

26 April 2016

AUDIT AND ETHICS COMMITTEE – 11 MAY 2016

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Wednesday 11 May 2016 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 2 February 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. Anti-Fraud, Bribery and Corruption Strategy
5. Risk Management Strategy
6. Internal Audit Improvement Plan Progress Update
7. 2015/16 Internal Audit Plan Progress Update
8. 2016/17 Internal Audit Plan
9. Treasury Management
10. Statement of Accounts 2015/16 – Accounting Policies
11. Informing the Audit Risk Assessment for Rugby Borough Council
12. Draft External Audit Plan 2015/16
13. Certification of Grants and Returns – Annual Report 2014/15
14. 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 and 2 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

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

Any additional papers 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, Mrs Nash and Mrs O'Rourke

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic and Scrutiny Services Officer (01788 533523 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 and Scrutiny Services Officer named above.

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Anti-Fraud, Bribery and Corruption Strategy
<i>Portfolio</i>	Not portfolio specific
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Head of Resources, Head of Business Transformation, Monitoring Officer, Legal Services Manager, Corporate Assurance Manager
<i>Contact Officer</i>	Chris Green, Corporate Assurance 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>Statutory/Policy Background</i>	Not applicable
<i>Summary</i>	The Council introduced its previous Counter Fraud Strategy in 2007. The previous strategy was focussed primarily on how the Council tackles benefit fraud, whilst the new proposed strategy sets out the Council's approach to managing the risk of fraud, bribery and corruption at the corporate level.
<i>Risk Management Implications</i>	If the Audit and Ethics Committee does not endorse the strategy, the Council will not have a clear approach to managing the risk of fraud, bribery and corruption. This would increase the risk of financial loss and reputational damage.
<i>Financial Implications</i>	There are no direct financial implications arising from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Legal Implications</i>	There are no direct legal implications arising from this report.

Recommendations

That the Committee recommends the Anti-Fraud, Bribery and Corruption Strategy be approved by Cabinet.

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 – 12 April 2016

Anti-Fraud Bribery and Corruption Strategy

Report of the Head of Resources

Recommendation

That the Audit and Ethics Committee recommends the Anti-Fraud Bribery and Corruption Strategy be approved by Cabinet.

1. Introduction

- 1.1 The Council introduced its previous Counter Fraud Strategy in 2007. The previous strategy was focussed primarily on how the Council tackles benefit fraud, whilst the new proposed strategy sets out the Council's approach to managing the risk of fraud, bribery and corruption at the corporate level.
- 1.2 The Anti-Fraud Bribery and Corruption Strategy was drafted on behalf of the Council by Grant Thornton specialist advisors, and was considered by the Head of Resources, Head of Business Transformation, Monitoring Officer, Legal Services Manager and the Corporate Assurance Manager.

2. Report Details

- 2.1 Rugby Borough Council is committed to safeguarding public funds, assets and maintaining the highest standards of probity. In order to fulfil this commitment, the Council has a zero tolerance approach to fraud and corruption.
- 2.2 This document sets out the Council's strategy in relation to fraud, bribery and corruption and its commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds and assets.
- 2.3 This strategy outlines how the Council manages the risk of fraud, bribery and corruption through existing governance structures, policies, procedures and control processes, and how these are to be augmented with a variety of proactive counter fraud measures that are intended to develop and embed a strong anti-fraud culture.
- 2.4 The strategy complements existing action being taken by the Council to detect and investigate fraud, including participation in the National Fraud Initiative (NFI), and the County Counter Fraud Initiative.
- 2.5 The following actions will be implemented to develop and embed a strong anti-fraud culture:
 - During the first quarter of 2016/17, the Corporate Assurance Team will work with service areas to specifically identify and evaluate the risks of fraud, bribery and

corruption in each area. For each risk identified, the existing mitigating controls will be reviewed and evaluated. Where appropriate, additional actions may be identified. The identified risks, and the additional actions, will be recorded within the Operational Risk Registers, and delivery of the actions will be monitored through the corporate performance management system (RPMS);

- Following completion of the risk review, the Corporate Assurance Manager will develop a Fraud Response Plan during the second quarter of 2016/17, setting out the proactive action to be taken to prevent, detect and pursue fraud, bribery and corruption;
- The results of the risk assessment will be used to inform the programme of targeted proactive anti-fraud, bribery and corruption work conducted by the Corporate Assurance Team;
- Current fraud investigation procedures will also be reviewed and updated to ensure that investigation work is appropriately documented, and to ensure that investigations are carried out objectively, professionally, fairly and expeditiously;
- As an enhancement to current reporting arrangements, achievements against the strategy's desired outcomes, and the actions taken to minimise future cases of fraud and corruption, will be contained in an annual fraud report to the Audit and Ethics Committee. This will be in addition to the current updates provided to each Committee meeting.

2.6 This strategy and the various policies which support it will be reviewed annually to ensure they remain current and satisfy best practice requirements.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Anti-Fraud Bribery and Corruption Strategy
Originating Department: Corporate Assurance

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	12/04/2016	Anti-Fraud Bribery and Corruption Strategy		

RUGBY BOROUGH COUNCIL

ANTI-FRAUD, BRIBERY AND CORRUPTION STRATEGY

1 Introduction

- 1.1 Rugby Borough Council is committed to safeguarding public funds, assets and maintaining the highest standards of probity. In order to fulfil this commitment, the Council has a zero tolerance approach to fraud and corruption.
- 1.2 This document sets out the Council's strategy in relation to fraud, bribery and corruption and its commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds and assets.
- 1.3 The adoption of a formal strategy provides an opportunity to communicate to the community involved with the Council our absolute determination to deal with dishonesty, whether involving Councillors, employees, contractors or customers. It sets out the steps that the Council is taking to maintain and improve its defences against fraud and misappropriation as well as targets against which we can measure our performance.
- 1.4 This strategy outlines how the Council manages the risk of fraud, bribery and corruption through existing governance structures, policies, procedures and control processes, and how these are to be augmented with a variety of proactive counter fraud measures that are intended to develop and embed a strong anti-fraud culture.
- 1.5 This strategy is not just concerned with reactive operational activity to detect and investigate fraud, bribery and corruption, but it also sets out the objectives for proactive actions to deter and prevent fraud and corruption through the development of an anti-fraud and corruption culture and a strong system of internal controls and reviews.
- 1.6 Underpinning the approach adopted by the Council is [*The Local Government Fraud Strategy: Fighting Fraud Locally \(Department for Communities and Local Government, 2011\)*](#) and [*The CIPFA Code of Practice on Managing the Risk of Fraud \(CIPFA, 2011\)*](#) which underpins the following five key elements as the foundations of an effective anti-fraud framework:
 - acknowledge the responsibility of the governing body for countering fraud and corruption
 - identify the fraud and corruption risks
 - develop an appropriate counter fraud and corruption strategy
 - provide resources to implement the strategy
 - take action in response to fraud and corruption
- 1.7 All successful criminal and civil proceedings for fraud, bribery or corruption against suppliers, service providers or individuals, either within or external to the Council, will be publicised in accordance with the Council's Communication Policy.
- 1.8 This strategy and the various policies which support it will be reviewed annually to ensure they remain current and satisfy best practice requirements.

1 How the Council Manages the Risk of Fraud and Corruption

Policies, Procedures and Codes

- 1.1 The Council has a duty to protect public money that it controls from loss due to dishonesty. It also has a duty to provide assurance to the community of Rugby and to other stakeholders that it is taking its responsibilities seriously.
- 1.2 The Council is committed to the maintenance of a robust framework of procedures and policies, which are designed to combine and act proactively as an effective deterrent to fraudulent activity and provide the means for reporting or detecting fraud, bribery or corruption.
- 1.3 The Council secures the protection and proper administration of public funds and assets through robust working methods and procedures, and by promoting an environment of openness, honesty and integrity in order to ensure the proper use and protection of public funds and assets
- 1.4 The Council's corporate framework provides a whole range of high level component parts which contribute to the Council having an effective counter fraud strategy and governance structure.

