

6 February 2017

AUDIT AND ETHICS COMMITTEE – 14 FEBRUARY 2017

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Tuesday 14 February 2017 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 8 November 2016.

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. Appointment of External Auditor
5. Annual Audit Letter 2015/16
6. Certification of Grants – Annual Report 2015/16
7. Managing High Priority Strategic Risks
8. Fraud Response and Action Plans
9. Internal Audit Improvement Plan Progress Update
10. 2016/17 Internal Audit Plan Update (report to follow)
11. Development of Internal Audit Plan for 2017/18
12. 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. Housing Benefit and Local Council Tax Reduction Scheme Verification Policy
2. Health and Safety Internal Audit Report (report to follow)
3. Benn Hall Internal Audit Report (report to follow)
4. Whistle Blowing Incidents - Standing Item - to receive any updates
5. Fraud and Corruption Issues - Standing Item - to receive any updates

Any additional papers or relevant documents for this meeting can be accessed here via the website.

Membership of the Committee:

Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Butlin, Mrs Crane, Mistry and Roodhouse

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

If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.

AGENDA MANAGEMENT SHEET

Report Title:	Appointment of External Auditor
Name of Committee:	Audit and Ethics Committee
Date:	14th February 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Mannie Ketley Head of Corporate Resources and Chief Financial Officer
Public or Private:	Public
Report subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities:	
Statutory/Policy Background:	The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015
Summary:	Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.
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:	Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit and Ethics Committee is asked to make the recommendation above to Council.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	
Recommendation:	To recommend to Full Council that the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.
Reasons for Recommendation:	It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement undertaken individually or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and individually conducting procurement.

Audit and Ethics Committee – 14th February 2017

Appointment of External Auditor

**Report of the Head of Corporate Resources and
Chief Financial Officer**

Recommendation

To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

1 Purpose

This report sets out options in relation to new arrangements for appointing the Council's auditor, further to the Local Audit and Accountability Act 2014 (the Act).

This decision must be taken by Full Council and therefore a recommendation is sought from the Audit and Ethics Committee on the Council's preferred option.

2 Introduction

The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government bodies in England.

Before 1 April 2015, auditors were appointed under contracts let by the Audit Commission. Under transitional arrangements, Public Sector Audit Appointments (PSAA) are currently responsible for managing the existing contract, which will end when the 2017/18 accounts are completed. PSAA is an independent, not-for-profit company limited by guarantee, established by the Local Government Association.

Therefore, a new approach to the appointment of the Council's external auditors must be approved by the Council for the 2018/19 accounts, under one of the new processes provided for in the Act.

There are three options available to the Council for appointing an auditor for the 2018/19 accounts:

- **Option 1:** undertake an individual auditor procurement and appointment exercise;
- **Option 2:** undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
- **Option 3:** opt-in to a 'sector led body' scheme where specified "appointing person" status has been granted under the relevant Regulations.

3 Background, Fees and Audit Scoping

During recent years the Council has benefited from a reduction in fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally by the Audit Commission and changes to the scope of the audit. The Council's external audit fee for 2015/16 were £55,000.

Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. External auditor fees levels are likely to increase when the current contracts end in 2018 due to the loss of these economies of scale.

The scope of the audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and therefore the number of firms is not known, but it is reasonable to expect that the list of eligible firms will be less than ten. Grant Thornton UK LLP, the Council's current auditor is likely to be included. Small, more local independent firms are unlikely to meet the eligibility criteria.

In response to the consultation on the new arrangements the Local Government Association (LGA) successfully lobbied for councils to be able to 'opt-in' to a sector led body appointed by the Secretary of State under the Act (Option 3). The sector led body will negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

4 Option Appraisal

For options 1 and 2, the Council must establish an auditor panel, to advise the authority on:

- selecting and appointing an auditor
- whether to adopt a policy on obtaining non-audit services from the auditor
- any proposal to enter into a liability limitation agreement
- maintaining an independent relationship with its auditor
- the outcome of any investigation of an auditor's resignation from office or any proposal to remove a local auditor from office.

Under options 1 and 2, the function of appointing an auditor remains with the Council, but the Council must consult and take into account the advice of its audit panel. Members of the panel must be wholly or by majority independent members and an independent member must chair the panel.

Option 1, due to the requirement for constitution by a majority of independent non-Councillor members the Council would have to set up a new auditor panel and would not be able to use an existing committee or sub-committee, such as the Audit and Ethics Committee, to act as the auditor panel.

Option 1 offers potential for a bespoke contract. However, there is limited elected member involvement on the auditor panel itself, as set out above. The Council would bear all costs of setting up and running the audit panel, and of the procurement exercise.

Option 2, the Council may:

- set up an auditor panel with one or more other authorities
- ask another authority's auditor panel to carry out the functions of the authority in question.

Under Option 2, joint arrangements offer the Council less influence over arrangements and also an increased risk of independence issues arising (where an auditor has recently or is currently carrying out work such as consultancy or advisory work for an authority, and so is not eligible to act as auditor). However, costs of the panel and the procurement exercise would be shared between authorities involved.

Option 3, the Secretary of State for Communities and Local Government has specified PSAA as an appointing person. This allows PSAA to make auditor appointments from 2018/19 on behalf of relevant principal authorities that opt into its scheme. Opted-in arrangements will be for a compulsory specified period – currently indicated to be for three or five years.

Under option 3, Rugby Borough Council would not itself appoint the auditor. However, the PSAA must consult an individual authority about any proposed auditor appointment for the Council. The PSAA have identified the potential benefits to opting-in as including:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible and requested, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, to enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

PSAA have indicated that they require confirmation by 9th March 2017 if the Council wishes to opt into the national scheme.

5 Financial Implications

For **options 1 and 2**, (a local or joint auditor panel), costs arise in relation to:

- recruiting independent appointees (members),

- servicing the Panel, running a bidding and tender evaluation process,
- letting a contract; and
- panel members' allowances.

The LGA estimate initial costs to be about £15,000, with further ongoing expenses.

Option 3, (opting-in), provides an opportunity to limit the fees increases after 2018, by allowing the Council to benefit from large scale collective procurement arrangements, and removing the costs of establishing and administering a local auditor panel. The Council will have to agree to opt-in before the PSAA begins its procurement exercise, but the PSAA must consult opted-in authorities (and others) before specifying or varying the scale of fees.

6 Legal Implications

The Local Audit (Appointing Person) Regulations 2015 require that any decision to accept an invitation to become an opted in authority (that is, choose Option 3) must be made by a Full Council meeting as a whole (that is, cannot be delegated).

7 Consultees

To date, there is no appetite apparent from other Warwickshire authorities to set up a joint audit panel.

8 Conclusion

In the light of the resource and other implications of the different options as set out in this report, it is considered that Option 3 provides the preferred option for new arrangements.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14th February 2017
Subject Matter: Appointment of External Auditor
Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.

AGENDA MANAGEMENT SHEET

Report Title:	Annual Audit Letter 2015/16
Name of Committee:	Audit and Ethics Committee
Date:	14th February 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Mannie Ketley – Head of Corporate Resources and Chief Financial Officer
Public or Private:	Public
Report subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities:	All
Statutory/Policy Background:	National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 –'Auditor Reporting'
Summary:	The purpose of the annual audit letter is to communicate the key issues arising from the work of the external auditor to Members and external stakeholders, including members of the public.
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:	
Recommendation:	To note the Annual Audit Letter 2015/16 as appended.
Reasons for Recommendation:	Under the statutory Code of Audit Practice, the external auditors are required to issue a report to those charged with governance the conclusions from their audit work.

Audit and Ethics Committee – 14th February 2017

Annual Audit Letter 2015/16

**Report of the Head of Corporate Resources and
Chief Financial Officer**

Recommendation

To note the Annual Audit Letter 2015/16 as appended.

1. Introduction

Each year the Council's external auditors produce an Annual Audit Letter which summarises the key findings arising from their annual assessment of the Council.

This letter is intended to provide a commentary on the results of the work to the Council and its external stakeholders, and to highlight any issues that they wish to draw to the attention of the public.

2. Annual Audit Letter 2015/16

The letter is appended for the committee's consideration.

Much of the commentary contained within the letter summarises the detail findings of audit that were presented to the committee within the Audit Findings Report for 2015/16, at its meeting on 13th September 2016.

The letter also confirms that the fees for the 2015/16 statutory audit were approximately £55,000, representing a £17,000 reduction from the fees for 2014/15.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14th February 2017
Subject Matter: Annual Audit Letter 2015/16
Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.



