical reviews with the objective of identifying any significant year on year variances. 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>8. How do the 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? 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.</p> <p>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 during 2019/20, 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>There have been no significant issues reported in 2019/20.</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.</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 Risk & Assurance Committee?</p> <p>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?</p> <p>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>So far this year there have been no reported instances of fraud, bribery or corruption.</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>At the time of writing the Corporate Assurance and Improvement Manager is not aware of any whistleblowing potential or complaints by potential whistle blowers.</p> <p>There have been no actual instances of whistle blowing so far in 2019/20.</p> |
| <p>13. Have any reports been made under the Bribery Act?</p> | <p>At the time of writing there have been no reports made under the Bribery Act so far in 2019/20.</p> |

Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)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 Risk & Assurance Committee, is responsible for ensuring that the Authority'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.

Commercial in confidence

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 the 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.</p> <p>The Monitoring Officer will advise the Council's Leadership and Operations 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 2019 with an on-going impact on the 2019/2020 financial statements?</p> | <p>None</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 the 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? | None |

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

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Going concern considerations

| Question | Management response |
|---|---|
| <p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for both the Council? What was the outcome of that assessment?</p> | <p>An updated Medium Term Financial Plan is completed annually and reported to Cabinet throughout the budget setting process.</p> |
| <p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p> | <p>The delivery of the plan is reported through the budget monitoring process for the year through Senior Management Team, Scrutiny , Cabinet and Council</p> <p>The current Medium term financial strategy runs from 2018-2023</p> |

Commercial in confidence

Going concern considerations

| Question | Management response |
|--|---------------------|
| 3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern? | yes |
| 4. Have there been any significant issues raised with the Audit & Ethics Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control). | none |
| 5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance? | none |

Commercial in confidence

Going concern considerations

| Question | Management response |
|--|---------------------|
| 6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills? | yes |
| 7. Does the Council have procedures in place to assess their ability to continue as a going concern? | yes |
| 8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern? | none |

Commercial in confidence

Going concern considerations

| Question | Management response |
|---|--|
| <p>9. Are arrangements in place to report the going concern assessment to the Audit & Ethics Committee?</p> <p>How has the Audit & Ethics Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p> | <p>The Council's financial statements are reported directly to and approved independently by the Audit and Ethics Committee. A key aspect of the external audit of the statements is the opinion that the Council remains a going concern, so Audit and Ethics Committee can directly question both the Chief Financial Officer and the External Auditor about any concerns it may have.</p> |

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and 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 the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- 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 authority, or of any entity that is a related party of the authority.

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 perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 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.

Commercial in confidence

Relating Parties

| Question | Management response |
|--|---|
| 1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ? | 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 Financial Services Manager and the Council's Monitoring Officer as part of the Annual Declaration of Interests. |

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

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Accounting Estimates

| Question | Management response |
|--|---|
| 1. 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)? | None |
| 2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable? | Yes |
| 3. How is the Audit & Ethics 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? |
|---|---|--|---|--|---|
| Property plant & equipment valuations | Valuations are made by the valuer (local RICS/CIB Member) inline 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 | Yes –use of local RICS/CIB Member for valuations. | Valuations are made inline with RICS guidance –reliance on expert | No |
| Estimated remaining useful lives of PPE | 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 live 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 qualified RICS or CIB Member. | No |

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Appendix A Accounting Estimates (Continued)

| 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? |
|--|---|---|--|---|---|
| Depreciation and Amortisation | Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis. | Consistent application of depreciation method across all assets | Yes –us of the Local RICS/CIB Member for valuations | 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 |
| 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 Valuations | Valuations are made in line with RICS guidance –reliance on experts | No |
| Measurement of Financial Instruments ²⁶ | Council Values financial instruments at fair value based on classification and measurement approach that reflects the business model | Review service provided by treasury | Yes –treasury consultants | Take advice from finance Professionals | No |

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Appendix A Accounting Estimates (Continued)

| 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 |
| Bad Debt Provision | 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 (Continued)

| 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? |
|--|---|--|--|--|---|
| 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 |
| Non Adjusting events – events after the balance sheet date | S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an adjusting event. 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 Officer | This would be considered on individual circumstances | This would be considered on individual circumstances | n/a |

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Appendix A Accounting Estimates (Continued)

| 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? |
|--|---|-------------------------------------|--|--|---|
| Pension Fund (LGPS) Actuarial gains/losses | Through external actuary advice through the Warwickshire Pension fund | Take advice from professionals | Yes external actuary advice | This is external advice provided by professionals | No |



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AGENDA MANAGEMENT SHEET

Report Title: Audit Progress Report and Sector Update
2019/20

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Interim Chief Financial Officer

Portfolio: Corporate Resources

Ward Relevance: Not ward specific

Prior Consultation: n/a

Contact Officer: Jon Illingworth, Financial Services Manager and
Interim Chief Financial Officer
jon.illingworth@rugby.gov.uk
01788 533410

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

| | |
|--------------------------------------|--|
| Statutory/Policy Background: | The Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015 The Code of Audit Practise |
| Summary: | This is a progress from Grant Thornton on progress in delivering their responsibilities as external auditors to Rugby Borough 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: | There are no equality and diversity implications arising from this report. |
| Options: | Not applicable |
| Recommendation: | The 2019/20 external audit interim progress report and sector update be noted |
| Reasons for Recommendation: | Not applicable |

Audit and Ethics Committee - 9 June 2020

Audit Progress Report and Sector Update 2019/20

Public Report of the Interim Chief Financial Officer

Recommendation

The 2019/20 external audit interim progress report and sector update be noted.

Background

Grant Thornton, the Council's appointed external auditor, has submitted their interim progress report for the 2019/20 annual audit.

The report provides the Committee with Grant Thornton's progress in delivering their responsibilities as the Council's external auditors.

This report is appended for the Committee's consideration. A representative from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 9 June 2020
Subject Matter: Audit Progress Report and Sector Update 2019/20
Originating Department: Corporate Resources

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 |
|--------|------------------------------------|
| | |
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| | |

Audit Progress Report and Sector Update

Rugby Borough Council
Year ending 31 March 2020

May 2020



Contents

| Section | Page |
|-------------------------------|------|
| Introduction | 3 |
| Progress at May | 4 |
| COVID-19 update | 6 |
| Audit Deliverables | 7 |
| Results of Interim Audit Work | 8 |
| Sector Update | 9 |

Introduction



Grant Patterson

Engagement Lead

T 0121 232 5296

M 07880 456114

E grant.b.patterson@uk.gt.com



Jim McLarnon

Manager

T 0121 232 5312

E james.a.mclarnon@uk.gt.com

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

The paper also includes:

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

Members of the Audit and Ethics Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

www.grantthornton.co.uk.

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

Progress at May 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in December, and we began our interim audit in January 2020. Our interim fieldwork included::

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

The results of our work to date are included in this report.

In March we intended to issue and present our detailed audit plan, setting out our proposed approach to the audit of the Authority's 2019/20 financial statements. Following the impact of Covid-19, this was postponed until June 2020.

COVID-19

In addition to the audit risks included in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic.

Our work on this has resulted in an update to our audit plan identifying a new financial statements level significant risk. This has been included in an addendum to our audit plan.

The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

We are continuing to monitor the COVID-19 situation and are discussing with the finance team the impacts this may have on the 2019/20 audit. Further details of the potential impact on the audit are detailed on page 6.

Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach are included in our Audit Plan. As noted opposite we have revisited these in the light of Covid-19.

We will report our work in the Audit Findings Report and aim to give our Value for Money conclusion at the same time as the opinion on the financial statements.

The new Code of Audit Practice (the "Code") has completed its approval process in Parliament. The new Code will therefore come into force on 1 April 2020 for audit years 2020/21 and on. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO are continuing to work with key stakeholders, including local auditors, to develop guidance in this area ahead of a public consultation. We will provide further updates as they become available.

Progress at May 2020 (Continued)

Other areas

Meetings

We met with Finance Officers in March as part of our regular liaison meetings. This was undertaken on a virtual platform and we continue to be in discussions with finance staff in a similar manner in order to maintain a two-way dialogue regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (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.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated this in our audit plan for the attention of the Audit and Ethics Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

COVID-19 Update

Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we have closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- it is therefore likely that we will be working remotely during the accounts audit. We are continuing to discuss how this will work in practice with the interim Section 151 Officer and will draw upon our experience working with NHS bodies. Part of our second interim visit was conducted using remote working, and this has demonstrated that the finance team and audit team are able to adapt to this way of working.
- although there are some audit tasks which are best undertaken in person, the majority of the audit will be able to be completed remotely. This is however likely to make the audit process longer. We will work closely with the finance team to make this different way of working as efficient as possible.
- we acknowledge there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

Impact on accounts and audit opinions:

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- impact on reserves and financial health and whether the audited body needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion)
- valuation of PPE and assumptions made by valuers, particularly in respect of carrying value to current value assessment
- impact on collectability of debt and assumptions made in bad debt provisions
- impact on post-balance sheet events (the consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed)
- disclosure of impact in Narrative report
- disclosure of critical judgements
- disclosure of material estimation uncertainties
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion)
- impact on reporting to those charged with governance and signing arrangements

Changes to deadlines and requirements:

- the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which came into force on 30 April 2020, confirmed that the date for publication of principal authority accounts moves from 31 July 2020 to 30 November 2020.
- the requirement for the public inspection period to include the first 10 working days of June has been removed. Local authorities are instead expected to commence the public inspection period on or before the first working day of September 2020. This means draft accounts must be approved by 31 August 2020 but authorities are encouraged to do so earlier where this is possible.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. It is anticipated that the CIPFA Code for 2020/21 will move the requirement for IAS 8 disclosures for accounting standards not yet adopted that will be required for IFRS 16 from 2019/20 into 2020/21.
- given this is a developing situation, there may be further changes to the accounts process for 2019/20 and we will be in regular dialogue with the finance team over the coming months.

Audit Deliverables

| 2019/20 Deliverables | Planned Date | Status |
|--|--------------|-------------|
| <p>Fee Letter</p> <p>Confirming audit fee for 2019/20.</p> | April 2019 | Complete |
| <p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Ethics Committee setting out our proposed approach in order to give an opinion on the Authority's 2019-20 financial statements and a Conclusion on the Authority's Value for Money arrangements.</p> | June 2020 | Complete |
| <p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p> | June 2020 | Complete |
| <p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Ethics Committee.</p> | TBC | Not yet due |
| <p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p> | TBC | Not yet due |
| <p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p> | TBC | Not yet due |

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed | Conclusions and recommendations |
|--|---|---|
| Internal audit | We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. | Our review of internal audit work has not identified any weaknesses which impact on our audit approach. |
| Entity level controls | We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices | Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements. |
| Review of information technology controls | We have begun to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. Due to COVID-19 and lockdown measures introduced in March, we were unable to observe IT (information technology) controls in our interim audit. | We will follow up our documentation of the control environment and observation of controls at the post statements audit remotely via an online platform. |
| Walkthrough testing | We have documented controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Due to COVID-19 and lockdown measures introduced in March, we were unable to perform walkthrough testing of these controls in our interim audit. | We will follow up our walkthrough testing of controls at the post statements audit remotely via an online platform. |
| Journal entry controls | We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. Due to COVID-19 and lockdown measures introduced in March, we were unable to perform walkthrough testing of these controls in our interim audit. | We will follow up our walkthrough testing of controls at the post statements audit remotely via an online platform. Further work will be undertaken on journal transactions, by extracting 'unusual' entries for further review. |
| Early substantive testing | We have completed some early testing as part of our second interim visit, in particular on payroll and grants. We have selected samples for other income and operating expenses and these are with officers to collate the evidence required for the final visit. | Further substantive testing will need to be undertaken as part of the final accounts visit. |

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (i.e. what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

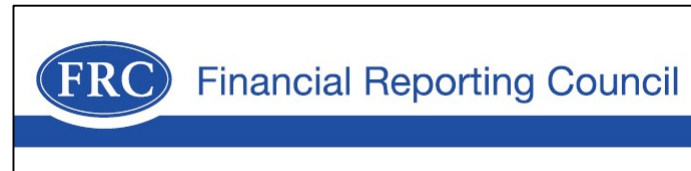
The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16 and the relevant disclosures. Where the standard has not yet been adopted. As noted previously it is anticipated that CIPFA will defer these disclosures into 2020/21.