Corporate Framework

- | | | |
|-------|--|--|
| 1.4.1 | A clear governance structure: | <ul style="list-style-type: none">➤ Council Constitution➤ An established Audit and Ethics Committee➤ An established Standards Committee➤ An External Audit regime➤ An Internal Audit function |
| 1.4.2 | Clear written responsibilities, accountabilities and standards | <ul style="list-style-type: none">➤ Codes of conduct for Members➤ Codes of conduct for Officers |
| 1.4.3 | Sound procedures and controls | <ul style="list-style-type: none">➤ Financial Standing Orders➤ Contract Standing Orders➤ Declaration of interest and gifts and hospitality procedures for Members and Officers➤ Anti-Money Laundering Framework➤ Recruitment procedures➤ Disciplinary Procedure |
| 1.4.4 | Procedures for reporting irregularities and concerns | <ul style="list-style-type: none">➤ Confidential Reporting Codeⁱ("Whistleblowing" Policy)➤ Fraud Response Plan➤ Customer Feedback Policy (Complaints Procedures) available to the public |

Corporate Framework

- 1.4.5 Senior Officers of the Council with direct responsibility for tackling fraud, bribery, corruption and other irregularities
- Executive Director holding overall responsibility for the Council's fraud, bribery and corruption strategy
 - A Head of Resources with statutory responsibility for the oversight of all financial affairs
 - A Legal Services Manager with oversight over the Council's legal affairs
 - A Monitoring Officer with overall responsibility for the operation of the Confidential Reporting Code, Register of Interests, and the Gifts and Hospitality Register
 - A Corporate Assurance Manager with oversight over the annual programme of anti-fraud, bribery and corruption work
- 1.4.6 A clear programme of anti-fraud, bribery and corruption work
- Risk management and proactive prevention and detection work undertaken by the Corporate Assurance Team
 - Reactive investigations managed by the Corporate Assurance Team
 - Participation in the National Fraud Initiative and County Counter Fraud Initiative
- 1.4.7 Anti-fraud, bribery and corruption training to Members and Officers
- Annual training on:
 - Governance
 - Anti-Fraud and Probity
- 1.4.8 Engagement with key partners
- Membership to the National Anti-Fraud Network
 - Membership to the CIPFA Fraud Network
- 1.5 These components provide a framework within which the Council operates. Having clear policies ensures clarity about both individual accountabilities and the appropriate approach to be taken during any investigation regarding suspected fraud, bribery or corruption which also contributes to the promotion of an anti-fraud culture.
- 1.6 Management should ensure that all current Council corporate documents and policies are considered for fraud and corruption exposure as part of the periodic review of documents. Any future Council corporate documents will be subject to fraud exposure assessment.
- 1.7 Fraud exposure assessments of contracts with external providers will be reviewed on a regular basis at intervals to be determined by management.

Internal Control Systems

- 1.8 The Council has adopted a Constitution incorporating contract procedure rules, financial procedure rules and various other rules and codes of conduct that provide a requirement on Officers, when dealing with the Council's affairs, to act in accordance with best practice.
- 1.9 The Chief Financial Officer, has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure that proper arrangements are made for the Council's financial affairs. In addition, under the Accounts and Audit Regulations (England) 2011 as the "responsible financial officer", he is required to determine the accounting control systems which include:
- measures to enable the prevention and detection of inaccuracies and fraud
 - identification of the duties of officers dealing with financial transactions
 - division of responsibilities of those officers in relation to significant transactions
- 1.10 The Council's aim is to embed sound financial systems and procedures with appropriate, efficient, and effective, internal controls. Separation of duties should be considered as a fundamental control in systems, especially when involving significant financial transactions. An appropriate division of responsibilities is a key control in the prevention of impropriety
- 1.11 Under the Council's Financial Procedure Rules, the Chief Financial Officer is responsible for ensuring that adequate controls are in place. The existence, appropriateness, and effectiveness of these internal controls is independently monitored and reported upon by the Council's Corporate Assurance Team.
- 1.12 As part of the Council's published accounts each year, a formal statement is produced which describes the Internal Control Systems and provides an assessment of their effectiveness. This Annual Governance Statement is designed to provide assurance to external parties of the quality of the Council's governance arrangements and demonstrates effective stewardship of the public funds entrusted to the Council.
- 1.13 This network of systems and procedures to assist in safeguarding public funds and assets against fraud, bribery and corruption is well established and has been in place for many years. However, the Council is determined to keep pace with future developments and therefore this strategy will build on the existing arrangements to ensure they remain current and comply with best anti-fraud practice.
- 1.14 Systems weakness reports will be produced whenever the Council has been subject to fraud in order that anti-fraud measures are improved following such an incident.

2 Identifying Fraud and Corruption Risks

- 2.1 [The CIPFA Code of Practice on Managing the Risk of Fraud](#) recommends that Councils evaluate their fraud exposure, in order to allocate resources to combat fraud more effectively. The Council evaluates its fraud exposure by an annual fraud and bribery risk assessment of existing governance structures, policies, procedures and control processes within the Council which is carried out by the Corporate Assurance Team. The results of this annual risk assessment are used to inform a

program of targeted proactive anti-fraud, bribery and corruption work to be conducted by the Corporate Assurance Team at the Council.

- 2.2 The risk of fraudulent and or corrupt activity is included in the Council's risk management arrangements. Where appropriate, specific risks of fraud are recorded on departmental risk registers.
- 2.3 Fraud, bribery and corruption risks are also managed within the Council by Managers, Heads of Service and Executive Directors who are responsible for assessing the potential for fraud, bribery and corruption within their own Service's activities. Managers are best placed to monitor and evaluate the effectiveness of the Council's systems of internal control within their areas of responsibility by:
 - ensuring that internal controls to prevent fraud, bribery and corruption exist and are adequate; and
 - ensuring that controls, checks and supervision, associated with the operations for which they are responsible, operate in such a way as to prevent or detect fraudulent activity.
- 2.4 Internal Audit undertakes independent assessments of the key risks and associated controls within systems across the Council.

3 Creating and Maintaining a Strong Anti-Fraud Culture

- 3.1 High ethical standards are an integral part of good governance and can lead to increased public confidence in local democracy. The Council aims to create an anti-fraud culture and environment to deter those who may commit fraudulent and corrupt acts and encourage those who suspect such activity to report it promptly.
- 3.2 The Council's endorsement of this Strategy sends a clear message that fraud against the Council will not be tolerated and, where reported or identified, will be dealt with in a professional and timely manner using all the necessary sanctions that are available. Through the creation and enhancement of a strong anti-fraud culture the Council aims to deter potential perpetrators from targeting its finances and services.
- 3.3 There is an expectation and requirement that all individuals, businesses and organisations dealing in any way with the Council will act with high standards of probity, openness and integrity and that Council employees or its agent(s) at all levels will lead by example in these matters.

Members

- 3.4 The responsibility for an anti-fraud culture is the collective duty of all those involved in giving political direction, determining policy and management.
- 3.5 The Council expects its Councillors to lead by example at all times and to maintain the highest standards of probity, honesty, integrity and accountability in their role as Councillors.