The Annual Audit Letter for Rugby Borough Council

Year ended 31 March 2016

October 2016

John Gregory

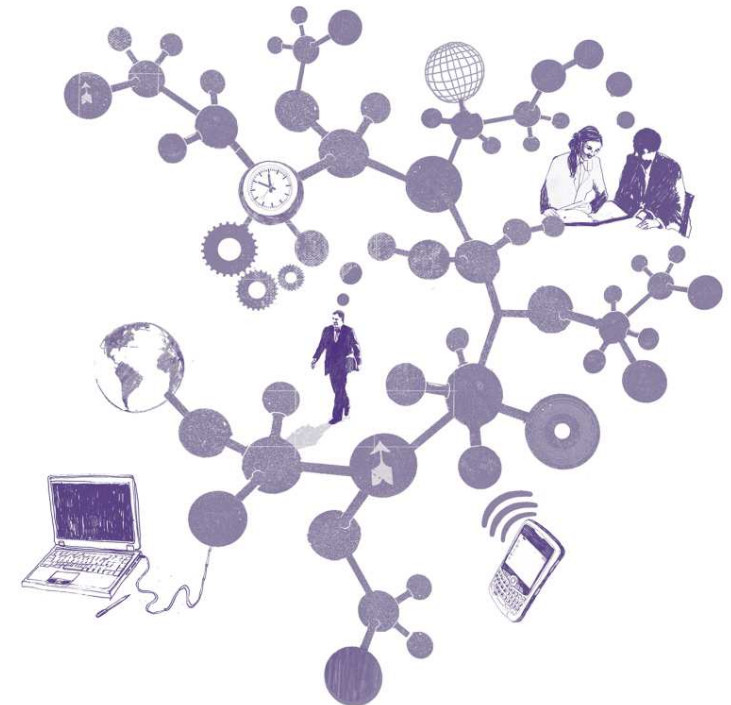
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rugby Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee as those charged with governance in our Audit Findings Report on 13 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Rugby Borough Council in accordance with the requirements of the Code on 28 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.

Other work completed

We have provided support to the Council in developing its anti-fraud and corruption strategy.

We have also reviewed the Council's process for recording housing voids and compared it to best practice within the sector.

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

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1,252,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration and auditor remuneration.

We set a lower threshold of £62,000, below which we would not report errors to the Audit and Ethics Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

Audit of the accounts

This is the risk, beyond those specified in auditing standards, which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Performed a walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Ethics Committee on 13 September 2016.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council/Authority and with our knowledge of the Council/Authority.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium Term Financial Planning The Council faces an uphill task to balance its finances over the medium term. The gap between income and spending plans is estimated at £1.9m for 2018/19 and £2.1m for 2019/20.</p>	<p>We have assessed whether the Council is:</p> <ul style="list-style-type: none"> • producing and using appropriate and reliable financial information to support informed decision making and performance management • producing reliable and timely financial reporting that supports the delivery of strategic priorities • planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. 	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • an agreed, balanced financial plan for 2016/17 • identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council. • taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans • produced monitoring reports for members on a timely basis. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>
<p>Partnership Arrangements The Council has already developed a number of working partnerships such as the operation of Rainsbrook Crematorium with Daventry Borough Council . We need to understand how this and other partnerships help the Council to achieve its strategic priorities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the Council's strategy for collaboration with partners and the overall ambition and limitations in this area. • gained an understanding of the governance arrangements in place for partnership working • examined specific examples of partnership working to understand how they are helping the Council achieve its strategic objectives 	<p>We have reviewed the Council's partnership workings and the governance arrangements in place. We found that the Council's partnerships working are aligned to its strategic objectives.</p> <p>Examples of partnership working include:</p> <ul style="list-style-type: none"> • Rugby is a partner in the Coventry & Warwickshire Local Enterprise Partnership. This partnership involves both private and public sector organisations and aims to grow the local economy, increase prosperity and attract new jobs and investments into the area. • The Council is a member of the Warwickshire Direct Partnership (WDP) which is a shared service arrangement with Warwickshire County Council and Nuneaton and Bedworth Borough Council for the provision of customer services. Its objectives are to provide services to its citizens and customers in the most effective and efficient way. • The Council is also working with Daventry District and Warwick District councils to provide a building control shared service. This partnership maximises the use of resources to provide a shared professional and effective building control service that is economic and efficient and enhances the service provided to their respective communities. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some good outcomes.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we shared with you our reports covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work and Reforging local government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Support outside of the audit – our advisory team supported you on a number of areas outside of the audit. These included supporting the Council to develop anti-fraud and corruption strategy and reviewing the Council's process for recording housing voids and comparing it to best practice within the sector.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit.
- Understanding your operational health – through the value for money conclusion we will provide you with assurance on your operational effectiveness.
- Supporting development – we will attend the Audit and Ethics Committee meetings during the year, offering our views on items under discussion.
- Support outside of the audit – we will provide you with a demonstration of CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	54,968	54,968	72,390
Housing Benefit Grant Certification	8,149	8,149	8,720
Total fees (excluding VAT)	63,117	63,117	81,110

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services:	
<ul style="list-style-type: none"> • Anti-fraud and corruption strategy review • Housing rents review 	16,380

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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AGENDA MANAGEMENT SHEET

Report Title:	Certification of Grants – Annual Report 2015/16
Name of Committee:	Audit and Ethics Committee
Date:	14th February 2017
Report Director:	Head of Corporate Resources and Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Mannie Ketley – Head of Corporate Resources and Chief Financial Officer
Public or Private:	Public
Report subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities:	All
Statutory/Policy Background:	The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015
Summary:	This is an annual report from the Council's appointed auditor (Grant Thornton) relating to the certification of the Council's grants and returns for 2015/16.
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.

Recommendation:

The Annual Report on the certification of the Council's grants and returns for 2015/16 be accepted.

Reasons for Recommendation:

The Annual Report on the certification of the Council's grants and returns for 2015/16 summarises the appointed Auditor's work and findings and the charges relating to their work.

Audit and Ethics Committee – 14th February 2017

Certification of Grants – Annual Report 2015/16

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

The Annual Report on the certification of the Council's grants and returns for 2015/16 be accepted.

1. Introduction

Grant Thornton UK LLP, the Council's appointed external auditor, has submitted its Annual Report on the certification of the Council's grants and returns for 2015/16.

A representative from Grant Thornton UK LLP will attend the meeting to answer any questions the committee may have in relation to this report.

2. Housing Benefit Subsidy Claim

The Annual Report on the certification of the Council's grants and returns for 2015/16 summarises the appointed auditor's work and findings and the related charges in regard to their work on the certification of the Council's Housing Benefits Subsidy Claim. This is appended for consideration.

3. Other grants

The Council's auditors consider the accounting arrangements and submissions for other grants as part of their overall audit of the Council's financial statements. The fee for this work is encompassed within the overall annual audit fee.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14th February 2017
Subject Matter: Certification of Grants – Annual Report 2015/16
Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.



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31 January 2017

Dear Mannie

Certification work for Rugby Borough Council for year ended 31 March 2016

We are required to certify the Housing Benefit subsidy claim submitted by Rugby Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to expenditure of £23.2 million. Further details of the claims certified are set out in Appendix A.

There are no issues arising from our certification work which we wish to highlight for your attention. We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 is £8,149. Due to the additional work required to address the issues we identified, we have agreed an additional fee of £1,000, subject to confirmation from PSAA. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Chartered Accountants

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Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	23,180,043	Yes	898	Yes	The housing and council tax benefit claim was qualified because of errors found in the calculation of earnings in the benefit entitlement calculation and the system incorrectly processing amendments where multiply entries to a claim had been made on the same day. The Council has estimated that this should not have a significant impact on the total amount of subsidy due but this will not be confirmed until the Department for Work and Pensions considers the qualifications on the Council's claim and determines the total amount of subsidy to be paid for 2015/16.

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	10,865	8,149	9,149	1,000	The errors reported above resulted in additional testing having to be performed. This additional testing was above the level anticipated when the indicative fee was set.
Total	10,865	8,149	9,149	1,000	

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	14 February 2017
<i>Report Title</i>	Managing High Priority Strategic Risks
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	None
<i>Contact Officer</i>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because the committee has specific responsibility to review the risk management arrangements and the framework of policies and standards within in which it operates.
<i>Report En-Bloc</i>	No
<i>Forward Plan</i>	No
<i>Corporate Priorities</i>	This report relates all corporate priorities.
<i>Statutory/Policy Background</i>	Not applicable
<i>Summary</i>	The report details the Council's strategic risks and the arrangements in place for monitoring and managing those risks.
<i>Risk Management Implications</i>	There are no risk management implications arising directly from this report.
<i>Financial Implications</i>	There are no financial implications arising directly from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report.
<i>Equality and Diversity</i>	No new or existing policy or procedure has been recommended.

Recommendation

1. The Strategic Risk Register be considered and noted.
2. The future format and frequency of risk reporting be considered and agreed.

Reasons for Recommendation

To comply with the requirements of the terms of reference of the Audit and Ethics Committee.

Audit and Ethics Committee – 14 February 2017

Managing High Priority Strategic Risks

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. The Strategic Risk Register be considered and noted.
2. The future format and frequency of risk reporting be considered and agreed.