Financial Reporting

Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of June?

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

Financial Resilience

Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?



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AGENDA MANAGEMENT SHEET

Report Title: Accounting Policies Update 2019/20

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Interim Chief Financial Officer

Portfolio: Corporate Resources

Ward Relevance: All

Prior Consultation: N/A

Contact Officer: Jon Illingworth, Financial Services Manager and
Interim Chief Financial Officer
jon.illingworth@rugby.gov.uk
01788 533410

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

Statutory/Policy Background: The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

This report provides the context within which the 2019/20 Statement of Accounts are being produced.

Summary: Approval is sought for the Council's accounting policies for 2019/20.

Financial Implications: There are no financial implications for this report

Risk Management Implications: There are no risk management implications for this 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: N/A

Recommendation:

Reasons for Recommendation: Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. The Committee is responsible for approving the financial statements and therefore required to understand the basis on which they have been prepared.

Audit and Ethics Committee - 9 June 2020

Accounting Policies Update 2019/20

Public Report of the Interim Chief Financial Officer

Recommendation

The Committee to approve the Council's accounting policies for 2019/20.

1. Introduction

- 1.1. This report provides the Committee with some context within which the 2019/20 Statement of Accounts (the Accounts) are being produced.
- 1.2. Approval is sought for the Council's accounting policies for 2019/20

2. Statement of Accounts approval and publication

- 2.1. At the end of each financial year, we are required by the Accounts and Audit Regulations 2015 to publish a Statement of Accounts setting out the financial position of the council and the transactions that have been made during the year. For the financial year 2019/20, the above regulations have been amended by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
- 2.2. After being approved by the council's Chief Financial Officer as a true and fair view, draft accounts for the year are published, along with the council's annual governance statement. The accounts are then made available for public inspection, along with the supporting accounting records and associated documents, for 10 days. The inspection period for 2019/20 will commence on or before 1 September 2020, in 2018/19 the period began on 1 June 2019. During this period, local electors can ask the external auditors questions about the draft accounts or raise objections to them.
- 2.3. The publication date for final, audited, accounts will move from 31 July to 30 November 2020 for all local authority bodies

3. Resourcing

- 3.1. The Council's Financial Services Team consists of approximately 15 FTE, with a vacant Principal Accountant being covered by interim agency support.
- 3.2. As a result of the Coronavirus pandemic, the team are all currently working from home and the timetable for delivering the statements has been updated to align with the revised timescales and the external audit which is currently scheduled to begin on 30 June.

4. Local Authority Accounting Framework

- 4.1. For the completion of the 2019/20 Statement of Accounts there are no material updates to the CIPFA code of practice from 2018/19 that the Committee needs to be aware of.
- 4.2. Up-coming accounting changes that will impact on the production of future Statement of Accounts include:

IFRS 16 – Leases will affect how organisations account for the assets that they lease from other organisations. This new standard was due to become operational from 1 April 2020. The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has agreed to defer the implementation of IFRS 16 Leases for one year in-line with the government's Financial Reporting Advisory Board's proposals for central government departments. This will mean the effective date for implementation is now 1 April 2021.

CIPFA Financial Management Code: as reported to the Committee on 28 January 2020, Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. However, 2020/21 will be categorised as a shadow year with full implementation being required from 1 April 2021.

- 4.3. Updates on these issues will be reported to the committee in further detail throughout the 2020/21 financial year

5. Accounting Policies

- 5.1. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.
- 5.2. The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices and, in preparing those Accounts, is responsible for selecting suitable accounting policies and applying them consistently.
- 5.3. The Audit and Ethics Committee is responsible for approving the Statement of Accounts and should therefore be aware of and understand the basis on which those Accounts have been prepared.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Subject Matter: Accounting Policies Update 2019/20

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|--|
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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 |
|---------------|---|
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Draft Accounting Policies 2019/20

1. General Principles

The Statement of Accounts (the Accounts) summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare annual Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

The Council's revenue and capital activity is accounted for in the year that it takes place, by including sums due to or from the Council in the year, not simply when cash payments are made or received.

Where material income and expenditure amounts have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected (bad debts).

This concept is not applied to electricity and gas supplies and other routine on-going business expenses. However, the Accounts do reflect twelve months' supply in each year and this does not have a material effect on the Accounts.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than one month from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

5. Officers Remuneration

Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include salaries, wages and other employment related payments and are recognised as an expense in the year in which the service is rendered by the employees. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the following financial year.

Termination Benefits

Termination benefits are amounts payable as a result of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Pension Costs

Pension Benefits

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that the employees earn their future entitlement.

The pension scheme is operated under the framework of the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions investment sub-committee of Warwickshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

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

Recognition and Measurement

The LGPS is accounted for as a defined benefit scheme:

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; which is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (broadly equivalent to the yield available on high quality corporate bonds with duration, consistent with the term of the liabilities).

- The fair value of the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Market quoted investments – current bid price on the final day of the accounting period
 - Fixed interest securities – net market value based on their current yields
 - Unquoted investments – professional estimate

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

- **Service Cost** - comprising:
 - Current year service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increases in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- **Remeasurements** - comprising:
 - The return on plan assets – excluding amounts including in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Actuarial gains and losses – change in the net pensions liability that arise because event have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

6. Events after the Reporting Period

Events taking place after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Accounts are authorised for issued. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of 2019/20 – the Accounts are adjusted to reflect such events

- Those that are indicative of conditions that arose after the 31 March 2020 – the Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made of the nature of the event and their estimated financial effect.

7. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial

instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

8. Income

Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council and credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that:

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

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non Specific Grant line in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where it has been applied to finance capital expenditure, it is posted to the Capital Adjustment Account. Where the grant has yet to be applied, it is posted to the Capital Grant Unapplied reserve. Amounts in the Capital Grant Unapplied reserve are subsequently transferred to the Capital Adjustment Account once they have been used to fund capital expenditure.

Revenue from contracts with customers

Where revenue is charged or received for goods or services provided to customers there will be an assessment of this income following the following 5 step approach.

- 1) Identify contract - agreement that creates enforceable rights and obligations
- 2) Identify performance obligations in the contract
- 3) Determine transaction price
- 4) Allocate transaction price to performance obligations
- 5) Recognise revenue when or as an entity satisfies performance obligations

The outcome of this evaluation will determine how this will be accounted for within the statement of accounts.

9. Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge and culture. They are a distinct class of asset which is reported separately from property, plant, and equipment. Previously the majority of these assets had been held as Community Assets with the exception of one or two which were held in Infrastructure Assets or Other Land and Buildings. The heritage assets held by the Council have been categorised as follows:

- Art & Social History Collections
- Monuments & Statues
- Historic sites / buildings
- Civic Regalia

The Code requires councils to recognise heritage assets where the Council has information on the cost or value of the asset. However, the unique nature of many heritage assets makes reliable valuation complex. Where it is not practical to obtain a

valuation for an asset (at a cost which is commensurate with the benefits to users of the financial statements) and cost information is available, the asset will be carried at historical cost (less any accumulated depreciation, amortisation and impairment losses) as permitted by the Code.

Valuations may be made by any method that is appropriate and relevant to the heritage asset: this includes insurance valuations for museum collections, monuments & statues, historic sites, and civic regalia. It is not a requirement of the Code for valuations to be carried out or verified by external valuers. Although there is no prescribed minimum period between full valuations, the Council considers it appropriate to seek a full valuation every five years.

Impairment reviews will only take place where there is physical deterioration or new doubts as to the authenticity of the heritage asset. Any impairment recognised will be treated in accordance with the Council's policy on impairments.

10. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance are identifiable and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Normal examples are those of software or software licences, which have a value, but over a life of 3 –10 years and are therefore written down over that useful life.

11. Inventories and Long-term Contracts

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

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

12. Investment Properties

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

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

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

13. Joint Operations

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

- Its assets, including any held jointly
- Its liabilities, including any share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly
- The Council has a 50% interest in the Rainsbrook Crematorium Joint Committee with the other 50% relating to Daventry District Council. The decision making and operational arrangements of the Joint Committee fulfil the features associated with a jointly controlled operation in that:
 - Each operator incurs its own expenses and liabilities and raises its own finance, which represent its own obligations; and
 - The joint operation agreement provides a means by which the revenue from the service and any expenses incurred in common are shared among the operators.

Therefore, in line with the contractual arrangements set out in the joint agreement, the Council recognises its share of the operational assets and liabilities of the Joint Committee on its Balance Sheet and also debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate. Further detail on this Joint Operation is also provided in Note 36 Related Party Transactions.

14. Leases

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

Where a lease covers both land and buildings, the land and building elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. This definition includes rental agreements, contract hire and licences.

15. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

16. Property Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred. The Council has established a de-minimis level of £10,000. Expenditure on assets under this level is not capitalised within the Accounts and the assets are fully depreciated within the year.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Infrastructure assets, community assets and assets under construction are carried at historic cost, net of depreciation where appropriate.
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. This includes assets such as the Queen's Diamond Jubilee Leisure Centre, Benn Hall and the John Barford Car Park.

Where non-property assets have short useful lives and/or low values, such vehicles and IT equipment, they are measured at depreciated historical cost as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and building assets under £10,000 are not revalued with the exception of investment properties. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains, or

may be credited to the Comprehensive Income & Expenditure Statement to reverse a previous downward revaluation.

Where decreases in value are identified, they are accounted for:

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

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

Impairment

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Impairment Losses

No impairments were recognised in the year following a review of asset compliance with our componentisation policy.

Depreciation

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

Where depreciation is provided for, assets are depreciated using the straight-line method over the following periods:

- Dwellings and other buildings – 5-60 yrs.
- Vehicles, plant and equipment – 3-25 yrs.
- Infrastructure – 7-40 yrs.

Depreciation is charged on council dwellings in the year of disposal.

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

Componentisation

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for determining whether an asset needs to be componentised and an individual asset cost of more than 25% to determine whether an asset is considered as a component.

The carrying amount of a replaced or restored part of an asset (component) is derecognised, with the carrying amount of the new component being recognised subject to the principles set out in Recognition and Measurement above. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

Subsequent Expenditure on Property Plant and Equipment

Subsequent costs incurred on an asset previously recognised as Property, Plant and Equipment will only be capitalised if they result in items with physical substance and meet the recognition principle that

- It is probable that future economic benefits or service potential associated with the item will flow to the Council; and
- The cost of the item can be measured reliably.

Exceptions to the general approach of comparing the outcome of expenditure compared to previously assessed levels of performance:

- Where subsequent expenditure will actually increase the level of performance of an asset in generating economic benefits or providing service potential but does not increase the level of performance previously assessed by the Council for that asset, then the assessment can be updated (through a revaluation adjustment) and the new expenditure capitalised
- Where subsequent expenditure represents the replacement of a component of an existing asset provided that the old component can be written out of the Balance Sheet

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, whereas amounts below are classed as revenue income. A proportion of receipts relating to Right-to-Buy housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund or HRA Balance in the Movement in Reserves Statement.