- 3.6 The Council promotes and maintains high standards of Member conduct. Members are required to observe the Member's Code of Conduct. In particular Members are required to operate within:
- Member's Code of Conduct
 - Sections 94-96 of the Local Government Act 1972
 - Local Authorities Members' Interest Regulations 1992 (SI 618)
 - Council Rules of Procedure
- 3.7 The Council has an Audit and Ethics Committee which has a key role in reviewing and ensuring that there are adequate arrangements in place to deal with fraud and corruption. This includes responsibility for approving and supporting this Strategy.

Officers of the Council

- 3.8 A successful anti-fraud culture is one where acts of fraud, bribery and corruption are widely recognised as unacceptable behaviour and whistleblowing is perceived as public-spirited action. The Council has put in place a number of policies, procedures and other actions to promote an anti-fraud culture to the Officers of the Council.
- 3.9 All Officers must abide by the Council's Code of Conduct for Employees, which sets out the Council's requirement on personal conduct. This Code is referred to in all Contracts of Employment. Officers of the Council are expected to follow any code of conduct related to their personal professional institute.
- 3.10 The Council has in place disciplinary procedures for all categories of employee. Any breach of conduct will be dealt with under these procedures and may result in dismissal.

Training

- 3.11 The Council recognises that the continuing success of its strategy will depend largely on the effectiveness of programmed fraud awareness training, communication and responsiveness of Officers throughout the Council.
- 3.12 To facilitate this, the Council provides induction training and follow-up training for all Members and Officers; this applies particularly to those involved in internal control systems and financial and finance-related systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced, and to casual, temporary and agency staff, who may not be aware of the high standards of probity that are required in the public sector.

4 Adequate and Appropriate Resources

- 4.1 The Corporate Assurance Team are responsible for coordinating the investigation of fraud, bribery and corruption and are provided with access to the Council's employees, records, premises and other assets or resources as required.
- 4.2 Whilst the Corporate Assurance Team has an important role to play in the detection of fraud, it is not their sole responsibility but a shared responsibility with all Officers and members of the Council.

- 4.3 The Officers responsible for conducting anti-fraud, bribery and corruption work are trained and professionally accredited. This includes, where appropriate, relevant qualifications such as the Professionalism in Security training (PINS) and counter fraud accreditation training.
- 4.4 The level of counter fraud resource required is regularly reviewed in line with the annual fraud report and the Council's risk management strategy.
- 4.5 An annual programme of anti-fraud, bribery and corruption work is conducted by the Corporate Assurance Team who reports to, and is monitored by, the Audit and Ethics Committee.
- 4.6 Anti-fraud work is integrated within the annual programme of work undertaken by Internal Audit. The Corporate Assurance Manager provides an independent opinion on the adequacy and effectiveness of the systems of internal control based on the work undertaken during the year. Whilst it is not a primary function of Internal Audit to detect fraud, internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

Working with Others to Prevent and Fight Fraud

- 4.7 The Council is committed to exchanging information with other local and national agencies in order to identify and prevent fraud using data matching techniques. Such activity is conducted in full compliance with the *Data Protection Act 1998* and with the National Initiative [*Code of Data Matching Practice \(Cabinet Office, 2015\)*](#), and includes providing information to other agencies for data matching purposes. Any employee found to be perpetrating fraud on another local or national agency is liable to face disciplinary action where this has implications for the Council's trust and confidence in the employee. In certain cases, legal proceedings and disciplinary action may be taken that could lead to criminal convictions, civil recovery action and dismissal.
- 4.8 The Council will liaise where appropriate with outside organisations, including neighbouring councils, to encourage closer working, intelligence sharing and formalising joint working through the implementation of working protocols, subject to the use of appropriate legal gateways to sharing of information and resources.

5 Taking Action to Tackle Fraud and Corruption

Deterrence

- 5.1 There are a number of methods which the Council uses to deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside and/or outside of the Council, and these include:
- Publicising the fact that the Council will not tolerate fraud, bribery and corruption and will state this at every appropriate opportunity – e.g. publicising the whistleblowing arrangements, clause in contracts, statements on claim forms, publications etc.
 - Acting robustly and decisively when fraud, bribery and corruption are suspected and proven – e.g., the termination of contracts, dismissal, prosecution etc.

- Taking action to effect the maximum recoveries for the Council – e.g. through agreement, court action, penalties, insurance etc.
- The Council's media and communications team will optimise the publicity opportunities associated with anti-fraud and corruption activity within the Council. Where appropriate, the results of any action taken, including prosecutions, will be reported in the media.
- Having sound internal control systems, that still allow for innovation, but at the same time minimise the opportunity for fraud and corruption.

Prevention

- 5.2 Managers across the Council have an important role to play in the prevention of fraud, bribery and corruption. They are responsible for assessing the potential for fraud, bribery and corruption within their own Service's activities and for implementing appropriate strategies to reduce this risk.
- 5.3 The Corporate Assurance Team will provide appropriate advice, as and when appropriate, to managers to ensure they are fully aware of the requirement to give sufficient emphasis to the preventative aspects of fraud and corruption work.
- 5.4 The Internal Audit Plan and programme of anti-fraud, bribery and corruption work conducted by the Corporate Assurance Team includes work based on key risk areas as identified under the Council's risk management arrangements. This programme of work is not restricted solely to the investigation of detected fraud but also includes anti-fraud assurance work intended to deter and prevent fraud. Anti-fraud assurance work represents an area of on-going development and represents a key priority for the Strategy.

Detection, Whistleblowing and Reporting Fraud

- 5.5 The Anti-Fraud, Bribery and Corruption Response Plan provides a clear pathway for raising concerns and facilitating "tip-offs" of allegations of fraud, bribery or corruption, and the fraud-response arrangements outlined in that document, enable such information or allegations to be dealt with accordingly.
- 5.6 The Council's Confidential Reporting Code (Whistleblowing Policy) also gives advice on how to raise a concern and the safeguards and support that are available to those who raise concerns.
- 5.7 The Monitoring Officer has overall responsibility for the maintenance and operation of the Council's Confidential Reporting Code (Whistleblowing Policy), Register of Interests, and the Gifts and Hospitality Register.
- 5.8 All Officers and Members of the Council are encouraged to use the whistleblowing procedures to report any allegations of fraud, bribery and corruption against the Council. Further information on raising a genuine concern under the whistleblowing procedures can be found in the Confidential Reporting Code.
- 5.9 The Council's whistleblowing arrangements will be reviewed on a regular basis against best practice from Public Concern at Work and updated accordingly. This will include testing staff confidence in the whistleblowing arrangements and ensuring that the policy is communicated to and accessible to all employees and

contractors. In addition, the arrangements for members of the public to raise fraud concerns will be reviewed.

Investigation

- 5.10 Investigations into allegations of fraud, bribery or corruption are conducted by the Corporate Assurance Team, which is led by the Corporate Assurance Manager. All Members and Officers of the Council are required to report all suspected irregularities or allegations involving fraud, bribery or corruption to the Corporate Assurance Team who will then inform the Chief Financial Officer.
- 5.11 The central reporting of suspected irregularities and allegations of fraud, bribery and corruption to the Corporate Assurance Team is essential to the Strategy and ensures:
- consistent treatment of information regarding fraud, bribery and corruption
 - proper investigation by an independent and experienced Corporate Assurance Team
 - System and procedural weaknesses are promptly identified and addressed
 - proper implementation of a fraud response investigation plan
 - optimum protection of the Council's interests
- 5.12 Depending on the nature and anticipated extent of the allegations, the Corporate Assurance Team will normally work closely with management, personnel, legal etc., and other agencies, such as the Police. This is to ensure that all allegations and evidence are properly investigated and reported upon, and where appropriate, maximum recoveries are made for the Council.
- 5.13 The Council's disciplinary procedures will be used where the outcome of the investigation indicates improper behaviour.
- 5.14 Where a fraud has occurred, action will be taken by management to ensure that any control weaknesses which provided the opportunity for the fraud to occur are addressed. Any lessons learnt will be disseminated to all relevant departments within the Council.