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 on a quarterly basis by the Senior Management Team at the Strategic Risk Management Group meeting. The last review took place on 9 January 2017 with the next review booked for 10 April 2017.
- 2.2 In accordance with the Risk Management Strategy the Audit and Ethics Committee receives annual reports which provide assurance on the effective management of the Council's 'Top Level' risks. This report provides details of those 'Top Level' risks, but has been expanded to provide members with the full Strategic Risk Register.
- 2.3 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:

8–16	High Risk (Red)	Immediate attention
4-6	Medium Risk (Amber)	Moderate risk, mitigation action required
1–3	Low risk (Green)	Regular review

The Council's 'Top Level' risks are those which are assessed as 'red'. There are three 'Top Level' risks within this report and details are included within Appendices A, B and C.

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 was issued for endorsement by Cabinet in June 2016.
- 3.3 Senior Management review the Strategic Risk Register and update the action plan on a quarterly basis – 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 April 2017.

4. Future Work

- 4.1 In addition to the Strategic Risk Register, each service area maintains an Operational Risk Register. The rolling programme of Operational Risk Register reviews has highlighted a number of risks which apply across the Council, and which would therefore benefit from being considered and managed at the corporate level. The Risk Management and Insurance Officer is currently working with the Head of Corporate Resources and Chief Finance Officer to identify which risks would benefit from a more corporate approach. These initial risks, which will form part of a new corporate risk register, will be reported to and considered by the Strategic Risk Management Group at a separate meeting expected to take place before April 2017. It is expected that managing such risks at the corporate level will lead to a more effective, and consistent, response across the Council.

5. Format and Frequency of Risk Reporting

- 5.1 The Audit and Ethics Committee is required under its Terms of Reference to consider the effectiveness of the Council's Risk Management arrangements. The committee currently receives this annual report, which provides assurance on the effective management of the Council's 'Top Level' risks. The committee also conducts an annual review of the Risk Management Strategy and any changes made.
- 5.2 Members may wish to receive additional information to enable the committee to effectively discharge its responsibilities under the Constitution, or may wish the information provided to be presented in a different way to facilitate effective scrutiny. Members are asked to consider and agree the future format and frequency of risk reporting.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14 February 2017
Subject Matter: Managing High Priority Strategic Risks
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	14 February 2017	Strategic Risk Register - Effectiveness		
Appendix B	14 February 2017	Strategic Risk Register - Funding		
Appendix C	14 February 2017	Strategic Risk Register - Governance		
Appendix D	14 February 2017	Strategic Risk Matrix		

MANAGING HIGH PRIORITY STRATEGIC RISKS – APPENDIX A

**RUGBY BOROUGH COUNCIL
RISK ASSESSMENT FORM**

CORPORATE STRATEGY PRIORITY : <u>Effectiveness</u>		<i>[Risk Management Officer to complete]</i>	
RISK TYPE : Strategic		Risk Code :	
COMPLETED BY: Senior Management Team (SMT) & SRMG		DATE: January 2017	
		Category :	

Risk	Opportunities	Consequences	Existing Internal Controls	Assessment of Risk based on the review of existing controls			Direction of Risk
				Likelihood	Impact	Risk Rating	
Failure to recruit and retain key staff at all levels of the organisation (1)	- Places focus on 'growing our own', which is motivating for internal staff	- Repeated failed recruitment rounds leading to consequent loss of organisational drive, key skills and corporate knowledge - Key staff leaving with consequent loss of organisational drive, key skills and corporate knowledge	- Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Market supplements - Benchmarking - Apprenticeship scheme - Maximise opportunities to enhance the apprenticeship levy - Training and development - Development and greater use of digitalisation and IT	3	2	6	↔
Rapidly changing service demands unable to be met by current support services operational model (2)	- Closer work between front line and support services to articulate future service direction and needs	- Failure to support infrastructure development of new services	- Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Development and greater use of digitalisation and IT	2	3	6	↔

MANAGING HIGH PRIORITY STRATEGIC RISKS – APPENDIX A

Risk	Opportunities	Consequences	Existing Internal Controls	Likelihood	Impact	Risk Rating	Direction
Failure to deliver the Council's Emergency Plan (3)	- Increase resilience in coping with disaster	- Loss of life - Loss of property - Economic damage - Loss of reputation - Major service disruption/failure (in the event of pandemic illness affecting RBC employees) - Loss of data - National censure	- Cyclical system embedded to ensure controls and risks are checked, actions developed and then implemented - Active review and consideration of changing circumstances which may affect existing assessment and/or judgements - Periodic testing and exercises - Regular reviews - Insurance in place - New plan in place - Partnership working with WLRF (Warwickshire Local Resilience Forum) - Horizon scanning - Periodic testing and exercises	1	3	3	↓

Once the Risk Assessment form has been completed, the Action Plan should then be completed

MANAGING HIGH PRIORITY STRATEGIC RISKS – APPENDIX A

**RUGBY BOROUGH COUNCIL
RISK ACTION PLAN**

This action plan is to be used when the risk assessment form has been completed.

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					
3 (3)	- Further training for key personnel to improve resilience	1	3	3	In progress	Theresa Summers	July 2017		Quarterly

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX B

**RUGBY BOROUGH COUNCIL
RISK ASSESSMENT FORM**

CORPORATE STRATEGY PRIORITY : <u>Funding</u>	<i>[Risk Management Officer to complete]</i>
RISK TYPE : Strategic	Risk Code :
COMPLETED BY: Senior Management Team (SMT) & SRMG	DATE: January 2017
	Category :

Risk	Opportunities	Consequences	Existing Internal Controls	Assessment of Risk based on the review of existing controls			Direction of Risk
				Likelihood	Impact	Risk Rating	
Unable to meet requirements and aspirations of our community (1)	- Reframe service expectations	- Inability to maintain all current services - Possible reduction of services at short notice - Increase in customer complaints - Failure to deliver all statutory services - Reputational damage - Inability to maintain inward investment - Failure to maintain the momentum and consistency of the Systems Thinking programme - Budget pressure - Council Tax increases - Overspending - Reduced resources - Pressure from partners - Poor audit judgement - Reducing staff morale - Central Government Censure - Procurement of goods and services do not provide Value for Money - Partnerships are ineffective - Social exclusion - Increase in crime and disorder	- Ongoing review and assessment by individual members of SMT, including partnership arrangements - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Dialogue with central government - Medium term financial planning - Further exploration of shared collaborative and devolved service arrangements - Scrutiny - Internal and external audit - Finance and Performance Quarterly reports - Peer reviews - Cabinet and Council reports - Ongoing review and assessment - Performance management - Corporate Change and Improvement Plan - Core Strategy - Constitution and legislation provides guidance and direction - Communication with community when changes take place - Detailed service analysis	4	3	12	↑

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX B

Risk	Opportunities	Consequences	Existing Internal Controls	Likelihood	Impact	Rating	Direction
Insufficient local economic growth (2)	- Economic plans to embrace wider range of business opportunities	- Inability to maintain all current services - Reduction in NNDR income - Redundancies - Reduced quality of service - Reduced customer satisfaction - Reputational loss	- Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Economic development service – work with WCC and LEP to provide additional business support services - Local Plan	2	3	6	↔

Once the Risk Assessment form has been completed, the Action Plan should then be completed

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX B

**RUGBY BOROUGH COUNCIL
RISK ACTION PLAN**

This action plan is to be used when the risk assessment form has been completed.

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					
12 (1)	- Adoption of new Borough Local Plan - Future change programme - Refresh Corporate Strategy	3	3	9	In progress In progress In progress	Rob Back Adam Norburn, SMT Adam Norburn	Dec 2017 Feb 2017 Mar 2017		Quarterly Quarterly Monthly
8 (2)	- Adoption of new Borough Local Plan - Engagement with the West Midlands Combined Authority in the creation of the Super Strategic Economic Plan	2	3	6	In progress In progress	Rob Back Rob Back	Dec 2017 Apr 2017		Quarterly Monthly

**RUGBY BOROUGH COUNCIL
RISK ASSESSMENT FORM**

CORPORATE STRATEGY PRIORITY : <u>Governance</u>	<i>[Risk Management Officer to complete]</i>
RISK TYPE : Strategic	Risk Code :
COMPLETED BY: Senior Management Team (SMT) & SRMG	DATE: January 2017
	Category :

Risk	Opportunities	Consequences	Existing Internal Controls	Assessment of Risk based on the review of existing controls			Direction of Risk
				Likelihood	Impact	Risk Rating	
(1) Loss of local sovereignty through failure to manage partnership arrangements and emerging development of combined authority	- Explore shared or integrated local service provision	<ul style="list-style-type: none"> - Lack of local voice - Potential for short or medium term service disruption - Cost of transition - Loss of funding - Lack of clarity on roles and responsibilities - Damage to reputation - Poor Value for Money - Silo working - Failure of contractors 	<ul style="list-style-type: none"> - Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Regular pattern of review and assessment of risks and operational environments - Where assessment identifies actions required these are discussed at SMT, some matters will be raised informally with Cabinet and/or Portfolio holders - Action plans developed as required - Executive Director joining Warwickshire-wide Integration Executive as part of Warwickshire Cares: Better Together - Work co-operatively with other council and public sector organisations (to be implemented/actioned when combined/shared authorities being considered) 	2	4	8	↔