The writing off of the remaining net book value of assets which are disposed of is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the

Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Assets Held for Sale

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

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

17. Provisions, Contingent Liabilities & Contingent Assets

Provisions represent amounts set aside to meet future liabilities which are likely or certain to be incurred but where it is not possible to determine exactly the amounts or timing of such events.

Provisions in respect of bad and doubtful debts are maintained, including amounts relating to rent, council tax and business rate arrears, which have been estimated in accordance with recommended practice and past experience and are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement. When payments are eventually made these are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but are disclosed in the accounts where it is probable that there will be an inflow of economic benefits or service potential.

18. Value Added Tax (VAT)

VAT is included in service revenue or capital income and expenditure accounts only when it is not recoverable.

AGENDA MANAGEMENT SHEET

Report Title: Strategic Risk Register and Risk Management Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Strategic Risk Management Group

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

| | |
|--------------------------------------|--|
| Statutory/Policy Background: | <p>Risk Management Strategy.</p> <p>Section 3 of the Accounts and Audit Regulations 2015 states that the Council must ensure it has a sound system of internal control which includes effective arrangements for the management of risk.</p> |
| Summary: | <p>The report details the Council's strategic risks and the arrangements in place for monitoring and managing those risks.</p> |
| Financial Implications: | <p>There are no financial implications arising directly from this report.</p> |
| Risk Management Implications: | <p>Failure to implement, improve and embed an effective risk management strategy would increase the risk that the Council does not achieve its objectives.</p> |
| Environmental Implications: | <p>There are no environmental implications arising from this report.</p> |
| Legal Implications: | <p>There are no legal implications arising from this report.</p> |
| Equality and Diversity: | <p>No assessment carried out as no policy or service delivery decision is being taken.</p> |
| Options: | <p>None</p> |
| Recommendations: | <p>The report be considered and noted.</p> |
| Reasons for Recommendation: | <p>Discharges the committee's responsibilities under the Constitution.</p> |

Audit and Ethics Committee - 9 June 2020

Strategic Risk Register and Risk Management Update

Public Report of the Executive Director

Recommendation:

The report be considered and noted.

1. Introduction

- 1.1 The Council monitors and manages its strategic risks through the Strategic Risk Register. The contents of the report highlight the high-priority strategic risks and show the arrangements in place to ensure these risks are monitored and managed appropriately.

2. Strategic Risks

- 2.1 The Strategic Risk Register is reviewed in detail and updated by the Senior Management Team at the Strategic Risk Management Group (SRMG) meeting. A full review of the Strategic Risk Register was carried out in 2019 to align it with the Corporate Strategy. The new Strategic Risk Register was approved by the Strategic Risk Management Group in February 2020.
- 2.2 In accordance with the Risk Management Strategy the Audit & Ethics Committee receives reports which provide assurance on the effective management of the Council's 'Top Level' risks. This report provides details of those risks but has been expanded to provide members with the full Strategic Risk Register.
- 2.3 It is not always possible to eliminate risk and given the nature and breadth of the Council's activity and the ever-changing climate within which it operates, high level risks are unavoidable. It is also possible that risks are rated as high level even though controls are in place to manage the level of risk. However, a high risk score is not necessarily a negative risk, it is purely the true indication of the likelihood of an event happening and the impact it could have. In such situations the level of risk could be even higher without those controls. Risk management is an ongoing process, which involves continual identification, analysis, treatment and monitoring. The Council's approach to managing each risk depends upon the nature of the issue at hand. There are four options:
- *Tolerate* – Decide to live with the risk and the possibility that it might occur and its possible consequences;
 - *Terminate* – Eliminate the risk, usually by deciding to change a course of action or stop a particular activity;

- *Transfer* – Some of the financial risk may be transferred and it may be possible to transfer liability through contractual arrangements;
- *Treat* – Control the risk and take action to reduce the likelihood that an event will occur or the impact if it does.

2.4 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 | Level of Risk | Prioritisation |
|--------------------|----------------------|----------------------------------|
| 8-16 | High (Red) | Immediate attention |
| 4-6 | Medium (Amber) | Moderate risk, mitigation action |
| 1-3 | Low (Green) | Regular review |

The Council's 'Top Level' risks are those which are assessed as 'red'. There are five 'Top Level' risks within this report and details are included within Appendix A.

3. Managing Risk Arrangements

- 3.1 All of the risks contained within the Strategic Risk Register are monitored and managed on a regular basis.
- 3.2 The Strategic Risk Register is reviewed by Senior Management and subsequently endorsed by Cabinet on an annual basis. The Strategic Risk Register will be issued for endorsement by Cabinet.
- 3.3 Senior Management review the Strategic Risk Register and update the action plan on a quarterly basis at the Strategic Risk Management Group meeting – making any amendments to the register as required – thus ensuring that the Strategic Risk Register remains as up to date as possible. The date of the next review is July 2020.

4. Current and Planned Work

- 4.1 Recent risk management work has included:
- A review and update of operational risk registers across the Council. 29 out of 33 operational risk registers have been reviewed and updated in the last 12 months. Arrangements will be made to ensure the remaining 4 risk registers are reviewed and updated as soon as possible.
 - Development of a corporate risk register for managing the implications of the COVID 19 pandemic for the organisation (reported separately to this Committee).
 - Support to the risk management of a number of projects including most recently the COVID 19 Shielding Hub and the deconstruction of Biart Place.
 - A consultancy review of the ICT risk register, undertaken by TIAA, with several suggestions being made for consideration.
 - Development of guidance to support managers in reviewing and updating their operational risk registers using the RPMS system.

4.2 Planned work for 2020/21 includes:

- Further steps to embed more effective operational risk management including development of a section for “The Way We Manage” training and sharing examples of good practice at the Corporate Management Forum.
- Reviewing and updating operational risk registers to reflect the management of risks related to COVID 19 and the recovery.
- Finalisation of the corporate risk register.
- Completing risk assessments to facilitate a safe “Return to Work” for staff (in progress).
- Provision of risk management training for members (scheduled for November 2020).
- Delivery of internal audit assurance work in relation to the key controls declared on operational risk registers.
- A review of the quality of operational risk registers, including ensuring their alignment with service objectives.
- Provision of risk management advice in advance of key decisions being taken. This will help to ensure that key risks are considered in advance of decisions being taken, and that such decisions are more informed.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 9 June 2020
Subject Matter: Strategic Risk Register and Risk Management Update
Originating Department: Corporate Resources

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

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|--|
| Appendix A | Strategic Risk Register |
| | |
| | |
| | |
| | |
| | |

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 |
|---------------|---|
| | |
| | |
| | |
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| | |
| | |

APPENDIX A

**RUGBY BOROUGH COUNCIL
STRATEGIC RISK REGISTER**

| | | | |
|---|--|--|--|
| CORPORATE STRATEGY PRIORITY : ALL RISK TYPE : Strategic COMPLETED BY: Leadership Team & SRMG | | [Risk Management Officer to complete] Risk Code : Category : | |
| | | DATE: February 2020 | |