Sanctions and Redress

- 5.15 Where financial impropriety is discovered, whether perpetrated by Officers, Members or third party organisations (e.g. suppliers, contractors, and service providers), the Council will consider appropriate action.
- 5.16 Referral to the Police is a matter for the Executive Director and the Chief Financial Officer (the Crown Prosecution Service determines whether or not a prosecution will be pursued).
- 5.17 Referral to the Police will not inhibit action under the Council's Disciplinary Procedures. Serious cases of fraud or corruption would represent gross misconduct and consequently the Officer may be liable for dismissal.
- 5.18 The Executive Director, Monitoring Officer, and Legal team will advise on the course of action to be taken in relation to Members.

5.19 Suspected financial impropriety by any organisation the Council deals with, will be the subject of an investigation. If proven, this could result, for example, in the termination of an individual contract and may result in prosecution.

5.20 In proven cases of financial loss, the Council will seek to recover all such losses through whatever means it considers appropriate. In the case of an employee, the loss may be recovered from any monies due to the individual on termination of employment.

6 Defining Success

6.1 Success will be measured by focusing on the real outcomes achieved from the key actions outlined in this strategy. The outcomes to be measured will include the following:

- awareness levels
- reports of suspicions
- successful investigations
- sanctions applied
- financial losses recovered and where appropriate financial savings

6.2 Achievements against these desired outcomes, and the actions taken to minimise future cases of fraud, will be contained in the annual fraud report, and periodic updates to the Audit and Ethics Committee.

Executive Director

March 2016

Glossary

Annual Governance Statement

The Annual Governance Statement is a statutory requirement of the Accounts and Audit (England) Regulations 2011. It is the platform to formally state an opinion on the systems of internal control including the arrangements for the management of risk with recommendations given for future improvements to the systems.

Anti-Fraud, Bribery and Response Plans

The Fraud Response Plan sets out how to report allegations of fraud, bribery and corruption, and how they are dealt with.

Audit and Ethics Committee

The Audit and Ethics Committee oversees the environment of internal control, risk management and anti-fraud and corruption arrangements within the Council. They consider the Annual Governance Statement and Annual Statement of Accounts and quarterly reports from Internal and External Audit to ensure the effectiveness of this environment.

Bribery

Bribery is offering something of value for the purpose of influencing the action of a person when they are undertaking their public or legal duties.

Chief Financial Officer

See S151 Officer.

Corporate Assurance Manager

The Corporate Assurance Manager reviews the effectiveness of the system of internal control throughout the year and reports annually to the Audit and Ethics Committee via the Annual Governance Statement.

Corporate Assurance Team

A dedicated Internal Audit with fraud capability for delivery of an annual programme of proactive and reactive anti-fraud, bribery and corruption work

Chief Officers

Chief Officers are the senior managers of the Council.

Corruption

Improper and usually unlawful conduct intended to secure a benefit for oneself or another.

Council

Rugby Borough Council

Crown Prosecution Service

The CPS is the principal prosecuting authority in England and Wales. In addition to prosecuting cases at court, the CPS is responsible for advising the police on cases for possible prosecution and reviewing the case evidence

Executive Director

Executive Director of the Council with overall responsibility for tackling fraud, bribery and corruption at the Council. This role is held by Adam Norburn.

External Audit

External audit is an annual independent examination designed to form an opinion on the state of the Council's financial management and its published annual accounts. The external auditors provide assurance to residents and councillors that the Council's finances are soundly managed and the annual accounts present a true and fair view of the Council's income and expenditure assets.

Financial Standing Orders

Financial Regulations provide the framework for managing the Council's financial affairs, provide clarity about the financial accountabilities of individuals and set out overarching financial responsibilities of the statutory Chief Financial Officer.

Fraud and Corruption

When these terms are used in conjunction, their definition can include acts such as abuse of position, bribery, collusion, concealment of material facts, conspiracy, deception, embezzlement, extortion, false representation, failing to disclose information to the Council, forgery, giving or accepting of an advantage, misappropriation or theft.

Internal Audit

Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, in support of the objectives of the Council.

Internal Audit Plan

This is a work plan developed annually by Internal Audit which sets out a schedule of audits used to provide assurance to the Council on the effectiveness of internal controls.

Internal Controls

Processes tailored to the Council's structure, work, delegation of authority rules, people and management information systems, which are designed to help the Council accomplish specific goals or objectives, such as preventing fraud, bribery or corruption.

Irregularity

An irregularity is a breach of a convention or normal procedure

Money Laundering

The process by which proceeds of crime or terrorism funds are legitimised. It relates to both the activities of organised crime but also to those who benefit financially from dishonest activities such as receiving stolen goods.

Monitoring Officer

The Monitoring Officer is appointed under Section 5 of the Local Government and Housing Act 1989 and the Local Government Act 2000. The role is further defined in the Council's Constitution. Currently this role is held by the Democratic and Scrutiny Services Manager

National Fraud Initiative and County Counter Fraud Initiative

Exercises which match electronic data within and between public sector bodies and systems to help public bodies prevent and detect fraud and overpayments.

Public Concern at Work

Public Concern at Work is an independent authority on whistleblowing. It provides free help to prospective whistleblowers and advice on whistleblowing laws.

Section 151 Officer

As required by the Local Government Act 1972, the Section 151 Officer is nominated to take responsibility for making arrangements for the proper administration of a local authority's financial affairs including advising on anti-fraud and corruption strategies and measures. The Council's Section 151 Officer is the Head of Resources.

Separation of Duties

An internal control designed to prevent error and fraud by ensuring that at least two individuals are responsible for the separate parts of any task.

Strategy

This Anti-Fraud, Bribery and Corruption Strategy document

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Risk Management Strategy
<i>Portfolio</i>	Not portfolio specific
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Resources and Corporate Governance Portfolio Holder, Executive Director, Head of Business Transformation, Head of Resources and Strategic Risk Management Group
<i>Contact Officer</i>	Chris Green, Corporate Assurance 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 which it operates.
<i>Statutory/Policy Background</i>	Not applicable
<i>Summary</i>	The Council introduced its first Risk Management Strategy in 2003. Since then progress has been made in implementing both Operational and Strategic Risk Management across the organisation. The strategy is reviewed annually and this was last completed in March 2015. This latest version of the strategy identifies the additional work planned to ensure that Risk Management remains embedded within the day to day work of the Council.
<i>Risk Management Implications</i>	<ol style="list-style-type: none">1. As contained within the revised Risk Management Strategy dated February 2016.2. If the Audit and Ethics Committee does not endorse the strategy, the Council's approach to risk management will not be properly documented and outdated processes could be followed.
<i>Financial Implications</i>	There are no direct financial implications arising from this report.

Environmental Implications

There are no environmental implications arising from this report.

Legal Implications

There are no legal implications arising from this report.

Recommendations

That the Committee recommends the Risk Management Strategy be approved by Cabinet.

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 – 12 April 2016

Risk Management Strategy

Report of the Head of Resources

Recommendation

That the Audit and Ethics Committee recommends the Risk Management Strategy be approved by Cabinet.

1. Introduction

- 1.1 The Council introduced its first Risk Management Strategy in 2003. Since then progress has been made in implementing both Operational and Strategic Risk Management across the organisation.
- 1.2 The strategy is reviewed annually and this was last completed in March 2015. This latest version of the strategy identifies the additional work planned to ensure that Risk Management remains embedded within the day to day work of the Council.
- 1.3 The Risk Management Strategy was drafted by the Risk Management and Insurance Officer and considered by the Resource and Corporate Governance Portfolio Holder, Executive Directors, Head of Resources, Head of Business Transformation, and the Strategic Risk Management Group.