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX C

Risk	Opportunities	Consequences	Existing Internal Controls	Likelihood	Impact	Risk Rating	Direction
<p>Loss of senior staff leading to potential weakness in organisational management</p> <p>(3)</p>	<p>- Review/revise corporate focus and priorities</p>	<p>- Potential for short to medium term service disruption</p> <p>- Competing demands</p> <p>- Regular meetings leading to saturation of officer time</p> <p>- Other jobs not being completed on time, if at all</p> <p>- Impact on morale</p> <p>- Mistakes being made</p> <p>- Contribution value drops</p>	<p>- Ongoing review and assessment by individual members of SMT</p> <p>- Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements</p> <p>- Action plans developed as required</p> <p>- Regular pattern of review and assessment of risks and operational environments</p> <p>- Where assessment identifies actions required these are discussed at SMT, some matters will be raised informally with Cabinet and/or Portfolio holder</p>	4	2	8	↔
<p>Change of political leadership</p> <p>(4)</p>	<p>- Review/revise corporate focus and priorities</p>	<p>- Potential for medium to long term disruption</p>	<p>- Ongoing review and assessment by individual members of SMT</p> <p>- Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements</p> <p>- Action plans developed as required</p> <p>- Regular pattern of review and assessment of risks and operational environments</p> <p>- Where assessment identifies actions required these are discussed at SMT, some matters will be raised informally with Cabinet and/or Portfolio holder</p>	2	3	6	↑

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX C

Risk	Opportunities	Consequences	Existing Internal Controls	Likelihood	Impact	Risk Rating	Direction
<p>Breach of legislation</p> <p>(5)</p>		<ul style="list-style-type: none"> - Legal action taken against RBC - Adverse publicity - Fines/prison sentences 	<ul style="list-style-type: none"> - Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Regular pattern of review and assessment of risks and operational environments - Where assessment identifies actions required these are discussed at SMT, some matters will be raised informally with Cabinet and/or Portfolio holder - Internal/external audit - Scrutiny - Departmental checks - Peer reviews 	2	3	6	↔
<p>Failure to deliver statutory requirements</p> <p>(6)</p>		<ul style="list-style-type: none"> - Legal action taken against RBC - Cost implication - Adverse publicity - Central Government censure 	<ul style="list-style-type: none"> - Ongoing review and assessment by individual members of SMT - Active horizon scanning of current and emerging circumstances which may affect assessment and/or judgements - Action plans developed as required - Regular pattern of review and assessment of risks and operational environments - Where assessment identifies actions required these are discussed at SMT, some matters will be raised informally with Cabinet and/or Portfolio holder - Internal/external audit - Scrutiny - Departmental checks - Peer reviews 	1	3	3	↔

MANAGING HIGH LEVEL STRATEGIC RISKS APPENDIX C

Once the Risk Assessment form has been completed, the Action Plan should then be completed

RUGBY BOROUGH COUNCIL RISK ACTION PLAN

This action plan is to be used when the risk assessment form has been completed.

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 (1)	- Constitutional updates to ensure that appropriate powers are delegated to officers	2	3	6	In progress	Lynne Rothwell	Mar 2017		Quarterly
6 (4)	- New Corporate Strategy to be in place by the start of the new Financial Year	2	3	6	In progress	Cllr Michael Stokes	Apr 2017		Monthly

STRATEGIC RISK MATRIX

LIKELIHOOD		
Almost certain	= Strong/very strong/inevitable possibility (over 75%)	Score 4
Possible	= Likely to occur (50% – 75%)	Score 3
Unlikely	= Slight chance/could occur (10% – 49%)	Score 2
Remote	= Almost impossible/only occurring in exceptional circumstances (Below 10%)	Score 1

IMPACT		
Extreme	= Financial loss over £1m, significant service disruption, disabling injury/death, adverse national media coverage, severe stakeholder concern	Score 4
Major	= Financial loss of between £250,000 and £1m, major service disruption, major injury, adverse regional media coverage, significant stakeholder concern	Score 3
Moderate	= Financial loss of between £50,000 and £250,000, moderate service disruption, loss time injury, local media coverage, more service user complaints, moderate stakeholder concern	Score 2
Minor	= Financial loss up to £50,000, short term inconvenience, minor injury, isolated user service complaints, stakeholder concerns	Score 1

Impact	Likelihood			
	4	M	H	H
3	L	M	H	H
2	L	M	M	H
1	L	L	L	M
	1	2	3	4

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	14 February 2017
<i>Report Title</i>	Fraud Response and Action Plans
<i>Portfolio</i>	Corporate Resources
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	Head of Corporate Resources and Chief Finance Officer
<i>Contact Officer</i>	Chris Green – Corporate Assurance and Improvement Manager Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because: The Committee has specific responsibility to review the Counter Fraud arrangements and the framework of policies and standards within which it operates
<i>Report En-Bloc</i>	No
<i>Forward Plan</i>	No
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards
<i>Summary</i>	The report sets out the proposed Fraud Response and Action Plans for consideration and approval
<i>Risk Management Implications</i>	Failure to adopt the Fraud Response and Action Plans would increase the likelihood that the Anti-Fraud, Bribery and Corruption Strategy fails to achieve its intended outcomes
<i>Financial Implications</i>	There are no financial implications arising directly from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.

Legal Implications

There are no legal implications arising from this report.

Equality and Diversity Implications

There are no direct equality and diversity implications arising from this report.

Recommendations

1. The Fraud Response Plan is approved.
2. The Counter Fraud Bribery and Corruption Action Plan is noted.

Reasons for Recommendation

Discharges the Committee's responsibilities under the Constitution.

Audit and Ethics Committee – 14 February 2017

Fraud Response and Action Plans

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. The Fraud Response Plan is approved.
2. The Counter Fraud Bribery and Corruption Action Plan is noted.

1. Report

- 1.1** The new Anti- Fraud Bribery and Corruption Strategy was endorsed by the Audit and Ethics Committee in May 2016, and approved by Cabinet in September 2016.
- 1.2** Rugby Borough Council is committed to the highest possible standards of openness, probity and accountability in all its affairs. It is determined to embed a culture of honesty and opposition to fraud, bribery and corruption.
- 1.3** The Fraud Response Plan reinforces the Council's robust approach and complements the existing strategy by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud, bribery or corruption. The Plan states what individuals should and should not do when fraud, bribery or corruption is suspected. It also outlines how the Council will deal with such allegations. Members are asked to approve the Fraud Response Plan, which is included at Appendix A. Once approved, the Plan will be added to the employee induction handbook and will be cascaded as part of planned staff awareness workshops. The Plan will be published on the Council website and staff will be provided with a link to the document within the extranet.
- 1.4** A Counter Fraud Bribery and Corruption Action Plan (enclosed at Appendix B) has also been developed. A number of further actions are planned to ensure that the Council continues to develop and embed a strong anti-fraud culture. Members are asked to note the Plan and the key actions are:
 - to assess the ongoing level of dedicated investigation resource required;
 - to deliver a programme of targeted anti-fraud, bribery and corruption awareness workshops;
 - to incorporate appropriate, proactive and reactive, counter fraud work within the Internal Audit Plan for 2017/18;
 - to review, update and publish a revised Confidential Reporting Code;
 - to review and update standard investigation working documents; and
 - submit an annual report setting out the progress made towards implementing the Strategy during 2016/17.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14 February 2017
Subject Matter: Fraud Response and Action Plans
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	14 February 2017	Fraud Response Plan		
Appendix B	14 February 2017	Counter Fraud Bribery and Corruption Action Plan		



**FRAUD, BRIBERY AND
CORRUPTION RESPONSE PLAN
FEBRUARY 2017**

FRAUD BRIBERY AND CORRUPTION RESPONSE PLAN

1. INTRODUCTION

- 1.1 Rugby Borough Council is committed to the highest possible standards of openness, probity and accountability in all its affairs. It is determined to embed a culture of honesty and opposition to fraud, bribery and corruption.
- 1.2 In line with that commitment, the Council's Anti-Fraud, Bribery and Corruption strategy outlines the principles to which we are committed in relation to preventing, reporting and managing fraud, bribery and corruption.
- 1.3 This Fraud Response Plan reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud, bribery or corruption. It also outlines how the Council will deal with such allegations.