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|--|---|--|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| If the Council does not optimise income and identify new revenue opportunities then financial self-sufficiency might not be achieved by 2021 (1) Owner: Adam Norburn | -Identify revenue streams | -Reputational Damage -Complaints -Political interference -Service reductions may be required -Council Tax increases -Non compliance with statutory requirements if income generation takes precedence (e.g. Transparency Code) | -Review of Commercial Lifeline and Handyman resources -Reviewing marketing resources towards income generation activities (action) -Policy to review fees and charges annually -Business planning activity -Medium Term Financial Planning -Review of quarterly finance reports -Completion of benchmarking with West Midlands District Councils | 3 | 3 | 9 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 9 (1) | -Review key strands arising from the West Mids District report | 2 | 3 | 6 | In progress | Adam Norburn | 31/12/2020 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|--|---|--|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council doesn't prioritise its resources to meet the changing customer needs and demands then it won't deliver value for money services.</p> <p>(2)</p> <p>Owner: Adam Norburn</p> | -Improve access to services and understanding customer needs | -Reputational damage -Complaints -Overspending on services which do not meet the needs of the community | -Development and greater use of digitalisation and IT -Business planning activity and action plans -Medium Term Financial Planning -Stakeholder consultation -Systems thinking reviews -Climate emergency working group | 2 | 4 | 8 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 8 (2) | -Implementation of digitalisation strategy and action plan | 2 | 4 | 8 | In progress | Raj Chand | 31/03/2021 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|---|---|--|---|---|--|---|--|------------------------|---|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not work efficiently and effectively then it will be unable to demonstrate that services represent value for money.</p> <p>(3)</p> <p>Owner: Mannie Ketley</p> | <p>-Positive PR -Release resources -To maintain and improve our services</p> | <p>-Reputational damage -Complaints -Political interference -Qualified external audit VFM opinion -Reduced service quality</p> | <p>-Performance monitoring -Complaints and feedback policy -Benchmarking -Internal audit regime in place -Regular one to ones -Budget monitoring and quarterly financial reporting -Development and greater use of digitalisation and IT -Systems thinking reviews -Exploration of collaborative working with other organisations</p> | 3 | 3 | 9 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 9 (3) | <p>-Cabinet review of key performance measures</p> <p>-Embed operational risk management into the business as usual running of the organisation</p> <p>-Embed operational performance management into the business as usual running of the organisation</p> <p>-Implement the review of the Independent Living and Control Centre service charges</p> | 3 | 3 | 9 | <p>Being considered</p> <p>In progress</p> <p>In progress</p> <p>In progress</p> | <p>Mannie Ketley</p> <p>Mannie Ketley/ Chris Green</p> <p>Mannie Ketley/ Chris Green</p> <p>Raj Chand/ Cindy Gleghorn</p> | <p>To be confirmed with the Leader</p> <p>31/03/2021</p> <p>31/03/2021</p> <p>30/06/2020</p> | | <p>To be confirmed</p> <p>Quarterly</p> <p>Quarterly</p> <p>Quarterly</p> |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|---|---|---|---|--|--------------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the borough does not have sufficient and appropriate affordable housing, then our residents will be unable to live healthy independent lives.</p> <p>(4)</p> <p>Owner: Raj Chand</p> | <p>-Increase suitable affordable housing</p> <p>-Improve quality of lives</p> | <p>-Complaints</p> <p>-Possible breach of statutory responsibilities</p> <p>-Increased pressure on services</p> <p>-Social exclusion</p> <p>-Increased crime and disorder</p> | <p>-Business planning activity and action plans</p> <p>-Medium Term Financial Planning</p> <p>-Stakeholder consultation</p> <p>-Implementation of new Housing Management System</p> <p>-Local Plan in place</p> | 4 | 3 | 12 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 9 | -Delivery of housing strategy action plan including development of homelessness and financial inclusion strategies. | 3 | 3 | 9 | In progress | Raj Chand | 31/12/2020 | | Quarterly |
| (4) | -Review and preparation of business case in relation to garage sites and the high rise development sites. | | | | Being considered | Raj Chand/ Mannie Ketley | 31/12/2020 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|---|---|---|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not deliver digitally enabled services that residents can access then customers will not be able to access and receive services independently.</p> <p>(5)</p> <p>Owner: Raj Chand</p> | <p>-Manage demand better</p> <p>-Access to 24/7 council services</p> <p>-Additional business opportunities</p> <p>-Delivering effective services</p> <p>-Release capacity</p> <p>-Increase customer in site</p> | <p>-Social exclusion</p> <p>-Increased pressure on services</p> <p>-Increase in homelessness</p> <p>-Complaints</p> <p>-Reputational damage</p> | <p>-Digitalisation board in place</p> <p>-Performance and data monitoring</p> <p>-Stakeholder consultation</p> <p>-Feedback and complaints procedures</p> | 2 | 2 | 4 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 4 (5) | -Implementation of digitalisation strategy action plan | 2 | 2 | 4 | In progress | Raj Chand | 31/03/2021 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|---|--|---|---|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not understand its communities and enable them to take an active part in them then our residents will be unable to live healthy independent lives.</p> <p>(6)</p> <p>Owner: Adam Norburn</p> | <p>-Roll out more initiatives</p> <p>-Identify volunteers via community engagement</p> <p>-Understand the community better</p> | <p>-Social exclusion</p> <p>-Increased pressure on public services</p> <p>-Change in political leadership</p> | <p>-Stakeholder consultation</p> <p>-Equality and diversity action plans</p> <p>-Scrutiny reviews</p> <p>-Collaborative working with community partner organisations</p> <p>-Feedback and complaints procedures</p> | 3 | 2 | 6 | ↑ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 6 | -Implement the action plan arising from the Transparency Code audit. | 2 | 2 | 4 | In progress | Adam Norburn | 31/10/2020 | | Quarterly |
| (6) | -Implement web casting of meetings. | | | | In progress | Adam Norburn | 30/06/2020 | | Quarterly |
| | -Implement the scrutiny action plan. | | | | In progress | Adam Norburn | 30/06/2020 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|---|---|---|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not enhance its local, open spaces to make them places where people want to be then</p> <p>-residents will be unable to live healthy independent lives</p> <p>-the borough would not be such an attractive place for inward investment</p> <p>(7)</p> <p>Owner: Dan Green</p> | <p>-Increase local parks and spaces</p> <p>-Hold move events in open spaces</p> <p>-Creates community spirit</p> <p>-Improves bio diversity and greenspaces</p> <p>-Attracts more business to the area</p> | <p>-Social exclusion</p> <p>-Reputational damage</p> <p>-Reduction in inward investment</p> <p>-Budget pressure</p> | <p>-Stakeholder consultation</p> <p>-Scrutiny reviews</p> <p>-Performance and data monitoring</p> <p>-Collaborative working with partners</p> <p>-Business Planning activity</p> <p>-Feedback and complaints procedures</p> | 2 | 2 | 4 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 4 (7) | <p>-Continued benchmarking of Open Spaces through schemes such as Green Flag and In Bloom</p> <p>-Increased engagement with Residents, Parish Councils and Third Sector Organisations to better understand public perception and increase community involvement</p> <p>-Increased engagement of businesses to understand aspirations and concerns relating to open spaces</p> <p>-Enhanced working with internal colleagues to inform future developments</p> | 2 | 2 | 4 | In progress | Dan Green | 31/03/2021 | | Quarterly |
| | | | | | In progress | Dan Green | 31/03/2021 | | Quarterly |
| | | | | | In progress | Dan Green | 31/03/2021 | | Quarterly |
| | | | | | In progress | Dan Green | 31/03/2021 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|---|---|--|---|--|--|--|------------------------|--|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not continue to improve the efficiency of its waste and recycling services then it will be unable to demonstrate value for money and achieve financial self-sufficiency.</p> <p>(8)</p> <p>Owner: Dan Green</p> | <ul style="list-style-type: none"> -Reduction in landfill -Developments in new technology -Improved clean and safe environment -Reduction in carbon footprint | <ul style="list-style-type: none"> -Reputational damage -Complaints -Political interference -Service reductions may be required -Council Tax increases | <ul style="list-style-type: none"> -Route optimisation software in place -Performance and data monitoring e.g. missed bins reporting -Budget monitoring | 2 | 2 | 4 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 4 (8) | <ul style="list-style-type: none"> -More frequent/robust internal monitoring of compliance with legislation. -Engaging with sub regional partners to establish efficient means of processing dry mixed recycling. -Further use of data to understand performance and take action where necessary. -Developing the trade waste service through targeted marketing activities. -Reviewing round structures to increase efficiency. -Completion of systems thinking review in 2020 | 1 | 2 | 2 | <ul style="list-style-type: none"> In progress In progress In progress In progress In progress In progress | <ul style="list-style-type: none"> Dan Green Dan Green Dan Green Dan Green Dan Green Chris Green | <ul style="list-style-type: none"> 31/08/2020 31/08/2020 31/08/2020 31/08/2020 31/08/2020 31/12/2020 | | <ul style="list-style-type: none"> Quarterly Quarterly Quarterly Quarterly Quarterly Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|---|---|---|--|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not protect the public then: -it wouldn't meet its statutory responsibilities -the health and wellbeing of residents would be adversely affected.</p> <p>(9)</p> <p>Owner: Dan Green</p> | <p>-More confidence in food hygiene -Making the town become popular as a night time destination</p> | <p>-Loss of life -Injuries -Legal action taken against the Council -Reputational damage -Fines/prison sentences -Increase in complaints</p> | <p>-Insurance arrangements in place -Collaborative working with partners and contractors -Monitoring and enforcement by regulatory services -Risk assessments in operational environments -Event plans -External legislation reviewed regularly to ensure RBC practice is compliant.</p> | 1 | 4 | 4 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 4 (9) | -Bench marking against neighbouring authorities to better understand performance and share best practice. | 1 | 4 | 4 | Being considered | Dan Green | 31/03/2020 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|---|---|---|---|---|--|----------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not promote sustainable growth and economic prosperity, then: -there would be adverse social, economic and environmental effects. -the borough's infrastructure would be inadequate</p> <p>(10)</p> <p>Owner: Steph Chettle-Gibrat</p> | <p>-Increase housing and job opportunities -Longevity for the town -Economic growth for new businesses/ start-ups and move-ons -Diversity of the town improving experiences for residents and visitors</p> | <p>-Reputational damage -Inability to maintain all current services -Income projections not met -Political interference -Government targets not met -Wellbeing of residents -Business closures and empty premises -Reduction in NDR income -Increased crime/ disorder</p> | <p>-Annual monitoring report -Collaborative working with partners including the Rugby BID -Implementation of Local Plan, marketing plan and events strategy -Production of supplementary planning documents -Town Centre Strategy -Infrastructure delivery plan -Establishment of climate emergency working group -Economic development service – working with WCC and the LEP to provide additional business support services -Delivery of local adopted development scheme -Annual report and return to government</p> | 2 | 4 | 8 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| 8 (10) | -Establish town centre development project team. | 2 | 4 | 8 | In progress | Steph Chettle-Gibrat | 30/06/2020 | | Quarterly |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|---|---|---|--|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| <p>If the Council does not encourage healthy and active lifestyles to improve wellbeing in the borough then residents may be unable to live healthy independent lives.</p> <p>(11)</p> <p>Owner: Adam Norburn</p> | <p>-Encouragement of sport, leisure and hobbies</p> <p>-Public purse savings/benefits</p> <p>-Increase in well-being i.e. HEART, Lifeline</p> | <p>-Social exclusion</p> <p>-Increased pressure on services both at RBC and also on other service providers such as the NHS</p> <p>-Reputational damage</p> | <p>-Stakeholder consultation</p> <p>-Collaboration with partners including community groups and local schools</p> <p>-Monitoring of performance data</p> <p>-Business planning including action plans</p> <p>-Leisure centre contract with GLL</p> <p>-Delivery of family weight management service with Compass</p> <p>- Promotion of parks and open spaces</p> | 2 | 2 | 4 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| | No further actions at present. | | | | | | | | |

APPENDIX A

| Risk | Opportunities | Consequences | Existing Internal Controls | Assessment of Risk based on the review of existing controls | | | Direction of Risk | | |
|--|--|---|---|---|--|---------------------|------------------------|------------------------|------------------|
| | | | | Likelihood | Impact | Risk Rating | | | |
| If there is a change of political leadership then strategic priorities might change (12) Owner: Adam Norburn | -Review/ revise corporate focus and priorities | -Potential medium to long term disruption -Staff morale impacted -Reputational damage | -Action plans developed as required -Regular pattern of review and assessment of risks -Where assessment identifies that actions are required these are discussed at SMT; some matters will be raised informally with Cabinet and/ or Portfolio Holders -Corporate Strategy in place | 1 | 3 | 3 | ↔ | | |
| Original Risk Score | Further Action / Controls | Desired Score | | | Status: Being considered /In progress /Completed | Officer Responsible | Target completion date | Actual completion date | Review Frequency |
| | | Likelihood | Impact | Residual Risk Rating | | | | | |
| | No further actions at present. | | | | | | | | |

AGENDA MANAGEMENT SHEET

Report Title: Internal Audit Plan and Update 2020/21

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Senior Management Team

Contact Officer: Chris Green – Corporate Assurance and Improvement Manager
Tel: 01788 533451

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

Statutory/Policy Background: Public Sector Internal Audit Standards (PSIAS)

Summary: The report presents the Internal Audit Plan for approval, and provides an update on internal audit activity.

Financial Implications: No direct implications

Risk Management Implications: No direct implications

Environmental Implications: No direct implications

Legal Implications: No direct implications

Equality and Diversity: No direct implications

Options: None

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 2020/21 be approved.

Reasons for Recommendation: To comply with the requirements of the terms of reference of the Audit & Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 9 June 2020

Internal Audit Plan and Update 2020/21

Public Report of the Executive Director

Recommendations:

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 2020/21 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/ Head of Corporate Resources 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 at its last meeting on 28 January 2020. However, whilst the original intention was to split the audit plan into two separate six month plans, this is no longer considered practical given the impact of the COVID 19 pandemic on work plans. It is likely that whilst internal audit work is being progressed as far as possible in the first half of the year, proportionately more of the internal audit work will need to be delivered in the second half of the year. 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 4 years;
- Cumulative knowledge and experience; and
- Ongoing stakeholder engagement during 2019/20 – including with Members

- 1.4 The long list of potential audits formed the basis of stakeholder discussions with the Senior Management Team and key managers during February 2020, 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 16th March 2020. 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 Executive Director 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 512 days; this is equivalent to 3.05 FTEs and reflects the currently stable staffing position within the Corporate Assurance and Improvement team. 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 taken in April to finalise completion of the 2019/20 audit plan
- 1.6 An external provider, TIAA, is already contracted to deliver the IT audits under a framework agreement via Warwickshire County Council. In previous years it has also been necessary to commission external contractors to support the delivery of internal audit work. Planning has been developed on the assumption that there will be no need to commission external contractors in 2020/21; though this remains a potential option in the event of further COVID 19 related impacts. The internal audit plan as set out will, with the exception of IT audits, be delivered entirely by the core in house team.
- 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 2020/21. It is anticipated that more changes to the audit plan than usual will need to be made this year; this flexibility will be essential to enable the service to be responsive to the organisation's needs.
- 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 5 days.
- 3.4 Given that the Committee meeting planned for March had to be cancelled, the Committee Chair, in consultation with the Executive Director, agreed that work to commence delivery of this year's internal audit work could commence, pending the Committee's formal approval of the plan at this meeting. 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.

4. Update on Internal Audit Work and Resources

- 4.1 Delivery of internal audit work is continuing as far as possible remotely through COVID 19 pandemic response. It is envisaged that most audit work can be completed remotely; the exception might be where there are complex processes which are difficult to explain online, or where the auditor needs to observe a process live with an officer. Use of the screen share option within MS Teams may help to mitigate this. Moving forward, as the organisation develops and implements its arrangements for a safe return to work, it may be possible for some meetings to be reinstated if any audit work cannot be completed remotely; however, safety will remain the primary consideration.
- 4.2 One member of the team is currently redeployed to the Community Advice and Support service. Resource calculations have updated with the assumption that one member of team remains redeployed until the end of August. Whilst there is no immediate prospect of other members of the team being redeployed, that could change. The impact on resources and delivery of the internal audit plan would then be reviewed as soon as possible.