2. Report Details

- 2.1 No major amendments or updates have been made to the Strategy in this review.
- 2.2 The Action Plan has been updated to remove actions which are viewed as being part of normal day to day responsibilities, for example the responsibility of Heads of Service to champion risk management on an ongoing basis.
- 2.3 An additional change has been made to highlight how, by implementing Risk Based Internal Auditing (RBIA) with effect from April 2016, the work of internal audit will be aligned with risk management.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Risk Management Strategy
Originating Department: Corporate Assurance

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	12/04/2016	Risk Management Strategy		



RISK MANAGEMENT STRATEGY

February 2016

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SECTION ONE - Rugby Borough Council Risk Management Statement

Risk Management is a business critical aspect for everyone at Rugby Borough Council. It is imperative that RBC demonstrate to the public, and all other stakeholders, that full consideration has been given to all risks when delivering services for the residents and businesses in the local area.

This Strategy outlines how RBC will manage risk through identification, analysis, treatment and monitoring of each risk. This Strategy also details the roles and responsibilities for all employees and members. Everyone has a part to play.

.....

Adam Norburn
Executive Director

.....

Ian Davis
Executive Director

.....

Michael Stokes
Leader of the Council

SECTION TWO - Introduction

2.1 Background

The Council introduced its first Risk Management Strategy in 2003. Since then steady progress has been made in implementing Risk Management throughout the organisation. This latest revision of the Strategy aims to look at the future plans for Risk Management in RBC and the future work planned to ensure that Risk Management becomes embedded in the every day work of the Council.

2.2 What is Risk Management?

Risk Management can be defined as:

‘Risk is the threat that an event or action will adversely affect an organisation’s ability to achieve its objectives and to successfully execute its strategies. Risk Management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements’

Audit Commission 2001

2.3 The Benefits of Risk Management

The benefits of an effective Risk Management programme are numerous, a selection of the benefits are listed below:

- Increased focus on the action(s) that should be taken to meet objectives
- Improved delivery of services
- Effective management of change
- Delivering better Value For Money
- More efficient use of resources
- Supporting innovation
- Reduced complaints
- Protection of, and improved, reputation
- Getting things right first time
- Continual assessment of business opportunities

The term Risk Management also includes the management of opportunities, as risk should not be considered just as a negative. The management of opportunities is as important as the management of risk, and we should always look to see if there is a positive outcome to any risk.

SECTION THREE – Purpose and Objectives

3.1 Purpose

The purpose of this Strategy is to set out Rugby Borough Council's approach to Risk Management, including outlining roles and responsibilities, reporting and communication methods and a description of the four stages of the Risk Management process.

It is a continuous and developing process, which ultimately aims to create a culture of risk awareness within the Council whereby staff and Members naturally consider risk issues as a part of day-to-day activities.

The Strategy is designed to be a reference source rather than to provide detailed answers to specific questions. It is a foundation for embedding a Risk Management culture across the organisation but is not intended to be a manual.

3.2 Objectives

The objectives of the Risk Management Strategy are to:

- 3.2.1 Develop Risk Management and raise its profile across the Council
- 3.2.2 Integrate Risk Management into the culture of the Council
- 3.2.3 Embed Risk Management through the ownership and management of risk as part of all business planning and decision making processes
- 3.2.4 Manage risks in accordance with best practice
- 3.2.5 Prevent injury, damage and losses and to reduce the cost of risk
- 3.2.6 Raise awareness of the need for Risk Management by all those connected with the Council's delivery of services

(see Appendix 4, Risk Management Action Plan for further details)

These objectives will be achieved by:

- Establishing clear roles and responsibilities and reporting lines within the Council for Risk Management
- Reinforcing the importance of effective Risk Management as part of the everyday work of employees
- Including Risk Management as an agenda item at meetings as appropriate
- Providing relevant training on Risk Management to employees and Members
- Continuing to demonstrate the application of Risk Management principles
- Developing Risk Management toolkits, procedures and guidelines for use across the Council
- Making all partners, providers and delivery agents aware of the Council's expectations on risk, both generally as set out in its Risk Management policy, and where necessary in particular areas of service delivery
- Maintaining a Risk Management framework that will secure the consideration and review on a rolling basis of the Strategic and Operational risks confronted by the Council
- Inclusion of Risk Management in service plans

SECTION FOUR – Risk Management Process

4.1 Process

Risk Management is an ongoing process, which involves continual identification, analysis, treatment and monitoring of the risks and opportunities faced by the Council.

4.2 Risk Identification

The first step is to identify the ‘significant’ risks that could have an adverse effect or prevent business objectives from being met. (*Section 4.3 describes what is classed as a significant risk*). It is important that those involved with the process clearly understand the service or organisation’s key business objectives to be able to identify the barriers to their achievement.

The identification of risk should happen in all business areas.

4.3 Risk Analysis

The information gathered is then analysed by completing a Risk Assessment. The assessment details the risks to the achievement of a specific business objective, the opportunities that can be gained from that risk, the consequences of the risk and any existing internal controls.

The analysis will then consider the likelihood and impact of the risks. An initial score against likelihood and impact is made (see Appendix 1, Risk Matrices).

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

Amber and red risks are classed as ‘significant’ risks. All risks are to be kept under review to ensure that the likelihood of occurrence, or the impact should it happen, does not increase.

4.4 Risk Treatment/Control

Once a risk has been identified and analysed, a decision must be made as to how the Council will react. There are four options:

1. *Tolerate* – Decide to live with the risk and the possibility that it might occur and its possible consequences
2. *Terminate* – Eliminate the risk, usually by deciding to change a course of action or stop a particular activity
3. *Transfer* – Some of the financial risk may be transferred and it may be possible to transfer liability through contractual arrangements
4. *Treat* – Control the risk and take action to reduce the likelihood that an event will occur or the impact if it does.

The existing controls need to be reviewed before considering further action as these controls may no longer be relevant.

The potential for controlling the risks identified further will be investigated through an Action Plan. The implementation of the Action Plan is monitored through RPMS, the Council's performance management system.

4.5 Risk Monitoring and Reporting

Effective Risk Management requires an appropriate reporting and review structure to ensure that risks and opportunities are effectively identified and assessed and that appropriate control measures are in place.

The process requires regular reviews in order to provide the maximum benefit to the Council, including the Strategy, and all the processes and activities outlined within it, to ensure their effectiveness.

A framework of monitoring and reporting has been established to allow regular monitoring to take place.

This requires:

Cabinet – to receive annual updates on the position of the Council's Risk Management programme; to review the Strategic Risk Register and any amendments made to it and to agree the Risk Management Strategy and any changes made. To appraise options contained within submitted reports.

Audit and Ethics Committee – to consider the effectiveness of the Council's Risk Management arrangements. To receive annual reports which provide assurance on the effective management of the Council's 'Top Level' risks and to agree the Risk Management Strategy and any changes made.

Leadership and Operations Team – to review the Strategic Risks on a quarterly basis and respond to any actions for which they are responsible in the interim.

Individual Managers – to regularly monitor Risk Registers and Action Plans at team meetings – making any adjustments within RPMS or reporting them to the Risk Management and Insurance Officer; to implement and monitor outstanding actions and monitor the effectiveness of the actions in controlling the risks; to identify new risks / opportunities and to annually review the Operational Risk Registers.

Strategic Risk Management Group – to consider and discuss regular updates received from the Risk Management and Insurance Officer on outstanding risk actions and to annually review the Risk Management Strategy.

The risk process itself will be reviewed annually to ensure that it is still appropriate and includes learning from other Authorities. Training and research can be applied.