2. DEFINITION OF FRAUD, BRIBERY AND CORRUPTION

- 2.1 Fraud is defined as any intentional act or omission taken by an individual, group or organisation, which is designed to deceive, and which facilitates a dishonest gain at the expense of (or loss to) the Council, the residents of the Rugby Borough, or the wider national community. Fraud can include:
 - Fraud by false representation;
 - Fraud by failing to disclose information; and
 - Fraud by abuse of position.
- 2.2 Fraud by false representation occurs where a person makes any representation as to fact or law, express or implied, which they know to be untrue or misleading.
- 2.3 Fraud by failing to disclose information occurs where a person fails to disclose any information to a third party when they are under a legal duty to disclose such information.
- 2.4 Fraud by abuse of position occurs where a person occupies a position where they are expected to safeguard the financial interests of another person, and abuses that position. This includes cases where the abuse consists of an omission rather than an overt act.
- 2.5 Corruption is defined as an act done with the intent to give some advantage which is inconsistent with a public servant's official duty and the rights of others. In the public sector it can also be defined as abuse of power by a public official for private gain. Forms of corruption vary but include bribery, extortion, nepotism, cronyism and embezzlement.

3. WHAT SHOULD YOU DO IF YOU SUSPECT FRAUD, BRIBERY OR CORRUPTION?

- 3.1 The methods for reporting suspected fraud, bribery and corruption are laid out below. Advice and guidance can be obtained from the Corporate Assurance and Improvement Manager on 01788 533451 if you are in any doubt about the seriousness of your concern.

FRAUD BRIBERY AND CORRUPTION RESPONSE PLAN

3.2 What should an employee do if they suspect fraud, bribery or corruption?

Employees, partners, the public and contractors are often the first to realise that there is something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. Employees, partners, the public and contractors should be aware that if there is a suspicion of fraud then they are obliged to report it.

3.3 The Council's Confidential Reporting Code is intended to encourage and enable staff to raise serious concerns within the Council rather than overlooking a problem, informing the media or other external bodies. The Code has been discussed with the relevant trade unions and has their support. A full copy of the Confidential Reporting Code can be obtained from the Council web-site.

3.4 In essence, employees should raise their concerns with their line manager or supervisor, who will in turn inform the Corporate Assurance and Improvement Manager. Under the terms of the policy staff can alternatively contact their Head of Service, the Executive Director, the Monitoring Officer, or a number of prescribed external bodies directly as listed in the policy.

3.5 Should a member of staff choose to report their concerns anonymously their anonymity will be respected as far as possible although it cannot be guaranteed. The Public Interest Disclosure Act provides protection to staff and contractors making such disclosures where they have a genuine concern.

3.6 The individual making reporting the concern (or their line manager) must not do any of the following:

- **Do not** contact the suspected perpetrator in an effort to determine facts or demand restitution.
- **Do not** discuss the case facts, suspicions, or allegations with anyone.
- **Do not** attempt to personally conduct investigations or interviews or question anyone.

3.7 What should a manager do when suspected fraud, bribery or corruption is reported to them?

- **Do** listen to the concerns of the individual reporting the concern and treat every report you receive seriously and sensitively. Record the key points of the issue sufficiently to pass on to the Corporate Assurance and Improvement Manager.
- **Do** reassure the individual that is reporting the concern that they will not suffer because they have told you of their suspicions.
- If the person reporting the concern provides evidence that supports the allegation then **do** make sure it is kept in a safe place and cannot be interfered with. **Do not** go looking for, or collecting additional evidence.
- **Do** contact the Corporate Assurance and Improvement Manager immediately following discussion with the individual reporting the concern and pass on any information you have including the record of the concern raised.

FRAUD BRIBERY AND CORRUPTION RESPONSE PLAN

- **Do not** try to carry out an investigation yourself (including speaking to the person the allegation has been made against). This may compromise the internal investigation or any criminal enquiry.
- **Do not** divulge anything to the individual that the allegation is against.
- Should the Corporate Assurance and Improvement Manager require any further assistance they will be in touch.

3.8 What should Human Resources do if they suspect fraud, bribery or corruption?

Issues concerning staff performance or behaviour are investigated under the Council's disciplinary procedures by managers in partnership with Human Resources. If the relevant Human Resources Officer or manager suspects that an issue involves potential fraud, bribery or corruption then the HR Manager should be informed immediately. The HR Manager will then alert the Corporate Assurance and Improvement Manager, who will in turn inform the Head of Corporate Resources and Chief Finance Officer. The Corporate Assurance and Improvement Manager will assess whether the nature of the allegations fall within the scope of the Fraud Response Plan. For example, irregularities on timesheets or travel and subsistence claims are potentially fraudulent acts.

Similarly once an investigation begins, should fraud, bribery and corruption issues emerge, the Corporate Assurance and Improvement Manager should be contacted as soon as possible for advice on how to proceed. Interviews should only take place once this advice has been received (which may include an agreement on which issues should proceed and others which should not) to ensure, as far as possible, that any evidence collected will not adversely impact any potential criminal investigation.

3.9 What should Auditors do if they suspect fraud, bribery or corruption?

If an Auditor in the course of his or her duties suspects fraud, bribery or corruption they should cease work on the assignment immediately, and report the matter to the Corporate Assurance and Improvement Manager.

3.10 What should a member of staff handling a complaint do if they suspect fraud, bribery or corruption?

Any suspicions of irregularity that may be included in a complaint or comment should be referred to the Corporate Assurance and Improvement Manager immediately upon receipt. Allegations of fraud, bribery and corruption should be treated through this procedure rather than through the corporate complaints procedure as the timetable for investigating and reporting on complaints does not apply to complaints of financial misconduct.

3.11 What should a member of the public, a partner or a contractor do if they suspect fraud or corruption?

The Council encourages members of the public, partners or contractors to contact the Council should they suspect fraud or corruption.

FRAUD BRIBERY AND CORRUPTION RESPONSE PLAN

If the matter relates to a Councillor, Council employee or an individual working on behalf of the Council including agency workers and contractors, a referral can be made directly to the Corporate Assurance and Improvement Manager on 01788 533451, by email (chris.green@rugby.gov.uk), or by writing to:

The Corporate Assurance and Improvement Manager
Rugby Borough Council
Evreux Way
Rugby
CV21 2RR

Allegations of benefit fraud can be made online at: www.gov.uk/report-benefit-fraud or via the National Benefit Fraud Hotline (NBFH) on 0800 854440. Alternatively allegations of benefit fraud can be made in writing to:

NBFH
PO Box 224
Preston
PR1 1GP

3.12 Alternative Methods of reporting fraud, bribery and corruption

- Councillors – for those living within the Rugby Borough Council boundary, reports may be made to Councillors who will then report the concern to the Executive Director, the Monitoring Officer and/or the Leader.
- Trade Union Representatives – employees may invite their Trade Union to raise a matter on their behalf. The union representative would then follow the employee process for onward reporting as detailed above.
- The Police – suspicions of fraud, bribery or corruption may be reported directly to the police. The Council will fully support any resulting police investigation.
- The Local Government Ombudsman – this is an independent body set up by the Government to deal with complaints against Councils in the United Kingdom. The Ombudsman will raise any concerns via the Council's legal department.
- Public Concern at Work – this is a charity which provides free and strictly confidential legal help to anyone concerned about a malpractice which threatens the public interest. They operate a helpline on 020 7404 6609 or can be emailed at whistle@pcaw.org.uk

3.13 How will the Council deal with allegations of fraud or corruption?

The Council will deal with any allegation of fraud in the most appropriate manner depending on the circumstances of the case. This may include following the complaints process, the disciplinary process and/ or a criminal investigation process. All investigations will be conducted in accordance with the relevant Council policies and procedures and where appropriate criminal legislation.

In the first instance a suitably trained impartial investigator will be appointed. They will conduct a preliminary investigation and report (verbally or in writing) to the relevant Head of Service/Executive Director, who in conjunction with Human

FRAUD BRIBERY AND CORRUPTION RESPONSE PLAN

Resources will decide on the most appropriate process to follow. Options at this stage may include:

- not progressing the investigation any further,
- identification and rectification of system weaknesses, and/or
- further investigation (disciplinary and/ or criminal).

The Council acknowledges that those people who reported the alleged fraud or corruption need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, they will receive appropriate information about how the matter is being addressed and the final outcome.

All interviews with staff will be conducted in line with the Council's disciplinary procedures. If there is a possibility that the investigation could lead to a criminal prosecution then any interviews will be conducted by a suitably trained Council officer. This may mean that disciplinary interviews need to be conducted by a trained fraud investigator (i.e. an investigator trained in the Police and Criminal Evidence Act 1984 Code of Practice).

Once the investigation has been completed, a report will be prepared which states the facts discovered by the investigation. A recommendation will be made as to the appropriate course of action to be followed. This can include a disciplinary hearing, criminal proceedings or no further action.

4. FOLLOW UP

- 4.1 The Council will seek to recover any financial loss through the appropriate mechanism. This may involve either civil or criminal proceedings where it is in the public interest to do so.
- 4.2 Investigations may identify weaknesses in the Council's system of internal controls. Risk assessments will be carried out where weaknesses in the system of internal control are identified. In these circumstances a report will be issued which sets out recommendations for how the controls can be improved to prevent any recurrence of fraud, bribery or corruption. The recommendations for improvement will be incorporated within an action plan. Delivery of the action plan will then be monitored by the Corporate Assurance and Improvement team. The results of investigations will be used to inform the annual internal audit plan.
- 4.3 The Audit and Ethics Committee will receive a verbal update on allegations received, and investigation work carried out, at each Committee meeting. An annual report on the outcomes of investigations will also be reported to the Audit and Ethics Committee; this report will be published.