- 4.3 The team has supported the organisation during this time in a number of ways including:
- Development of the COVID 19 corporate risk register in conjunction with SMT and key managers,
 - Development of the Shielding Hub project risk register in conjunction with the relevant managers,
 - Prompt implementation of arrangements for delivery of business grant pre payment assurance work at short notice,
 - Supporting the HR department with non audit project work such as reviewing staff flexi leave balances, and
 - With the redeployment of one member of the team (as stated above).
- 4.4 It should be noted, in relation to the business grant assurance work mentioned above, that scoping of this work was not completed in accordance with the Public Sector Internal Audit Standards (PSIAS). This will be mentioned in the annual internal audit report for 2020/21. There was an urgent need for the service to respond by developing and implementing assurance arrangements. As such the usual process of developing a Terms of Reference in writing for formal agreement by the key stakeholders was not followed. The details were however discussed by telephone with the arrangements confirmed by email. The government had issued clear instructions that the refund payments were to be made to local businesses as soon as possible. The Council was able to implement an automated application process, with internal audit conducting sample testing each morning prior to payments being processed.
- 4.5 The Corporate Assurance and Improvement Manager currently expects to deliver a more than adequate internal audit plan which meets the requirements of the PSIAS. There is, however, clearly a higher risk than normal that this may not be possible. The situation will be closely monitored and the Committee will be informed as soon as possible of any change in the position.
- 4.6 A full progress update on internal audit work will be presented at the next meeting of the Committee in July. Given the nature of the COVID 19 pandemic response and the impact on workloads across the organisation, internal audit has not been following up on the implementation of recommendations over the last 2 months. This decision was taken so as not to over burden managers and team leaders with additional requests at a particularly challenging time. Internal audit will recommence this work in June, although in the circumstances a reduction in the percentage of actions implemented on time is thought to be very likely. Any significant risks arising from the late implementation of internal audit recommendations will be reported to the Committee.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 9 June 2020
Subject Matter: Internal Audit Plan and Update 2020/21
Originating Department: Corporate Resources

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

LIST OF BACKGROUND PAPERS

| Doc No | Title of Document and Hyperlink |
|---------------|--|
| Appendix A | Draft Internal Audit Plan |
| 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 |
|---------------|---|
| | |
| | |
| | |
| | |
| | |
| | |

| <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> | | | | |
| Payroll | Corporate Resources | Assurance that the following areas are efficiently and effectively managed: <ul style="list-style-type: none"> • Payroll processing including deductions • Administration of starters and leavers • System access controls • Accuracy and completeness of accounting records | Fundamental financial system, risk of fraud, error, financial loss. Recent staffing changes. | 20 |
| Business Refund Grants - Mandatory | Corporate Resources | Completion of pre and post payment testing to provide assurance that grants have not been paid erroneously and/ or fraudulently claimed. | New system introduced at short notice to implement government scheme to support businesses during the COVID 19 crisis. High risk of fraud or error. Up to £20 million in payments being administered. | 30 |
| Business Grants - Discretionary | Corporate Resources | Completion of pre and post payment testing to provide assurance that grants have not been paid erroneously and/ or fraudulently claimed – and that the criteria of the discretionary scheme has been correctly applied. | New discretionary scheme being introduced at short notice to support businesses during the COVID 19 crisis. High risk of fraud or error. | 20 |
| | | | Total – Financial Risks | 70 |

| <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> | | | | |
| Expenses | Corporate Resources | Assurance that expenses processed and paid to officers and members are accurate and bona fide. | Risk of fraud and/ or error. | 15 |
| <p>Note: The Payroll audit will include testing to provide assurance that fraud is not taking place. 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. As part of the risk management programme sample of other controls designed to mitigate the risk of fraud will also be tested to provide assurance that they are operating effectively.</p> | | | | |
| | | | Total - Counter Fraud | 15 |
| <u>ICT Risks</u> | | | | |
| Payment Card Industry Data Security Standards | Communities and Homes | Assurance that the standards are being complied with across the Council. | Stakeholder concern that the standards may not be met. | 8 |
| IT Strategy, Governance and Policies | Communities and Homes | Assurance that appropriate and embedded ICT governance arrangements are in place, including strategy and policies. A joint ICT/ HR review of policies including ICT security and code of conduct, and agile working. Review of arrangements in place to ensure that agile staff are being effectively managed. | New ICT Strategy and Agile Working Polices being consulted upon. | 8 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|-------------------------------|------------------------------|--|--|----------------------------------|
| CCTV | Communities and Homes | Assurance that camera locations have been assessed, that data protection impact assessments have been completed, and that access to the system and images is effectively controlled. | A new CCTV policy has been adopted. Risk of data protection requirements being breached. | 8 |
| | | | Total - ICT | 24 |
| <u>Corporate Risks</u> | | | | |
| Corporate Health & Safety | Environment and Public Realm | Coverage to be discussed and agreed. | Action plan being monitored, and progress updates being provided to Audit & Ethics Committee. Policy and duty holder responsibilities to be reviewed in 2020. | 15 |
| Equal Pay/ Single Status | Corporate Resources | Comparison of the pay of men and women carrying out equal work. Identification and review of pay gaps, and review of ongoing monitoring arrangements. Assurance that honorarium and market supplements are consistently applied and are not compromising the single status arrangements. | Risk of equal pay claims leading to reputational damage and increased costs. | 10 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|---|-----------------------|--|---|----------------------------------|
| Risk Management Controls Assurance | All | To review risk management controls across the Council and identify any assurance gaps. Development and implementation of a programme of targeted testing to provide assurance that stated controls are operating effectively in practice. | The Council could be exposed to increased levels of risk that it is not currently aware of. | 40 |
| Performance Management Effectiveness | Corporate Resources | Review of objective setting and data maturity across the organisation, and provision of assurance that the Council's published data is accurate, timely and complete. | To support the organisation in becoming more effective at collating, reporting and utilising data to drive improvements in performance. | 80 |
| Complaints, Compliments and Suggestions | All | Follow up review to provide assurance that complaints are handled in an appropriate and timely manner, and that learning lessons are consistently applied. | The audit completed in 2019/20 resulted in only a Limited level of assurance. A follow up review has been requested by the Audit & Ethics Committee. | 10 |
| Operational Procedures | All | Consultative review to ensure that key procedures are documented across the Council. | Area of concern highlighted on COVID 19 corporate risk register. Helps to ensure continuity of service provision. | 25 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|------------------------------------|-----------------------|---|---|----------------------------------|
| Housing Project Management | Corporate Resources | Coverage to be confirmed once project governance arrangements have been agreed. | Key corporate construction project with many high-level risks to be managed. | 20 |
| | | | Total – Corporate Risks | 200 |
| <u>Ethical Risks</u> | | | | |
| Member Development consultancy | Executive Director | Review of the arrangements in place to equip Members with the skills required to undertake their role effectively. To include a comparison with approaches adopted by other Councils. | There are varying levels of engagement in this area. | 10 |
| Local Government Transparency Code | All | Follow up review to provide assurance that the Council is, as a minimum, operating in compliance with the mandatory elements of the Code. | The audit completed in 2019/20 resulted in only a Limited level of assurance. A follow up review has been requested by the Audit & Ethics Committee. | 10 |
| | | | Total – Ethical Risks | 20 |
| <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 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|--------------------------------------|------------------------------|---|--|----------------------------------|
| Community Safety Partnership | Environment and Public Realm | 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. | Corporate priority of protecting the public might not be achieved. Change in operational structure implemented. Brought forward from 2019/20. | 18 |
| Planning Development and Enforcement | Growth and Investment | 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. Assurance that income is accounted for accurately and completely. To include a full review of procedures, identifying any examples of waste and inefficiency and identifying areas for improvement. | Brought forward from 2019/20. High level of officer judgement involved in decision making, and this could lead to inconsistent treatment and decision making. Risk of fraud/ corruption/ bribery. | 30 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|-------------------------|------------------------------|---|---|----------------------------------|
| Licensing | Environment and Public Realm | Assurance that, following the implementation of a new system, efficient and effective controls are in place to comply with all legislative requirements and that income is accounted for accurately and completely. | New system being implemented. Brought forward from 2019/20. | 18 |
| WSU Garage | Environment and Public Realm | 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. | Expenditure might not represent value for money. Risk of reputational damage if facilities are used inappropriately by officers or if health and safety regulations are not followed. | 20 |
| Land Charges | Growth & Investment | Review of maintenance and update of the land charges register. Assurance that search requests are completed in an efficient and timely manner. Assurance that land charge search income is accurate and complete. | New system being implemented. | 15 |
| | | | Total: Operational Risks | 117 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|---|-----------------------|---|--|----------------------------------|
| <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. | 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 |
| Control Environment - Advice | All | Review of any changes to key controls applied during the COVID 19 crisis response. Review of any management override of controls during the COVID 19 crisis response, with any significant risks being highlighted to management and the Audit & Ethics Committee. | The earlier any significant risks are identified, the sooner they can be considered and any further changes in control implemented. | 8 |
| 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. | 25 |

| <u>AUDIT ASSIGNMENT</u> | <u>SERVICE AREA/S</u> | <u>PROPOSED COVERAGE</u> | <u>RATIONALE</u> | <u>ESTIMATE OF DAYS REQUIRED</u> |
|-------------------------|-----------------------|--------------------------|--|----------------------------------|
| 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. | 20 |
| | | | Total: Additional Support | 73 |
| TOTAL DAYS | | | | 519 days |