SECTION FIVE – Links with Existing Processes

5.1 Service Planning

Operational Risk Registers are included within Service Plans. The responsibility for managing those risks sits with the Service Managers.

The Risk Registers within the plans should be monitored on a quarterly basis during service team meetings.

5.2 Performance Management

The monitoring of the Risk Management action plans is facilitated through the performance management software RPMS. Risk Responsible Officers will monitor and update risk assessments and actions plans on a regular basis.

5.3 Project Management

Work is currently underway to improve the robustness of Risk Management within projects, with project risk registers being used more now than ever before with a register in place for each specific project.

5.4 Partnerships

The definition adopted by Rugby Borough Council is “that a partnership involves working with another organisation to deliver common objectives with a formal agreement of roles (through contract, memorandum of understanding, funding agreement, Service Level Agreement etc)”.

Managing risk within the significant partnerships is currently being reviewed. The aim is to ensure that Rugby Borough Council and its significant partners hold joint Risk Registers, which are effectively managed and monitored.

5.5 Reporting

Each report prepared for Cabinet / Panels requires that the report writer consider the risks and benefits associated with each option presented within the report.

5.6 Emergency Planning and Business Continuity

It is a requirement under the Civil Contingency’s Act that the Council has in place an effective Emergency Plan and Business Continuity Plan. The Council’s Major Emergency and Business Continuity Plan can be found on the Intranet. In addition to this there is also a Warwickshire County Council Community Risk Register and a subservient Rugby Borough Council Community Risk Register.

5.7 Health and Safety

The Council has demonstrated a commitment to Health and Safety with the development of policies and guidance specifically addressing the management of risk.

It is essential that the established links to the Risk Management process be maintained with emphasis on identification, analysis, treatment/control and monitoring of risks. The commitment and involvement of all employees will be supported at service level by specific training and guidance.

5.8 Corporate Strategy

The Strategic Risk Register aims to address all elements of risk in delivering the Council's corporate objectives. These in turn cascade into the Operational Risk Registers. Leadership and Operations Team need to consider the Risk Management Strategy in line with the Corporate Strategy.

5.9 Corporate Assurance

The Council is implementing Risk Based Internal Auditing (RBIA), which is recognised best practice. Actions arising from internal audits will be aligned with the corresponding risk, and will be recorded on the RPMS system. The linkages between the results of internal audits, relevant risks, and their mitigating actions will therefore be enhanced. The process will also facilitate more regular and timely updates of the Operational Risk Registers during the course of the year.

SECTION SIX – Information and Communication

6.1 Information

Risk Management information is available from a number of different sources:

- Intranet web page
- Individual managers
- Risk Champions (see Appendix 3, Contact Information)
- Corporate Assurance Manager (see Appendix 3, Contact Information)
- Risk Management and Insurance Officer (see Appendix 3, Contact Information)

6.2 Communication

Risk Management at Rugby Borough Council is an evolving process, therefore regular communication with staff and managers is essential to ensure everyone is kept up to date and has the opportunity to further their understanding of the Council's risk programme.

Risk information updates and general awareness are communicated through a number of different sources:

- Intranet updates
- Team meetings
- Workshops and awareness sessions
- New employee induction day
- Members Briefings

SECTION SEVEN – Risk Management Fund

The Corporate Assurance Manager is responsible for a small Risk Management fund. Service areas can 'bid' for full or partial funding for Risk Management initiatives that will benefit the Council as a whole.

SECTION EIGHT – Roles and Responsibilities

The following describes the roles and responsibilities that Members and Officers will play in embedding and owning Risk Management:

8.1 Cabinet and other Elected Members

- To oversee the effective management of risk by Council Officers
- To annually consider the Strategic Risk Register
- To take decisions which are informed by an assessment of associated risks
- To approve overall strategic Risk Management proposals
- To agree the Risk Management Strategy and any changes to the Strategy

8.2 Leadership and Operations Team

- To ensure that the Council manages risk effectively through the development of a comprehensive Risk Management Strategy and the analysis and control of strategic risks
- To take decisions which are informed by an assessment of associated risks
- To provide corporate direction to all Risk Management proposals and to support the Strategic Risk Management Group
- To review the Strategic Risk Register
- To receive and consider an annual report on the Risk Management Strategy
- To identify any emerging strategic risks and report them to the Strategic Risk Management Group
- To identify any movements in the likelihood and/or severity of existing Strategic risks
- To be the service liaison for strategic and operational risks
- To include Risk Management and emerging risks through business planning and decision making

8.3 Strategic Risk Management Group

- To support the Council and its services in the effective development, implementation and review of the Risk Management Strategy
- To review the Risk Management Strategy on an annual basis
- To review the Strategic Risk Register and to identify and support any emerging Strategic risks
- To provide training on and to otherwise facilitate the practice of good Risk Management for Councillors and Officers

8.4 Risk Champions

(see appendix 3, Contact Information)

- To be a member of the Strategic Risk Management Group
- To support Leadership and Operations Team and Service Managers in the effective management of risk
- To champion Risk Management within their service
- To be their service liaison for Strategic and Operational risks
- To disseminate Risk Management information
- To facilitate and encourage good Risk Management practices
- To co-ordinate the Operational Risk Assessment programme for their service

8.5 Service Managers

- To manage their service whilst taking in to account all associated risks
- To consider the positive and negative aspects of risk in all decisions taken
- To consider and produce/review Operational Risk Registers for their service areas during their business planning process and to report these assessments to the Risk Management and Insurance Officer
- To consider and record additional or strengthened controls that are needed to protect their service area and to incorporate these in to their service action and improvement plans
- To report these assessments, actions and improvement plans to the Risk Management and Insurance Officer

8.6 Risk Management and Insurance Officer

- To advise and assist the Strategic Risk Management Group in their functions
- To facilitate meetings of the Strategic Risk Management Group
- To provide day-to-day Risk Management advice to Council Officers and Members
- To assist in the development of the Council's Risk Management programme in association with external advisors and Council Officers
- To advise and assist Leadership and Operations Team with the quarterly reviews of the Strategic Risk Register
- To maintain a continuous review of the adequacy of the Risk Management programme
- To produce progress reports to Cabinet and to Audit and Ethics Committee
- To produce annual reports on the Council's 'Top Level' risks to Audit and Ethics Committee
- To produce an annual report on the Strategic Risk Register to Cabinet
- To provide an annual report on the Risk Management Strategy to Cabinet and to Audit and Ethics Committee
- To review systems and procedures for Risk Management and implement improved working practices wherever possible
- To review Strategic and Operational risk registers on a regular basis
- To maintain a continuous review of the adequacy of the Risk Management programme
- To identify instances of best practice through networking and discussions with brokers

8.7 All Employees

- To manage risk effectively in their job
- To report risks to their Service Managers, Risk Champions or the Risk Management and Insurance Officer
- To have an understanding of the risks identified within their service area
- To assist in the identification and control of risk
- To complete the options appraisal on all Leadership and Operations Team, Panel and Cabinet reports

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

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

OPERATIONAL RISK MATRIX

<u>LIKELIHOOD</u>	
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

<u>IMPACT</u>	
Extreme = Financial loss over £250,000, total service loss for a significant period, fatality/disabling injury, adverse national media coverage, severe stakeholder concern, mass complaints	Score 4
Major = Financial loss of between £75,000 and £250,000, major service disruption, major injury, regional media coverage, significant user complaints, significant stakeholder concern	Score 3
Moderate = Financial loss of between £10,000 and £75,000, moderate service disruption, loss time injury, local media coverage, more service user complaints, stakeholder concern	Score 2
Minor = Financial loss up to £10,000, short term inconvenience, minor injury, isolated user service complaints, minor local media coverage, minor stakeholder concerns	Score 1

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

STRATEGIC RISK MANAGEMENT GROUP

TERMS OF REFERENCE

The role of the Strategic Risk Management Group (SRMG) is crucial to the implementation of a successful Risk Management programme.