COUNTER FRAUD, BRIBERY AND CORRUPTION ACTION PLAN

No.	ACTION	LEAD OFFICER	IMPLEMENTATION DATE
1	Identify record and evaluate the Council's fraud, bribery and corruption risks.	Corporate Assurance and Improvement Manager	Complete
2	Monitor delivery of the actions arising from the fraud risk reviews.	Corporate Assurance and Improvement Team	Ongoing
3	Assess the level of dedicated investigatory resource required to fully support the Counter Fraud, Bribery and Corruption Strategy and the Fraud Response Plan. Consider whether additional officer training is required to meet the Council's needs.	Head of Corporate Resources and Chief Finance Officer	March 2017
4	Deliver a programme of targeted fraud, bribery and corruption awareness workshops to officers and members.	Corporate Assurance and Improvement Manager	March 2017 and ongoing programme thereafter
5	Consider and incorporate appropriate, proactive and reactive, counter fraud work within the Internal Audit Plan for 2017/18.	Corporate Assurance and Improvement Manager	March 2017
6	Develop a Fraud Response Plan to complement the Strategy, setting out the ways in which employees or members of the public can voice their concerns about suspected fraud, bribery or corruption. The Plan will also outline how the Council will deal with such allegations.	Corporate Assurance and Improvement Manager	Draft document prepared in December 2016. Agreement and publication expected by March 2017.
7	Review, update and publish a revised Confidential Reporting Code.	Corporate Assurance and Improvement Manager/ Monitoring Officer	June 2017

No.	ACTION	LEAD OFFICER	IMPLEMENTATION DATE
8	Review and update standard investigation working documents covering referral recording, reporting, investigation event logs, and details of the documents recovered for the purposes of the investigation.	Corporate Assurance and Improvement Manager	April 2017
9	Prepare and submit an annual report setting out the Council's achievements against the Strategy's desired outcomes, details of the cases arising during the financial year, and the actions taken to minimise future cases of fraud and corruption.	Corporate Assurance and Improvement Manager	May 2017

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	14 February 2017
<i>Report Title</i>	Internal Audit Improvement Plan – Progress Update
<i>Portfolio</i>	Corporate Resources
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	Head of Corporate Resources and Chief Finance Officer
<i>Contact Officer</i>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because the Committee has specific responsibility to review the work of the internal audit function.
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards
<i>Summary</i>	The report sets out the progress made in delivering the improvement plan for the Internal Audit service. The improvement plan is required by the Public Sector Internal Audit Standards.
<i>Risk Management Implications</i>	If the Internal Audit service does not continually improve then the value added by the service will be compromised.
<i>Financial Implications</i>	Failure to continually improve the Internal Audit service may compromise the effective use of resources, and may result in additional unavoidable expenditure.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report. Internal Audit is a statutory function as detailed in the Audit and Accounts Regulations 2014 (England), and Section 151 of the Local Government Act 1972.
<i>Equality and Diversity</i>	There are no equality and diversity implications arising from this report.

Options

None

Recommendations

The Internal Audit Improvement Plan and Progress Update be considered and noted.

The updated Roles and Responsibility Statement be approved.

Reasons for Recommendation

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

Audit and Ethics Committee – 14 February 2017

Internal Audit Improvement Plan – Progress Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. The Internal Audit Improvement Plan and Progress Update be considered and noted.
2. The updated Roles and Responsibility Statement be approved.

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The PSIAS have been endorsed by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA is recognised as the standard setter for local government in the UK and, as such, the PSIAS are mandatory.
- 1.2 The PSIAS require the “Chief Audit Executive” to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity.

2. Report Details

- 2.1 The Internal Audit Improvement Plan was considered and approved by the Audit and Ethics Committee at its meeting on 2 February 2016. The Committee resolved that regular updates on the progress of the Internal Audit Service Improvement Plan be presented to the committee until completed. Accordingly, this report sets out the progress achieved to date.
- 2.2 Delivery of the Improvement Plan remains on track. All actions are either complete or in progress.
- 2.3 Appendix A sets out the progress on delivery of the Improvement Plan in detail. Since the last meeting the Audit Manual has been reviewed and updated, and forwarded to the Head of Corporate Resources and Chief Finance Officer for assurance purposes. Review of the Audit Manual highlighted that the statement setting out the respective roles and responsibilities of Internal Audit and Management required updating. The Committee is asked to approve the updated Roles and Responsibility Statement, which is enclosed in Appendix B.
- 2.4 In accordance with the Improvement Plan, the risks identified, and actions arising from internal audits are now recorded through the Rugby Performance Management System (RPMS). The results of audits are used to update risk registers.

2.5 Delivery of the Plan will remain the responsibility of the Corporate Assurance and Improvement Manager, monitored by the Head of Corporate Resources, with progress regularly reported to the Senior Management Team and the Audit and Ethics Committee. The Improvement Plan is not viewed as a one off exercise, but rather a live process of continual improvement. Once the external assessment has been completed in June 2017, the Improvement Plan will be reviewed and updated for consideration by the Committee in September 2017.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14 February 2017
Subject Matter: Quality Assurance and Improvement Plan
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	14 February 2017	Internal Audit Improvement Plan – Progress Update		
Appendix B	14 February 2017	Roles and Responsibility Statement		

APPENDIX A - INTERNAL AUDIT SERVICE QUALITY ASSURANCE AND IMPROVEMENT PLAN

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
1	1130	There is currently no agreed mechanism through which the Audit and Ethics Committee approves, in between Committee meetings, any significant additional consultancy activity, and prior to such activities being undertaken.	Draft a report setting out proposed arrangements for the agreement of any significant changes to the Internal Audit plan, which become necessary in between Committee meetings. Obtain approval from the Audit and Ethics Committee.	12/04/2016	MEDIUM	Action Completed Proposed mechanism approved by the Audit and Ethics Committee on 11 May 2016.
2	1220	When planning assignments, there is limited consideration of the adequacy and effectiveness of the design of control processes, and of the cost of assurance in relation to the potential benefit.	All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes. The standard "Audit Brief" document will be redesigned to reflect the new audit approach.	31/03/2016	HIGH	Action Completed The standard "Audit Brief" document has been redesigned to incorporate a risk based evaluation of both the design and effectiveness of control processes.
3	1310	There is no Internal Audit Improvement Plan in place.	Not Applicable – requirements addressed through development and implementation of this Improvement Plan.	To be aligned with final completion date.	HIGH	Action in Progress Delivery of the Improvement Plan is in progress.
4	1311	Formal performance monitoring of the internal audit service is currently limited.	Formalise and agree arrangements for Internal Audit performance monitoring and reporting, including Key Performance Indicators (KPIs), with senior management and the Audit and Ethics Committee.	30/04/2016	MEDIUM	Action Completed Arrangements for ongoing performance monitoring and reporting were discussed and agreed with the Leadership and Operations Team

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						on 22 March 2016. Proposed Key Performance Indicators (KPI's) were presented to and approved by Audit and Ethics Committee on 11 May 2016.
5	1311	The results of customer satisfaction surveys are not currently summarised for senior management or the Audit and Ethics Committee.	Internal Audit performance reporting to management and Committee will include a summary of customer satisfaction and details of any constructive feedback on the service. The Customer Satisfaction Questionnaire will be redesigned to maximise the response rate, and to ensure it is aligned with clients' needs and expectations of the service.	30/04/2016	MEDIUM	Action Completed The questionnaire has been redesigned and approved by the Leadership Team and the Audit and Ethics Committee. Performance reporting will include a summary of customer feedback.
6	1312	An external assessment of the service has not yet been carried out by a qualified assessor. Such an assessment is required every five years. The Standards came into effect on 1 April 2013 and an external assessment must therefore be conducted by 31 March 2018.	Ensure that an external assessment of the internal audit service is completed once the Improvement Plan has been implemented and embedded. Suggested timescale 30/06/2017.	30/06/2017	LOW	Action in Progress The external assessment will be completed by Tilia Solutions, and has been scheduled for w/c 12 June 2017
7	1320	A Quality Assurance and Improvement Programme is not in place, and progress on delivery of an improvement plan has not previously been included in the Annual Report of Internal Audit in	Improvement Programme requirements will be addressed through development and implementation of this Improvement Plan. Formalise and agree reporting	To be aligned with the final completion date.	HIGH	Action Completed Reporting arrangements were agreed by the Senior Management Team on