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 20/21 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 started with CSW in April 2019, under which there is a focus on emergency planning in Year 1 and BCP in Year 2.</p> <p>An audit will be scheduled for 2021/22 following approval and testing of the new Emergency Plan, development of the new overarching BCP and associated key service BCPs.</p> |
| 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>Follow up review completed 2018/19. Limited Assurance. Also reviewed 2016/17. Limited Assurance. Action plan being monitored and progress updates being provided to Audit & Ethics. Policy and duty holder responsibilities to be reviewed in 2020. Oversight by Strategic Risk Management Group.</p> <p>Coverage to be discussed and agreed.</p> |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|--------------------|----------------|--|---|-----------------------------------|--------------------------------------|--|
| 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 | No | Full review completed in 2016/17 and again in 2018/19. Substantial assurance. |
| 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. | HIGH | No | Review completed in 2019/20 covered compliance with statutory requirements in both housing stock and corporate property. |
| 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 | No | Expenditure is expected to reduce in 2020/21 following recruitment exercises in Waste Collection and Street Cleansing. To be included in the internal audit plan for 2021/22. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|--|---|--|---|--|---|---|
| Business Improvement District | Stakeholder consultation meetings | SLA being reviewed in 2016/17. Some concerns have been expressed around financial transparency. | Review of 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 SLA under review, including governance arrangements. Will schedule an audit for 2021/22. |
| 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 | No | Reviewed in 2017/18. Substantial assurance. Crematorium Joint Venture audit completed in 2019/20; high assurance. |
| 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 | No | Consultative review completed in 2019/20. |
| 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. |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|---------------------------------|-------------------|---|---|-----------------------------------|--------------------------------------|---|
| 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. |
| 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 | No | Reviewed in 2016/17. Substantial assurance. Will be scheduled for audit in 2021/22. |
| 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 assurance to be incorporated in the audit plan once governance arrangements have been agreed. |
| 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 | No | Review of programme delivery shows the Council has a sound track record in this area. Will reconsider an audit in 1 year's time. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|------------------------|----------------|---|--|-----------------------------------|--------------------------------------|--|
| 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 | No | Training provided to 6 departments in 2019/20. It is proposed to pause the training programme until 2021/22 when normal working arrangements have been reinstated. All office based staff were asked to confirm in 2019 that they had read and understood the Fraud Response Plan. They were also asked to complete a set of online multiple choice questions. |
| 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 | Yes | Member training programme being updated. Will include mid year refresher on planning, mandatory overview and scrutiny training and provision of external training for Audit & Ethics. Consultative review to examine how other Councils ensure members are effectively developed. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|---------------------------------------|----------------|--|--|-----------------------------------|--------------------------------------|--|
| 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 | Yes | To be completed alongside the payroll audit. |
| 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. |
| 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 | Yes | Not applicable. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|--|--------------------------|--|---|-----------------------------------|--------------------------------------|---|
| 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 | No | Completed in Q4 2018/19. Limited assurance Information Governance Group overseeing delivery of action plan. A further audit will be scheduled for 2021/22. |
| 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. | HIGH | Yes | Completed 19/20 Limited assurance. Follow up audit requested by the Audit & Ethics Committee. |
| 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. |
| 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 | No | Full audit completed in 2016/17. Substantial assurance. Will be scheduled for audit in 2021/22. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|---------------------------------------|----------------|--|--|-----------------------------------|--------------------------------------|---|
| 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 | Yes | Completed 19/20. Limited assurance. Follow up audit requested by the Audit & Ethics Committee. |
| 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 2019/20. |
| Ethical Governance | Internal Audit | Legal and reputational damage; low employee morale. The PSIAS require the audit plan to cover the Council's ethical governance. | 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 | MEDIUM | No | Will be scheduled for audit in 2021/22. |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan?</u> | <u>Comments/ Rationale for Excluding</u> |
|--------------------|--|--|---|-----------------------------------|--------------------------------------|--|
| | | | 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. | | | |
| 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 | Systems thinking review being carried out by the Change Officer and the Legal team in 2020/21. Will consider an internal audit review in one year. |
| 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 | MEDIUM | No | External review in November 2015 concluded that the scheme was well administered by the Council. Risk based programme of testing to be delivered to provide assurance that controls to mitigate the risks of fraud, |

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|--------------------------------|---|---|---|-----------------------------------|--------------------------------------|---|
| | | | checks), that tenancy length conditions have been met, and that management are operating appropriate monitoring controls. | | | bribery and corruption are being operated as expected. |
| 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 Reaccreditation to take place in 2020/21 based upon a self-assessment. |

Service Risks – Communities and Homes

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|-----------------------|---|---|---|-----------------------------------|-------------------------------------|--|
| Stocks and Stationery | Stakeholder Consultation – Requested by Head of Communities and Homes | Assurance sought by the Head of Communities and Homes | Assurance that procurement processes are being correctly followed, that best value is obtained, and that the issue of stationery is appropriately controlled. | LOW | No | Reviewed in 2016/17. Substantial assurance. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|---|--|---|--|-----------------------------------|-------------------------------------|--|
| Customer Service Centre Demand Management | Customer & Business Support Services Operational Risk Register | Risk of inconsistent approach 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 being completed in Q4 2019/20. |
| 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 | No | Reviewed in 2016/17 with substantial assurance provided. Will be scheduled for audit in 2021/22. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|--|--------------------------|--|---|-----------------------------------|-------------------------------------|--|
| 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. |
| IT Security | Internal Audit | Risk of data loss or theft, substantial reputational damage. Highlighted in the recent Fraud Risk Review. | 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 | Completed 2019/20 Substantial assurance. Will schedule a further review in 2021/22 once the new housing and asset management systems are in place. |
| 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 | Being completed Q4 2019/20. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|------------------------------------|----------------|--|--|-----------------------------------|-------------------------------------|---|
| 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 | Yes | Full audit completed in 2015/16. Substantial assurance. New ICT Strategy being consulted upon. |
| 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 are being implemented. An audit will be scheduled for 2021/22, once the current review has been completed. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

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|--------------------|----------------|--|--|-----------------------------------|-------------------------------------|--|
| 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 | No | <p>Full audit completed in 2015/16. Recovery and customer care elements reviewed in 2018/19, which resulted in Limited Assurance.</p> <p>Audit completed 2019/20 on housing rent arrears. Assurance level to be confirmed.</p> <p>A further review will be considered in 2021/22 once the new housing system has been implemented.</p> |
| 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. | To be confirmed. | MEDIUM | No | <p>Staff awareness review completed in 2017/18. Cyber crime threat currently being considered by the Strategic Risk Management group, Will re-review during the year and add to the audit plan if necessary.</p> |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ 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 | Audits completed in 2015/16 and 2018/19. Substantial assurance. |
| 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 | Not applicable. Audited Q4 2019/20. 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 | Yes | Not applicable. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ 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 | Will be scheduled for audit in 2021/22. |
| 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. |

Service Risks – Environmental and Public Realm

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|----------------------------|--|---|---|-----------------------------------|-------------------------------------|--|
| 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 be scheduled for audit in 2021/22. |
| 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. High assurance. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|-----------------------------|-------------------------------------|--|--|-----------------------------------|-------------------------------------|--|
| 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. Substantial assurance. |
| 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 confirmed as implemented. |
| 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. |
| 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. | LOW | No | Completeness of billing and recovery arrangements reviewed in 2019/20. |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|------------------------------|----------------|---|--|-----------------------------------|-------------------------------------|--|
| 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 | No | Review being completed in Q4 2019/20. |
| 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. |
| 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. | LOW | No | Subject to heavy regulation and considered low risk at present. Will reconsider in one year. |
| 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. |
| 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 | Yes | Deferred from 2019/20. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|--------------------------------------|----------------------|--|---|--|--|---|
| 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. |
| 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. |
| 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 | To be included in the audit plan for 2020/21. |
| 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 audit will be reconsidered in one year. |

Service Risks – Growth and Investment

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|--------------------------------------|--------------------------|--|---|--|--|--|
| 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. |
| 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. | MEDIUM | Yes | New system (Agile) being implemented. |
| 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 | Yes | Deferred from 19/20. To include systems thinking review. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|------------------------|--------------------------|--|--|-----------------------------------|-------------------------------------|---|
| 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. |
| 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 being developed. Will consider a further audit in 1 year to review progress. |
| 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. |

Service Risks – Corporate Resources

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ 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 2019/20. Substantial assurance |
| 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 2019/20. 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 | Yes | Audit completed in 2019/20. Licensing and Planning Enforcement audits, scheduled for 2020/21, will include testing of completeness of income. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|------------------------------|--|--|--|-----------------------------------|-------------------------------------|--|
| 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. |
| 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. |
| 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. |
| 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 | No | Carried out in Q4 2018/19. Substantial Assurance |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|-----------------------------|--|---|--|-----------------------------------|-------------------------------------|---|
| 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 | No | Last reviewed in 2014/15. Full assurance. Was provisionally scheduled for audit in 2020/21 but owing to pressures on the finance team will now be scheduled for 2021/22. Budget monitoring controls are reviewed as part of service specific audits, and financial planning arrangements are reviewed by external audit. |
| 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. |
| 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 |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|---|---|--|---|-----------------------------------|-------------------------------------|---|
| 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. | LOW | No | Full audit completed in 2015/16. Full assurance. Counter fraud arrangements also reviewed in 2016/17. Will be scheduled for audit in 2021/22. |
| 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 | Yes | Full audit completed in 2015/16. Substantial assurance. Included in the plan for 2020/21. |
| 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 | Yes | Data quality assurance programme. Delivery of data maturity action plan arising from self-assessment review. |
| 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. Six of the seven agreed actions have been implemented. |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|--|--------------------------|---|--|-----------------------------------|-------------------------------------|---|
| 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. |
| Asset Management Strategy and System | Internal Audit | New system being implemented. New Asset Management Strategy in place. | Assurance that the Council's property and assets are being managed efficiently and effectively. | MEDIUM | No | Audit to be scheduled for 2021/22 once the new system has been implemented. |

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|--------------------------------|--|---|--|-----------------------------------|-------------------------------------|--|
| 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 | Audit being completed in Q4 2019/20. |
| 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. |
| 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. |

LONG LIST OF POTENTIAL AUDITS 2020/21

Appendix B

| <u>Audit Title</u> | <u>Source</u> | <u>Rationale</u> | <u>Potential Coverage</u> | <u>Risk Rating & Priority</u> | <u>Included in 20/21 Audit Plan</u> | <u>Comments/ Rationale for Excluding</u> |
|----------------------------|----------------|---|--|-----------------------------------|-------------------------------------|--|
| 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 | Yes | New expenses module being implemented on the HR iTrent system. To be completed alongside the Payroll audit. |
| 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. |
| 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. |

AGENDA MANAGEMENT SHEET

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

Name of Committee: Audit and Ethics Committee

Date of Meeting: 9 June 2020

Report Director: Executive Director

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Executive Director

Contact Officer: Chris Green – Corporate Assurance and Improvement Manager
Tel: 01788 533451

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):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
- This report does not specifically relate to any Council priorities but

Statutory/Policy Background: Public Sector Internal Audit Standards (PSIAS). Internal audit is a statutory function as detailed in the Audit and Accounts Regulations 2015 (England), and Section 151 of the Local Government Act 1972.

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 - 9 June 2020

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

Public Report of the Executive Director

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 2019/20, 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 2019/20 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 2019/20.

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 2019/20. 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 Executive Director 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 Executive Director. 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: 9 June 2020

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

Originating Department: Corporate Resources

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

2019/20

Date: June 2020

Annual Report of Internal Audit 2019/20

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 2019/20

- 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 14 graded assignments undertaken for 2019/20, 11 (79%) resulted in an opinion of either High or Substantial Assurance, with 3 (21%) assignments receiving only Limited Assurance. A further assignment was assessed using a maturity index and this resulted in a rating of Basic (Performance Management Effectiveness).

The progress made by management in implementing the actions arising from audits has been good. 76% of agreed actions arising from audits were implemented within the agreed timescale and a further 13% were implemented late, resulting in an overall implementation rate of 89%. There were 15 agreed actions which were overdue as at 31st March 2020. A total of 144 agreed actions have been implemented by the Council during 2019/20 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 The basis for this 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 There were 3 audits which resulted in only Limited assurance during 2019/20. In forming the annual opinion the Corporate Assurance and Improvement Manager considered management's response to these audits and where applicable the progress being made to address the issues identified, and concluded that the management response and, where applicable progress, was satisfactory. However, internal audit work has highlighted that the Council was not fully complying with the requirements of the Local Government Transparency Code, and whilst the issues identified have now been addressed, this will be referred to in the Annual Governance Statement for 2019/20. A summary of Audit opinions is shown in Table 1 below:

Table 1 – Summary of Audit Opinions 2019/20*

| <u>Assurance Area</u> | <u>High</u> | <u>Substantial</u> | <u>Limited</u> | <u>No</u> |
|-------------------------------|-------------|--------------------|----------------|-----------|
| Financial | 0 | 3 | 0 | 0 |
| IT | 0 | 2 | 0 | 0 |
| Counter Fraud* | 0 | 0 | 0 | 0 |
| Governance & Ethics | 0 | 2 | 2 | 0 |
| Strategic & Operational Risks | 1 | 3 | 1 | 0 |
| Total | 1 | 10 | 3 | 0 |
| Summary | 8% | 71% | 21% | 0% |

* In addition 1 assignment was assessed using a maturity index and this resulted in a rating of Basic (Performance Management Effectiveness). In relation to Counter Fraud, whilst no specific assurance assignments were carried out, fraud and theft risks were evaluated and tested as part of the audits of Creditors, Cash & Bank, Completeness of Income and IT Security.