The SRMG is a facilitating group and will enable and empower all aspects of a Risk Management programme, providing where necessary, links with Insurance, Health and Safety, Emergency Planning and Business Continuity.

The SRMG will be the focal point for co-ordinating the Strategic and Operational Risk Registers.

The terms of reference of the SRMG are:

- To support the Council and its services in the effective development, implementation and review of the Risk Management Strategy
- To identify and monitor key Risk Management indicators and matrices
- To produce an annual report reviewing the Risk Management Strategy to Leadership and Operations Team and Cabinet
- To identify and support the identification of any emerging Strategic risks
- To review the Strategic Risk Register on a quarterly basis and respond to any actions for which they are responsible in the interim
- To share good Risk Management practice within the Authority
- To provide training on, and to otherwise facilitate, the practice of good Risk Management for Councillors and Service Officers

MEMBERS

The Strategic Risk Management Group comprises of the following staff:

- Senior officer representatives from:
 - Business Transformation
 - Customer and Information Services
 - Democratic and Legal Services
 - Environmental Services
 - Housing and Property
 - Planning and Recreation Services
 - Resources
- Executive Directors (for Strategic Risk Register review)
- Risk Management and Insurance Officer
- Safety and Resilience Manager
- The Council's Risk Management and Insurance consultant representative
- The Council's Risk Member Champion (usually the Resources and Governance Portfolio Holder)

The Head of Environmental Services will act as the Group Chairman.
Additional members of staff will attend the Group as and when their expertise are needed.

Each of the representatives is a Risk Champion for their area and will be responsible for co-ordinating the Risk Management programme within their own service. This will include:

- To be a member of the Strategic Risk Management Group
- To support Service Managers in the effective management of risk
- To champion Risk Management within their service
- To be their service liaison officer for Strategic and Operational risks
- To disseminate Risk Management information
- To facilitate and encourage good Risk Management practices
- To co-ordinate the Operational Risk Register reviews for their service areas

CONTACT INFORMATION

Risk Champions:

Elected Member	Cllr Helen Taylor helen.taylor@rugby.gov.uk	Ext: 3401
Business Transformation	Doug Jones doug.jones@rugby.gov.uk	Ext: 3668
Customer and Information Services	Raj Chand raj.chand@rugby.gov.uk	Ext: 3870
Environmental Services Group Chairman	Sean Lawson sean.lawson@rugby.gov.uk	Ext: 3850
Housing and Property	Steven Shanahan steven.shanahan@rugby.gov.uk	Ext: 3820
Planning and Recreational Services	Rob Back rob.back@rugby.gov.uk	Ext: 3720
Resources	Mannie Ketley-Grewel mannie.grewelketley@rugby.gov.uk	Ext: 3430
Health and Safety/Business Continuity	Theresa Summers theresa.summers@rugby.gov.uk	Ext: 3893
Corporate Assurance	Chris Green chris.green@rugby.gov.uk	Ext: 3451
Risk Management and Insurance	Verity Knighton verity.knighton@rugby.gov.uk	Ext: 3418

Risk Management Action Plan 2016/2017

Action	Resources required	Lead Officer(s)	Target date	What we want to achieve	How customers will benefit
1. Conduct a review of the Risk Management Strategy	Strategic Risk Management Group (SRMG)	SRMG	March each year	Robust Risk Management Strategy	Clarity as to the roles and responsibilities for risk management Clarity as to methods of communicating the Strategy Officers will be equipped with a current working document in order to assess risk scores
2. Publishing Risk Management Strategy on the Intranet	Internet and Communications Officer Risk Management and Insurance Officer	Risk Management and Insurance Officer	June each year	Publishing the Councils Risk Management Strategy	Clarity as to the roles and responsibilities for risk management across the Council
3. Reporting and reviewing structure and working practices to ensure risks and opportunities are effectively identified and assessed to prevent injury and reduce costs	Heads of Service	Heads of Service	Complete annual review of Strategy by March each year	Prevention of injury, damage and loss by reducing costs from acts arising from non identification of risks	Fewer injuries and insurance claims

Action	Resources required	Lead Officer(s)	Target date	What we want to achieve	How customers will benefit
4. To agree a date for awareness training on the practice of good Risk Management for Councillors	SRMG Risk Management and Insurance Officer	SRMG	March each year	To raise awareness of the need for Risk Management through service delivery Knowledge of the tools available and confidence to use them to take positive action in cases	Officers will have an awareness of Risk Management

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Internal Audit Improvement Plan – Progress Update
<i>Portfolio</i>	Resources and Corporate Governance
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Head of Resources
<i>Contact Officer</i>	Chris Green, Corporate Assurance 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 2003 (England), and Section 151 of the Local Government Act 1972.
<i>Recommendations</i>	1. That the report be considered and noted by the Committee.

2. That the revised Internal Audit Customer Satisfaction Questionnaire template be considered and noted by the Committee.
3. That the Key Performance Indicators for the Internal Audit Service be considered and noted by the Committee.
4. That members consider the extent to which they wish to receive future internal audit assignment reports.

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 – 12 April 2016

Internal Audit Improvement Plan – Progress Update

Report of the Head of Resources

Recommendation

Committee considers and notes the progress in delivery of the Internal Audit Improvement Plan.

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 is on track. 84% of the agreed actions have been either implemented or are in progress. Appendix A sets out the progress on delivery of the Improvement Plan in detail. Delivery of the Plan will remain the responsibility of the Corporate Assurance Manager, monitored by the Head of Resources, with progress regularly reported to Senior Management and the Audit and Ethics Committee.
- 2.3 Although delivery of the Improvement Plan is firmly on track, some additional time will be required during the first quarter of the new financial year, to embed the new ways of working, to provide support to Audit officers and to evaluate the effectiveness of the new audit methodology. This additional time will be managed within the budgets set for individual assignments.
- 2.4 At the last meeting of the Audit and Ethics Committee on 2 February 2016, it was resolved that a revised internal audit Customer Satisfaction Questionnaire (CSQ) be presented to the committee at the next meeting. The revised CSQ is set out at

Appendix B. The number of questions has been reduced from 18 to five and respondents will be provided with the ability to complete the questionnaire online.

- 2.5** In line with delivery of the Improvement Plan, Key Performance Indicators (KPI's) have been developed for the service. The proposed KPI's are set out at Appendix C and actual performance will be monitored through the performance management system (RPMS).
- 2.6** Members are also asked to consider the extent to which they wish to receive future internal audit assignment reports and which members should be incorporated within the circulation list.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Quality Assurance and Improvement Plan
Originating Department: Corporate Assurance

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	12/04/2016	Internal Audit Improvement Plan – Progress Update		
Appendix B	12/04/2016	Corporate Assurance Customer Satisfaction Questionnaire		
Appendix C	12/04/2016	Internal Audit Key Performance Indicators		

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 in Progress Proposed mechanism set out in the Internal Audit Plan 2016/17 report to this Committee meeting. Subject to Committee approval of the proposed arrangements, this action will be implemented on 12 April 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 Implemented 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.