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		accordance with the standards.	arrangements with the Senior Management Team. Update the Audit Manual to reflect the agreed arrangements. Incorporate progress on delivery of the Improvement Plan within the Annual Report of Internal Audit.			22 March 2016. Progress on delivery of the Improvement Plan was incorporated within the Annual Report of Internal Audit, which was presented to the Audit and Ethics Committee on 28 June 2016. The Audit Manual has been updated and Senior Management will receive Internal Audit progress reports at least twice per year.
8	2010	The annual audit plan is developed based upon a review of the Council's risks and objectives, in consultation with senior management. Audit assignments themselves, however, are not consistently conducted by applying a risk based audit methodology. Audit reviews currently focus on control compliance, rather than the design and operation of controls to mitigate identified risks.	<p>All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes.</p> <p>The standard "Audit Brief" document will be redesigned to reflect the new audit approach.</p> <p>Audit work programmes will be redesigned to incorporate an evaluation of both the design and effectiveness of control processes.</p> <p>Internal Audit reports will be redesigned to include an opinion on both the design and effectiveness of controls, and the level of risk exposure.</p>	31/03/2016	HIGH	<p>Action Completed</p> <p>The annual audit plan has been developed in line with the new risk based methodology, approved by the Audit and Ethics Committee on 2 February 2016. Audit briefs, work programmes and reports have been redesigned in line with the new methodology.</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
9	2030	Internal Audit resources. One Auditor position is currently vacant.	Internal Audit resources will be reviewed by the management team to establish ongoing service needs, to ensure that resources are appropriate, efficient and effectively employed. Such a review will include consideration of the mix of knowledge, skills and other competencies required to deliver the risk based audit plans. Any issues which cause an adverse impact on the annual audit opinion will be raised in the Annual Internal Audit Report.	30/06/2016	HIGH	Action Completed Resource requirements have been reviewed. The Corporate Assurance and Improvement Manager is confident that the proposed internal audit plan can be delivered with support from other services where required, without the need to recruit to the vacant position.
10	2040	Audit Manual, Audit Charter and operational procedures.	Review and update the Audit Manual, Audit Charter and procedural documentation to reflect changes to the audit methodology and working practices implemented as part of the Improvement Plan.	31/10/2016	LOW	Action Completed An updated Audit Charter has been submitted to the Audit & Ethics Committee for review and approval on 13/09/2016. The Audit Manual has been reviewed and updated.
11	2050	The current audit plan does not outline the approach to using other sources of assurance, or the level of work required to place reliance upon those other sources.	In developing future annual internal audit plans, other sources of assurance will be considered and shared to ensure both appropriate coverage, and minimisation of any duplication of effort. Where reliance is placed on other sources of assurance, this will be stated explicitly.	30/04/2016	MEDIUM	Action Completed Other sources of assurance have been considered as the internal audit plan has been developed. The Corporate Assurance Manager is confident

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						that there is no duplication of effort within the proposed internal audit plan. Reliance is not currently being placed on other sources of assurance.
12	2060	<p>Reporting to Senior Management and the Audit and Ethics Committee.</p> <p>The Corporate Assurance Manager now reports directly to the Head of Resources (s151 officer) with effect from December 2015. Progress reports are presented at every meeting of the Audit and Ethics Committee; details of the assurance ratings are provided, with a specific focus on any assignments resulting in less than a Moderate Assurance opinion.</p>	Review and update the content and frequency of internal audit progress and performance reports, based upon the needs of senior management and members.	30/04/2016	MEDIUM	<p>Action Completed</p> <p>The content and frequency of reporting to senior management was agreed with the Leadership Team on 22 March 2016. The content of internal audit reports to members has been updated, and will be amended further to incorporate the results of customer feedback.</p>
13	2110	Linkages between internal audit and the risk management system.	Ensure that significant risks and control issues highlighted during audits are recorded and managed through the risk management system.	30/09/2016	MEDIUM	<p>Action Completed</p> <p>Audit reports have been redesigned to demonstrate the linkages between internal audit and risk management. Risks identified, and actions arising from internal</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						audits are now recorded through the Rugby Performance Management System (RPMS). The results of audits are used to update risk registers.
14	2130	Audit reports provide a clear statement of the level of compliance with the controls reviewed during the course of the assignment. Audits do not currently evaluate the effectiveness and efficiency of controls.	Redesign Internal Audit reports to include an opinion on both the design and effectiveness of controls, and the level of risk exposure.	31/03/2016	HIGH	Action Completed Audit reports have been redesigned to include opinions on both the design and effectiveness of controls, and the level of risk exposure.
15	2201	Audit briefs do not currently include the objectives of the area being reviewed. Risks to achievement of objectives are not consistently considered and, where they are, this relates only to the risks identified by management rather than any risks identified by internal audit. This limits the ability of the service to identify significant improvements and also the ability to ensure the service is meeting the Council's overall aims and objectives.	All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes. The standard "Audit Brief" document will be redesigned to include: <ul style="list-style-type: none"> • The objectives of the area being reviewed; • The assurance to be provided; • The scope and limitations of the assignment; and • Assessment of the significant risks to achievement of objectives and the means by which the potential impact of risk is kept to an acceptable level. 	31/03/2016	HIGH	Action Completed Addressed through the review and redesign of Audit Briefs, work programmes and audit reports.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
			<p>Where relevant, all assignments will incorporate consideration of value for money.</p> <p>Assignments will not commence unless and until the relevant “sponsoring” client manager has agreed the terms for the assignment.</p>			
16	2210	Preliminary risk assessments are not consistently completed and, where they are, relate only to the risks identified by management. Internal audit reviews do not currently incorporate consideration of value for money. Assignment objectives are currently generic in nature.	Refer to Action 15	31/03/2016	HIGH	<p>Action Completed</p> <p>Refer to Action 15</p>
17	2220	Audit briefs do not clearly specify the scope, and limitations, of assignments. This increases the risk that assignments do not meet the expectations of clients. Furthermore, there is an increased risk that resources may not be deployed in the most efficient and effective manner, for example by completing more work than is necessary, or by failing to address key risks.	Refer to Action 15	31/03/2016	HIGH	<p>Action Completed</p> <p>Refer to Action 15</p>
18	2230	Audit briefs state the number of days allocated to each assignment, although this is not currently based upon any consideration of assignment	Ensure that the number of days allocated to each audit assignment is based upon an evaluation of the objectives, scope, complexity, and risks related to the area being reviewed.	31/03/2016	MEDIUM	<p>Action Completed</p> <p>The number of days allocated to each assignment has taken</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		objectives, scope and limitations.				into account an initial assessment of the objectives, scope, complexity and risks related to each area being reviewed.
19	2320	Clearance meetings are not consistently held with clients to discuss findings and the basis for conclusions, to provide the opportunity to confirm the accuracy of findings, and to avoid surprises when draft reports are issued.	Draft internal audit reports will only be issued once the draft findings and recommendations have been discussed with the relevant manager/s.	31/01/2016	MEDIUM	Action Completed Draft internal audit reports are now only issued once the draft findings and recommendations have been discussed with the relevant manager/s.
20	2340	Supervision meetings have not consistently been held to discuss the progress being made with each assignment, issues encountered, workload and immediate priorities. Arrangements for review of any audit work conducted by the Corporate Assurance Manager are yet to be determined.	Staff supervision discussions will take place at least once per month, and whenever required. Local government peers will be consulted, to establish how the work of the "Chief Audit Executive" is quality assured by other authorities. Following this exercise, a practical solution will be implemented.	31/01/2016 30/06/2016	MEDIUM	Action Completed Staff supervision discussions are completed at least once per month with effect from December 2015, and more frequently on an informal basis. Action Completed The Corporate Assurance and Improvement Manager has consulted with local peers. This established that our peer authorities

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						have not implemented any specific arrangements for quality assuring work carried out by the "Chief Audit Executive". The Corporate Assurance and Improvement Manager (CAIM) will not conduct any assurance assignments in isolation. Assurance work conducted by the CAM will be subject to a Quality Assurance review within the team prior to finalisation.
21	2420	Quality of communications. Whilst reports are concise, they focus on areas of non-compliance and are therefore not appropriately balanced. Constructive communications are helpful to the engagement of the client and the organisation, and are more likely to lead to improvements being made. Reports are not sufficiently detailed; they do not include details of all significant and relevant information and observations to support the recommendations and conclusions.	<p>Audit reports will be redesigned to include:</p> <ul style="list-style-type: none"> • A constructive Executive Summary which sets out the areas in which assurance can be provided, alongside the opportunities for improvement; and • A summary of all significant findings and observations, sufficient to enable the reader to understand the recommendations and conclusions reached. 	31/03/2016	HIGH	<p>Action Completed</p> <p>This action has been implemented through the review and redesign of internal audit reports.</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
22	2440	Ongoing arrangements for reporting the results of assignments to members are yet to be agreed.	Members will be consulted and, following this, internal audit reports will be shared with members as agreed.	30/04/2016	MEDIUM	Action Completed Consultation with members of the Audit and Ethics Committee was completed on 11 May 2016. Current reporting arrangements are regarded as appropriate.
23	N/A	Corporate Assurance staff training	Deliver briefing to audit staff explaining changes to the working methodology; new reporting arrangements; and ongoing arrangements to support staff.	31/03/2016	HIGH	Action Completed Changes in working methodology have been explained to staff. Some time has been utilised during the first quarter of 2016/17 to embed the new working methodology.
24	N/A	Management engagement and buy in.	Deliver presentations to the Senior Management Team, and the wider management team, setting out the proposed changes in the way that audit assignments are to be planned, conducted and reported, and how this will benefit the Authority.	31/03/2016	HIGH	Action Completed Presentation delivered to the Senior Management Team on 22 March 2016. A presentation was delivered to the wider management team at the Corporate Management Forum meeting on 20 April 2016.