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. |

3.2 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 |

3.3 Summary of Audit Work

Table 3 details the assurance levels resulting from all audits undertaken in 2019/20 and the assessment of the levels of risk exposure:

Table 3 – Details of Audit Opinions Issued in 2019/20

| Audit Area | Assurance Opinion | Risk Exposure Opinion |
|---|---------------------------------------|-----------------------|
| Finance | | |
| Creditors | Substantial | Medium |
| Cash & Bank | Substantial | Low |
| Completeness of Income | Substantial | Medium |
| IT | | |
| IT Security | Substantial | Medium |
| IT Business Continuity | Substantial | Medium |
| Governance & Ethics | | |
| Annual Governance Statement | Substantial | Not Applicable |
| Freedom of Information | Substantial | Low |
| Complaints, Compliments & Suggestions | Limited | Medium |
| Local Government Transparency Code | Limited | Medium |
| Performance Management Effectiveness | Basic (with elements of Intermediate) | Not Applicable |
| Strategic & Operational Risks | | |
| Digitalisation | Substantial | Medium |
| Absence Management | Substantial | Medium |
| Housing Rent Arrears | Limited | Medium |
| Customer Service Centre Demand Management | Substantial | Medium |
| Crematorium Joint Venture | High | Low |

3.4 Outlined at pages 13 to 25 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.

3.5 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 combined implementation rate for audit recommendations are provided in Table 4 below:

Table 4 – Implementation of Audit Recommendations

Summary: Implementation of Audit Recommendations as at March 2020

| Audit | Not yet due | Overdue | Within time | Extended time | Out of time | Total Recs |
|---|--------------------|----------------|--------------------|----------------------|--------------------|-------------------|
| Business Continuity and Emergency Planning | 0 | 1 | 0 | 0 | 0 | 1 |
| Corporate Credit Cards | 1 | 0 | 0 | 0 | 0 | 1 |
| Council Tax and NDR | 3 | 1 | 0 | 0 | 2 | 6 |
| Fleet Management | 1 | 0 | 3 | 5 | 0 | 9 |
| Financial System Key Controls | 0 | 1 | 1 | 0 | 1 | 3 |
| Housing Rent Arrears | 0 | 0 | 0 | 0 | 2 | 2 |
| Payment Card Industry Data Security Standards | 0 | 0 | 0 | 2 | 0 | 2 |
| Partnership Governance | 0 | 0 | 1 | 0 | 0 | 1 |
| Property Repairs Stock Control | 1 | 0 | 0 | 2 | 0 | 3 |
| PTC Interface | 0 | 0 | 2 | 0 | 0 | 2 |
| Risk Management | 2 | 1 | 1 | 1 | 0 | 5 |
| Values and Behaviours | 1 | 0 | 5 | 0 | 0 | 6 |

| Audit | Not yet due | Overdue | Within time | Extended time | Out of time | Total Recs |
|-----------------------------|--------------------|----------------|--------------------|----------------------|--------------------|-------------------|
| Absence Management | 4 | 0 | 4 | 0 | 0 | 8 |
| Benefits | 0 | 0 | 0 | 0 | 1 | 1 |
| Car Parking Enforcement | 0 | 0 | 1 | 0 | 0 | 1 |
| Creditors | 3 | 1 | 2 | 0 | 1 | 7 |
| Data Protection Governance | 4 | 1 | 3 | 1 | 0 | 9 |
| Elections | 1 | 1 | 0 | 0 | 0 | 2 |
| Fraud Risk Review | 3 | 1 | 3 | 5 | 0 | 12 |
| Grants to Community Groups | 0 | 0 | 13 | 0 | 0 | 13 |
| Green Waste Optimisation | 0 | 0 | 2 | 0 | 0 | 2 |
| Health and Safety Follow Up | 10 | 1 | 0 | 0 | 2 | 13 |
| Independent Living | 3 | 1 | 7 | 0 | 2 | 13 |
| Insurance | 0 | 0 | 1 | 0 | 0 | 1 |
| ICT Backup | 0 | 0 | 3 | 1 | 0 | 4 |
| Patch Management | 2 | 0 | 4 | 0 | 0 | 6 |
| Property Repairs | 1 | 0 | 6 | 2 | 2 | 11 |



| Audit | Not yet due | Overdue | Within time | Extended time | Out of time | Total Recs |
|--------------------------------------|-------------|-----------|-------------|---------------|-------------|------------|
| Treasury Management | 0 | 0 | 3 | 0 | 3 | 6 |
| Tenant Recharges | 0 | 1 | 5 | 0 | 1 | 7 |
| Freedom of Information | 0 | 2 | 6 | 0 | 0 | 8 |
| Local Government Transparency Code | 5 | 1 | 4 | 7 | 1 | 18 |
| Complaints, Compliments, Suggestions | 2 | 1 | 4 | 0 | 1 | 8 |
| IT Security | 3 | 0 | 0 | 0 | 0 | 3 |
| Totals | 50 | 15 | 84 | 26 | 19 | 194 |

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 2019/20. Examples are set out in Table 5 below:

Table 5 – Internal Audit Contribution

| Area of Activity | Benefit to the Council |
|---|--|
| <p>Support towards the Council's Counter fraud activity in the following areas:</p> <ul style="list-style-type: none"> • Support towards embedding the Anti-Fraud, Bribery and Corruption Strategy and Fraud Response Plan. • Completion of two corporate investigations/ fact finding reviews, with support from other managers as required. • Provision of assurance work in relation to accounts payable, cash & bank, completeness of income and IT Security. • Provision of fraud bribery and corruption awareness training to 6 departments during the year (Property Repairs Services, Revenues, Finance, Commercial Regulation, Licensing and the Benn Hall). • All office based staff were asked to read and confirm formally that they acknowledged and understood the requirements of the Council's Fraud Response Plan. This included completion of a multiple choice questionnaire. | <p>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.</p> |
| <p>Completion of an independent review and appraisal of the IT department's arrangements for managing its performance and risks. This review was undertaken by TIAA.</p> | <p>Completion of this work by an external contractor with expertise in the field provides assurance that the framework for managing IT risk and performance is fit for purpose and in line with good practice.</p> |

| Area of Activity | Benefit to the Council |
|--|---|
| <p>Workforce planning and development – online review of the approaches adopted by other authorities. Review of the recruitment website pages of other authorities to highlight areas of good practice e.g. information about corporate values, the culture of the organisation and the benefits on offer.</p> | <p>Increased likelihood of the Council implementing an effective approach to workforce planning & development and being able to attract the best people.</p> |
| <p>Residential properties – A review of the arrangements in place to ensure compliance with statutory requirements in the following areas:</p> <ul style="list-style-type: none"> • Fixed wire testing • PAT testing • Air con/ ventilation systems • New installation gas certificates • Landlord certificates • Legionella • Fire – evacuations, alarms, extinguishers, emergency lighting, signage, risk assessments • Lifts and lifting equipment • COSHH • Asbestos • Sewage plants • Lightning conductor tests | <p>Confirmation that appropriate monitoring and testing arrangements are in place, with any gaps being prioritised for action.</p> |
| <p>Housing management system - assistance with the validation testing of the data being migrated from OHMS to the new system. System changes bring increased risk and testing by internal audit prior to the new system's implementation adds greater value</p> | <p>System changes bring increased risk and testing by internal audit prior to the new system's implementation reduces the risk of the data transfer being inaccurate or incomplete.</p> |
| <p>No Purchase Order No Pay – in preparation for the implementation of the new policy, a review of the following processes was conducted to establish whether there might be any barriers to its successful implementation:</p> <ul style="list-style-type: none"> • Raising of PO's • Authorisation/ payment of invoices • Setting up new suppliers | <p>Implementation of the No Purchase Order No Pay policy is more likely to be successful.</p> |
| <p>Risk Management – work to embed the Risk Management Strategy. See separate report to the Committee.</p> | <p>More effective management of risk will increase the likelihood of the Council achieving its objectives. Further work is planned in this area for 2020/21.</p> |

| Area of Activity | Benefit to the Council |
|--|---|
| A total of 129 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 2020 are set out in Table 6 below:

Table 6 – Internal Audit Performance Indicators

| Theme | Title of Performance Indicator | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---------------|--|-------------------------------------|----------------|--------------------------|-------------|
| Delivery | Average end to end time for audits (number of days) - new measure from 2018/19 | 110 days (see note below) | 92 days | N/A* | N/A* |
| Adding Value | Customer Satisfaction – Average Rating 3 = Good 2 = Satisfactory 1 = Poor | 2.88 | 2.83 | Insufficient data | 2.78 |
| Timeliness | Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion | 4.5 | 7.6 | 6.2 | 7.1 |
| Effectiveness | Implementation of Agreed Actions by Officers – Percentage implemented within agreed timescale | 76% | 93% | 72% | 88% |

Note: 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, since when the end to end time has been reduced by 23 days. This follows the introduction of a new approach for clearing reports with management.

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. The Corporate Assurance and Improvement Manager can also confirm that the requirements of the Quality Assurance and Improvement Programme have been met for 2019/20. A further self assessment has been completed and the 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.