INTERNAL AUDIT
ROLE AND RESPONSIBILITY STATEMENT

The mission of internal audit is to enhance and protect Rugby Borough Council's organisational value by providing risk-based and objective assurance, advice and insight.

ROLE OF INTERNAL AUDIT

1. INTRODUCTION

Section 5 of the Accounts and Audit Regulations 2014 requires a local authority to undertake an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance.

In addition, The Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Rugby Borough Council, the Head of Corporate Resources and Chief Finance Officer is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an 'adequate and effective internal audit service'.

Internal Audit is defined by the Public Sector Internal Audit Standards 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.'

Internal Audit supports and assists the Council's managers **as they discharge their responsibilities** for the proper administration of Council: this is the s151 role. This involves the provision of accurate and appropriate information to the Senior Management Team and Members on the effectiveness of both financial and non-financial controls.

The s151 Role will be met by:

- delivering a comprehensive risk based internal audit service;
- promoting and maintaining standards of probity, financial awareness and financial administration; and
- providing advice and assistance to managers and other employees.

Internal Audit will discharge its s151 role in a balanced and objective manner that reflects the essential independence of the auditor from direct responsibility for the quality of the Council's financial administration. It is the responsibility of the Corporate Assurance and Improvement Manager to determine the allocation of available audit resources on the basis of his evaluation of audit priorities and to account to the Head of Corporate Resources and Chief Finance Officer, and the Executive Director, for the outcome of his decisions.

2. THE RESPECTIVE SECTION 151 RESPONSIBILITIES OF INTERNAL AUDIT AND MANAGEMENT

CONDUCT OF INTERNAL AUDITS

Internal Audit is responsible for delivering a comprehensive and independent risk based appraisal of the Council's system of internal control. The scope of that appraisal extends to the:

- reliability and integrity of information used for management purposes;
- systems established to ensure compliance with internal policies and procedures and externally imposed regulations;
- means of safeguarding the Council's assets;
- economy, efficiency, effectiveness and equity of resource utilisation; and
- review of operations and programmes to determine their consistency with the policies and goals of the Council.

Internal Audit is responsible for reporting to management any opportunities for improvement in systems of control and for recommending how improvements might be achieved. ***It is the responsibility of Management to ensure that audit recommendations receive appropriate consideration, that they are formally responded to and that, where recommendations have been agreed, they are implemented in a timely and effective manner.***

PROMOTION OF STANDARDS

Internal Audit is responsible for:

- advising on any changes to Standing Orders or Financial Regulations, which may be identified by the internal audit process; and
- providing advice, if sought, on the drafting of procedural instructions that determine the effectiveness of financial and/or operational control over Council services/activities.

It is the responsibility of a manager seeking to draft new, or amend existing, procedural instructions that impact upon financial/operational controls to liaise with Internal Audit.

ADVICE AND ASSISTANCE

Internal Audit is responsible for responding in a timely and appropriate manner to requests for advice and assistance on matters of:

- fraud or suspected fraud;
- probity;
- internal control; and
- financial administration.

In considering requests for assistance, Internal Audit will take account of the need to promote a culture in which employees look, in the first instance, to their departmental managers for guidance on the proper conduct of their duties.

Where requests for advice and assistance highlight material issues of probity or internal control, Internal Audit has a responsibility to draw those matters to the attention of the relevant managers. ***It is for those managers to determine the appropriate response to such information but if the Corporate Assurance and Improvement Manager considers that a response is inappropriate or inadequate he has a responsibility to report, ultimately, to the Head of Corporate Resources and Chief Finance Officer (Section 151 officer) and/or the Monitoring Officer.***

3. MEASURES OF THE PERFORMANCE OF INTERNAL AUDIT

The effectiveness with which Internal Audit discharges its section 151 responsibilities will be measured by the following indicators, as agreed by the Audit and Ethics Committee in May 2016:

<u>Theme</u>	<u>Title of Performance Indicator</u>	<u>Reporting Frequency</u>
Delivery	Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017	Annual
Adding Value	Customer Satisfaction	Quarterly
Timeliness	Timeliness of Reporting – Percentage of draft reports issued within 10 working days of assignment fieldwork completion	Quarterly
Effectiveness	Implementation of Agreed Actions – Percentage either fully or partially implemented on time	Quarterly

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	14 February 2017
<i>Report Title</i>	Development of Internal Audit Plan for 2017/18
<i>Portfolio</i>	Corporate Resources
<i>Ward Relevance</i>	None
<i>Prior Consultation</i>	Head of Corporate Resources and Chief Finance Officer
<i>Contact Officer</i>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<i>Report Subject to Call-in</i>	This report is not subject to Call-In because the Committee has specific responsibility to review the work of the internal audit function.
<i>Report En-Bloc</i>	No
<i>Forward Plan</i>	No
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards
<i>Summary</i>	The report sets out the proposed arrangements for developing the internal audit plan for 2017/18
<i>Risk Management Implications</i>	If the Audit Plan does not cover the key risks to the Council the assurance that it can provide about the Council's control framework would be compromised.
<i>Financial Implications</i>	There are no financial implications arising directly from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report. Internal Audit is a statutory function as detailed in the Audit and Accounts Regulations 2014 (England), and Section 151 of the Local Government Act 1972.

Recommendations

1. The process for developing the internal audit plan for 2017/18 is approved.
2. Members consider areas in which they require assurances from Internal Audit during 2017/18.

Reasons for Recommendation

Discharges the Committee's responsibilities under the Constitution.

Audit and Ethics Committee – 14 February 2017

Development of the Internal Audit Plan for 2017/18

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. The process for developing the internal audit plan for 2017/18 is approved.
2. Members consider areas in which they require assurances from Internal Audit during 2017/18.

1. Introduction

1.1 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 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.

1.2 The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Head of Corporate Resources/Chief Finance Officer 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. Report Details

Public Sector Internal Audit Standards

2.1 In setting the Internal Audit Plan, the Public Sector Internal Audit Standards (the Standards) require that:

- The Internal Audit Plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with senior management and the Audit and Ethics Committee;
- The Internal Audit Plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead;

- The “Chief Audit Executive” should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organisation’s operations. Accepted engagements must be included in the plan.

Proposed Approach to Developing the Internal Audit Plan

- 2.2 In order to ensure the Internal Audit Plan for 2017/18 addresses the Council’s key strategic and operational risks and adds value to the organisation, it is proposed that the Corporate Assurance and Improvement Manager will identify and prioritise areas for coverage by reviewing sources such as:
- Strategic and Operational Risk Registers
 - Corporate Strategy
 - Financial Statements
 - Service Plans
 - Project Registers
 - Contract and Partnership Registers
- 2.3 Any other sources of assurance for each of the Council’s key risks, which may reduce the added value of an Internal Audit review and where work could be aligned with other assurance providers.
- 2.4 Coverage of Internal Audit reviews over the last four years will be reviewed together with the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value.
- 2.5 Identifying any areas of the Audit Universe (the gross list of potential areas for audit review across the Council) which have not been subject to Internal Audit review during the last four years, and for which the level of risk is considered to be medium or higher.
- 2.6 There will be consultation with the Audit and Ethics Committee to discuss the planning process and areas where Members require assurances from Internal Audit during 2017/18. Members are encouraged to provide input to development of the internal audit plan by highlighting areas which they consider to be high risk. This input may be provided at the Committee meeting; alternatively members are welcome to contact the Corporate Assurance and Improvement Manager before March 7th 2017.
- 2.7 The Audit Universe will be reviewed and updated to reflect any additional areas identified during the annual audit planning process, and to reflect where audits have been carried out during 2016/17.
- 2.8 Stakeholder meetings with each member of the Senior Management Team (SMT) will take place during February 2017. The Audit Universe will form a basis for the stakeholder discussions; in addition there will be a discussion of key risks and emerging risks for the year ahead, and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role.
- 2.9 Following the stakeholder meetings, the planned audit coverage for 2017/18 will be refined and prioritised.

2.10 The proposed Internal Audit Plan will then be presented to SMT for approval in March 2017, and members will be asked to approve the Plan at the next Audit and Ethics Committee meeting on April 4th 2017.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 14 February 2017
Subject Matter: Development of Internal Audit Plan for 2017/18
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.