7. SUMMARY OF AUDIT FINDINGS

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|-----------------------------|-------------------|-----------------------|--|
| Creditors/ Accounts Payable | Substantial | Medium | <p>The control framework includes generally sound key controls that promote the delivery of corporate/service objectives. These include segregation of duties, authorisation limits, budget monitoring, system access controls, user guides and reconciliation of payments sent.</p> <p>The audit did, however, highlight a lack of compliance with the purchase order process. Only 20% of creditor payments processed by the Council in 2018/19 had a corresponding purchase order, despite their use being part of the framework of key controls. Officers were not challenged when invoices are received without a corresponding purchase order. Whilst there are some mitigating controls such as segregation of duties between processing and approval, and budget monitoring, there is an increased risk of inaccurate or fraudulent payments being processed, and it is harder to measure the Council's financial commitments at any one time. A "No Purchase Order No Payment" approach is being implemented.</p> |
| Cash & Bank | Substantial | Low | <p>There are generally sound arrangements in place to ensure income is recorded and banked in a timely, accurate and complete manner.</p> <p>However, the audit found the whole process to be highly manual with only a minority of transfers of data files being completed automatically. Many systems are involved and often these do not appear to integrate particularly well, increasing the need for manual interventions/workarounds. This appears to have evolved as new services</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|-------------------------|-------------------|-----------------------|--|
| Cash & Bank (continued) | | | <p>and systems have been developed and procured over a number of years.</p> <p>Overall, the system, whilst extremely labour intensive, was found to be effective in managing the council's income. Some inefficiencies were identified during the audit and a working group is being created to consider further areas where specifically the banking processes may be automated.</p> |
| Completeness of Income | Substantial | Medium | <p>The audit reviewed the arrangements for ensuring completeness of income in a number of areas including:</p> <ul style="list-style-type: none"> • Recharges, handyperson service and voids – controls were found to be satisfactory with testing confirming this. • Trade Waste – controls were found to be satisfactory with testing confirming this. • Housing Grants - testing highlighted £20k of grants which had not been invoiced (11 out of 42 cases). It is recommended that a review be conducted to digitalise the process so the potential for omission and/or error can be reduced. • Parking – satisfactory controls in place although it is recommended that a reconciliation between the season tickets issued and the income received to Agresso be implemented to ensure that all revenue is appropriately billed and collected. This is because some companies who provide passes for their staff are issued with the permits and subsequently invoiced for payment. This requires officers to remember |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|------------------------------------|-------------------|-----------------------|--|
| Completeness of Income (continued) | | | to send a Sundry Income request to the Revenues Team and therefore could be forgotten. Testing confirmed that one of the companies who lease car parking spaces on an annual basis, had not been fully invoiced for the 2018/19 resulting in a shortfall of £10,000 of revenue. The company had been invoiced correctly for 2019/20. |
| IT Security | Substantial | Medium | <p>The ICT team have produced a comprehensive set of security policies. All policies are published on the Council's intranet and include guidelines on Internet, Intranet and Email Use. At the time of the review, the Corporate IT Manager was proactively compiling all user guidance in to a single Information Security policy. The new policy covers a range of topics including cyber security, virus protection, cloud services, password security and data encryption.</p> <p>Audit testing confirmed that robust password policies had been invoked on the Council's Active Directory domain. Logical security settings were invoked to enforce password minimum length, password history, password complexity and password ageing. In addition, examination of account lockout policies verified that all Active Directory accounts were automatically disabled after repeated failed login attempts.</p> <p>Superuser rights are appropriately restricted and audit testing confirmed that all IT administrators had been assigned individual and uniquely identifiable user accounts.</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|------------------------------|-------------------|-----------------------|--|
| IT Security (continued) | | | An automated process exists to identify and disable leaver access rights. Human Resources provide details of all leavers to ICT. Details are captured on the Service Desk system and Active Directory access rights are promptly disabled. Audit testing on a sample of leavers who had left the Council in the last 3 months confirmed that all accounts had been disabled. |
| IT Business Continuity | Substantial | Medium | There is a BCP document in place but this is currently being reviewed and updated; further input from system owners is required and formal testing plans will need to be developed. There is an uninterruptable power supply which can supply 3 hours of continuous power in the event of loss; however there are no arrangements in place for generator cover in the event power is lost for a prolonged period. Satisfactory arrangements are in place to ensure environmental hardware is regularly serviced. The Council does not currently deploy a system to automatically detect and prevent illegitimate attempts to bypass the firewall; the ICT Team are currently investigating this. An exercise is required to review third party contracts, ensure all are present on the contracts register and that up to date agreements are in place with key third parties. |
| Freedom of Information (FOI) | Substantial | Low | This audit was carried out to provide assurance that the current process for dealing with FOI and Environmental Information Regulations (EIR) requests is efficient and effective, ensuring that lessons are learnt, and data is available if commonly requested. |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|---|-------------------|-----------------------|---|
| Freedom of Information (continued) | | | The audit found that the process for dealing with FOI & EIR requests is generally sound; however, there are occasions where requests are not responded to within the set time scales. The Council was not proactively reviewing requests received for trends, and even though some of the commonly requested data is available on the website it was difficult to locate. |
| Annual Governance Statement | Substantial | Not Applicable | 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 2020/21. |
| Complaints, Compliments and Suggestions | Limited | Medium | <p>This audit was designed to review the current process for dealing with complaints, compliments and suggestions and provide assurance that responses are made in a timely and appropriate manner. It was found that whilst there is a complaints policy in place, it is not readily available, and assurances could not be gained that it was followed in all cases that were reviewed. At the time of the audit the Communications team were not responsible for issuing complaint responses, this responsibility rested with the managers. The audit found that the Council was failing to document the complaint responses in a significant proportion of cases.</p> <p>The audit also reviewed the arrangements in place to ensure that lessons are learnt, and trends are reviewed. It was found that the Council does not</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|---|-------------------|-----------------------|--|
| Complaints, Compliments and Suggestions (continued) | | | <p>carry out any complaint root cause analysis nor monitor any council wide complaint statistics. However individual managers are responsible for sending the complaint response and confirmed under interview that they would investigate if a number of similar complaints were received.</p> <p>The report was considered in full by the Audit & Ethics Committee in January 2020 and a follow up internal audit review will be completed in 2020/21.</p> |
| Local Government Transparency Code | Limited | Medium | <p>The audit 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. There were two areas where no data is being published at all. The remainder were either only partly publishing the data required and/or failing to update this information in accordance with the stipulated frequency under the code.</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|--|---------------------------------------|-----------------------|---|
| Local Government Transparency Code (continued) | | | <p>There is no central schedule of publication held and no chase mechanism in place to ensure up to date information is obtained from the relevant departments on a regular basis. This applied to both the LGTC and the additional information identified as required to be published under other regulations.</p> <p>The report was considered in full by the Audit & Ethics Committee in January 2020 and a follow up internal audit review will be completed in 2020/21.</p> |
| Performance Management Effectiveness | Basic (with elements of Intermediate) | Not Applicable | <p>An assessment was completed on LG Inform and overall the Council scored a basic level of performance management and data maturity, with elements of Intermediate.</p> <p>A basic level indicates that there is some awareness of data management at a senior level and some steps have been taken to employ a data architecture, consistent collection techniques and common data standards. A Maturity Improvement action plan has been developed and some actions to elevate the Council's maturity level are already in progress. One of those requirements was an assessment of the quality of</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|--|-------------------|-----------------------|---|
| Performance Management Effectiveness (continued) | | | <p>data used to inform Key Performance Indicators (KPIs). a Data Quality Assurance Programme had been developed by the Corporate Assurance & Improvement team; of 198 measures reviewed in 2019/20 169 (85%) were provided with a high or substantial level of assurance. The overall score of the Self-Assessment is broken down into five areas. Data Use (scored Basic), Data Culture (scored Basic), Data Management (scored Basic) , Data Skills (scored Intermediate) and Data Governance (scored Intermediate).</p> <p>The key actions planned for 2020/21 include:</p> <ul style="list-style-type: none"> • A review of service objectives to ensure they are clearly defined and relevant. This is key to ensuring that data captured and reported is relevant to those objectives. • A full evaluation of each department's data maturity, including any data which is captured and used to support decision making outside of the RPMS. • Using the Corporate Management Forum to showcase good examples of where managers have used data to inform decision making or improve business processes. • Include a section on performance management in the updated "The Way We Manage" training. • Automation of the capture and reporting of data, which will free up resource to focus on the value added work of reviewing data and using it to drive performance improvement across the organisation. Alongside this a review will be completed to identify any data analysis skills gaps. |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|----------------|-------------------|-----------------------|---|
| Digitalisation | Substantial | Medium | <p>Benefits which have already been realised from the programme include efficiencies and time saving by moving manual manipulation of data to automated reports, changing suppliers for systems and moving from manual to online applications. There is scope to improve the arrangements for ensuring the accuracy of the figures reported. A number of projects/savings do not appear to have been recorded within the digitalisation savings figures including the digitalisation of the Council Chamber, waste route optimisation, e-billing and new systems. The outcomes of these projects have however been reported elsewhere.</p> <p>The Digitalisation Board and the Operational Managers' Group have oversight of digitalisation projects; however little is currently seen by Cabinet. The ICT team are working with teams across the Council to allow for more digitalised ways of working and to make processes and procedures more efficient and effective. Whilst it is clear that the Council is achieving its corporate savings targets, there is scope to improve transparency in the reporting of digitalisation savings both internally and externally, including collection and communication of the savings data, and the details which are published in the Finance and Performance Report.</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|----------------------|-------------------|-----------------------|---|
| Absence Management | Substantial | Medium | <p>The audit identified a number of strengths and weaknesses with the current approach, these include:</p> <ul style="list-style-type: none"> • The absence management policy is clear and understandable however it is not consistently used by managers and HR when an employee hits a sickness trigger. • The current sickness notification process is cumbersome and could potentially be improved by allowing managers to input information directly into ITrent. • Monthly 121s between managers and HR Business Partners are working well and all parties felt that this is time well spent. • The Occupational Health service reports are received in a timely manner and generally support managers and employees in returning or staying in work, however sometimes recommendations are not suitable. • The sickness absence triggers may benefit from review. |
| Housing Rent Arrears | Limited | Medium | <p>Rent arrears have remained broadly the same over the last two years, with some fluctuations. The number of accounts in arrears has increased but the average arrears have improved by circa 20%. The current level of resource dedicated to rents is only just sufficient to look at and action all rent accounts in arrears on a monthly basis. This means that tenants could build up several weeks of arrears before an officer reviews the case. A new piece of software called Mobysoft is due to be installed by October 2020, in addition to Civica CX, which will send reports directly to officers showing only the rent accounts which need action. This will save time by focusing resources where they are needed.</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|---|-------------------|-----------------------|--|
| Housing Rents Arrears (continued) | | | <p>In addition, the audit covered rent arrears for temporary accommodation, bed and breakfast, private sector lettings and garages. The reason being there was some concern that rents are not being managed in a consistent way across the different property types. This was indeed found to be the case. There was no resource available to administer garage rents for a long time, meaning these, while small in cost, have been allowed to escalate. There are no robust processes in place for the management of rent arrears in temporary accommodation. In May 2020 the collection and monitoring of rent arrears for temporary accommodation transferred to the Estates Management Team.</p> <p>There were over £250,000 of former tenant arrears, mainly within temporary accommodation, which were not being recovered. It is recommended that such arrears be transferred to the sundry income system, with invoices are raised and issued.</p> |
| Customer Service Centre Demand Management | Substantial | Medium | <p>The customer services function provides a high quality, consistent service by telephone and face to face. There is a robust training and coaching programme in place, both for new starters and ongoing development of staff. The call assessment process is thorough, ensuring both the quality and quantity of calls answered by Customer Service Advisors (CSAs) meet the required standards. There is a wealth of written information which is used by all CSAs to ensure consistency of service, and written records of calls are also assessed. The staffing levels are carefully managed using a rota in</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|---|-------------------|-----------------------|---|
| Customer Service Centre Demand Management (continued) | | | <p>response to business needs. Call volumes are monitored carefully to understand the peaks and troughs in the service and to resource this accordingly, within the boundaries available. There are some small improvements which could be made to customers' experience to keep them better informed about waiting times and reduce failure (unwanted) demand.</p> <p>The main action that would reduce failure demand is to encourage more customers to sign up to use RBC's online services. Over 15,000 (70%) of customers for the garden waste collection service signed up for this online over the last three years, with many rating the service 5 stars. Some telephone demand could be reduced by more customers using the online portal to view and manage their council tax account. This is promoted but more could be done. Some customers find the RBC website confusing as there are multiple logins required to sign up for different Council services. A new integrated CRM and CMS platform is due to be introduced in 2020 which should consolidate these services and provide a single access point for customers.</p> <p>Because of the services provided by the Council and its customer base, telephone demands will never be eliminated, no matter how good the online services are. The customer service centre needs to continue to provide high quality services alongside the online services, and to support customers who have more complex needs.</p> |

| Audit Area | Assurance Opinion | Risk Exposure Opinion | Summary of Key Findings |
|---------------------------|-------------------|-----------------------|--|
| Crematorium Joint Venture | High | Low | <p>The identified and inherent risks to the service were found to be effectively managed, and an effective set of controls are in place which are being consistently applied. The governance system of Joint Committee and Operational Board, together with the good communications between the partners is effective in achieving the objectives of the service.</p> <p>The facility is well run by a team of trained bereavement services and maintenance staff who aim to provide a high quality service in attractive surroundings to members of the public.</p> <p>There is a consistent approach to continuous improvement of the facilities and services, which underpins desire to offer customers a good range and quality of memorial options whilst adding to the target of income generation and increased market share. Current improvements in development include the extension to the car park and the introduction of a low cost funeral package.</p> <p>Market testing was previously carried out for the purchase for resale of granite memorial tablets at the time the crematorium opened in 2014. Although it is planned to do further testing as part of the proposed low cost package, it is recommended that this exercise is brought forward to avoid any potential challenge to the veracity of the current provider.</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 Head of Corporate Resources and Chief Finance Officer, 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 by September 2022 at the latest. 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 September 2022) |