<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>
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	<p>Action in Progress</p> <p>Arrangements for ongoing performance monitoring and reporting will be discussed with the Leadership and Operations Team on 22 March 2016. Proposed Key Performance Indicators (KPI's) will be presented to Audit and Ethics Committee on 12 April 2016.</p>
5	1311	The results of customer satisfaction surveys are not currently summarised for senior management or the Audit and Ethics Committee.	<p>Internal Audit performance reporting to management and Committee will include a summary of customer satisfaction and details of any constructive feedback on the service.</p> <p>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.</p>	30/04/2016	MEDIUM	<p>Action in Progress</p> <p>The Customer Satisfaction Questionnaire has been redesigned, and is being presented to the Leadership and Operations Team on 22 March 2016 and Audit and Ethics Committee on 12 April 2016. Thereafter, performance reporting will include a summary of customer satisfaction and details of feedback on the service.</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>
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	Not Yet Started
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 accordance with the standards.	Improvement Programme requirements will be addressed through development and implementation of this Improvement Plan. Formalise and agree reporting arrangements with the Leadership 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.	To be aligned with the final completion date.	HIGH	Action in Progress Reporting arrangements to be agreed with the Leadership and Operations Team on 22 March 2016. Progress on delivery of the Improvement Plan will be incorporated within the Annual Report of Internal Audit, which will be presented to the Audit and Ethics Committee on 28 June 2016.
8	2010	The annual audit plan is developed based upon a review of the Council's risks	All assurance assignments to incorporate a risk based evaluation of both the design and	31/03/2016	HIGH	Action Implemented The annual audit plan has

<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>
		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>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>			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.
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	30/06/2016	HIGH	Action in Progress Resource requirements have been reviewed. The Corporate Assurance 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.

<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>
			audit opinion will be raised in the Annual Internal Audit Report.			
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.	30/09/2016	LOW	Not Yet Started
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 Implemented Other sources of assurance have been considered as the internal audit plan has been developed. The Corporate Assurance Manager is confident 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	Reporting to Senior Management and the Audit and Ethics Committee.	Review and update the content and frequency of internal audit progress and performance reports, based upon the needs of	30/04/2016	MEDIUM	Action in Progress The content and frequency of reporting to senior

<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>
		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.	senior management and members.			management is to be 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 satisfaction questionnaires.
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.	30/06/2016	MEDIUM	Not Yet Started Audit reports have been redesigned to demonstrate the linkages between internal audit and risk management. This action will be implemented once the initial tranche of audits is delivered in 2016/17.
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	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 Implemented Audit reports have been redesigned to include opinions on both the

<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>
		not currently evaluate the effectiveness and efficiency of controls.				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.	<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 include:</p> <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. <p>Where relevant, all assignments will incorporate consideration of value for money.</p> <p>Assignments will not commence unless and until the relevant</p>	31/03/2016	HIGH	<p>Action Implemented</p> <p>Addressed through the review and redesign of Audit Briefs, work programmes and 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>
			"sponsoring" client manager has agreed the terms for the assignment.			
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	Action Implemented Refer to Action 15
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	Action Implemented Refer to Action 15

<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>
18	2230	Audit briefs state the number of days allocated to each assignment, although this is not currently based upon any consideration of assignment objectives, scope and limitations.	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	Action Implemented The number of days allocated to each assignment has taken 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 Implemented 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.	Staff supervision discussions will take place at least once per month, and whenever required.	31/01/2016	MEDIUM	Action Implemented Staff supervision discussions are completed at least once per month with effect from December 2015, and more frequently on an informal basis.

<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>
		Arrangements for review of any audit work conducted by the Corporate Assurance Manager are yet to be determined.	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.	30/06/2016		Action Not Yet Started
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.	Audit reports will be redesigned to include: <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	Action Implemented This action has been implemented through the review and redesign of internal audit reports.
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 in Progress Consultation with members of the Audit and

<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>
						Ethics Committee will take place on 12 April 2016.
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	<p>Action in Progress</p> <p>Changes in working methodology have been explained to staff. Some time will be required during the first quarter of 2016/17 to embed the new working methodology.</p>
24	N/A	Management engagement and buy in.	Deliver presentations to the Leadership and Operations 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	<p>Action in Progress</p> <p>Presentation delivered to the Leadership and Operations Team on 22 March 2016. A presentation will be made to the wider management team at the next Corporate Management Forum meeting.</p>



APPENDIX B

CORPORATE ASSURANCE

CUSTOMER SATISFACTION QUESTIONNAIRE

Assignment Title:	
Date of Report:	
Auditor:	
Client:	

In order to help improve our service we would be grateful if you would spend a few moments answering the questions below.

N/A	Outstanding	Good	Satisfactory	Poor
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Scope/ Design of Assignment					
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Communication During the Assignment					
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Quality of Reporting					
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Quality of Recommendations					
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Extent to Which Value was Added					
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If you have any other comments that you wish to make please record them below:

Please return the form to Chris Green, Corporate Assurance Manager

APPENDIX C

INTERNAL AUDIT

PROPOSED KEY PERFORMANCE INDICATORS (KPI's)

<u>Theme</u>	<u>Title of KPI</u>	<u>Performance Target</u>
Delivery	Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017	100%
Adding Value	Customer Satisfaction	Average rating of at least “Good”, based upon the results of completed Customer Satisfaction Questionnaires
Timeliness	Timeliness of Reporting – Percentage of draft reports issued within 10 working days of assignment fieldwork completion	90%
Effectiveness	Implementation of Agreed Actions – Percentage either fully or partially implemented on time	90%

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	2015/16 Internal Audit Plan Progress Update
<i>Portfolio</i>	Resources and Corporate Governance
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Head of Resources
<i>Contact Officer</i>	Chris Green, Corporate Assurance 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 and the framework of policies and standards within which it operates.
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards (PSIAS)
<i>Summary</i>	The report sets out progress against delivery of the Internal Audit Plan for 2015/16.
<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>Recommendation</i>	That the report be considered and noted by the Committee.
<i>Reasons for Recommendation</i>	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 – 12 April 2016

2015/16 Internal Audit Plan Progress Update

Report of the Head of Resources

Recommendation

That the report be considered and noted by the Committee.

1. Introduction

The purpose of this report is to set out progress against the Internal Audit Plan for 2015/16.

The Council has a legal duty to maintain an adequate and effective internal audit service. The primary role of Corporate Assurance is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- the Council's assets and interests are safeguarded;
- reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

The audits which formed the amended audit plan for 2015/16 were detailed in the report to the Audit and Ethics Committee dated 23 June 2015. Progress against delivery of that plan is set out at Appendix A.

Appendix A also sets out the progress against the recommendations made by Corporate Assurance for 2014/15 and the current financial year.

3. Revisions to the 2015/16 Audit Plan

There are no proposed revisions to the 2015/16 Audit Plan at this time.

4. Special Investigations

No special investigation work has been carried out since the previous meeting of the Audit and Ethics Committee on 2 February 2016.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: 2015/16 Internal Audit Plan Progress Update
Originating Department: Corporate Assurance

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	12/04/2016	Internal Audit Progress Update		



INTERNAL AUDIT UPDATE
APRIL 2016

Date: 12 April 2016

Introduction

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

As previously reported to the Committee in June 2015, resourcing issues required amendments to be made to the agreed internal audit plan for 2015/16. Delivery of the amended internal audit plan is being supported by external partners, TIAA and Grant Thornton (in an advisory capacity).

At the date of writing:

- ten assignments have been finalised;
- three assignments are at draft report stage;
- and at the time of writing work is in progress on a further one assignment (Income Management System). It is expected that a draft report will be issued for this assignment by the end of March 2016.

Subject to completion of the Income Management System audit, draft reports will have been issued for 100% of assignments by the end of March 2016. A minimal amount of time will be required to finalise the remaining reports during April 2016. This will not have any adverse impact on the ability of the service to deliver the audit plan for 2016/17. Progress on individual assignments is shown at pages 7 to 9 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

Ten audits from the 2015/16 Internal Audit Plan have been finalised to date. All assignments resulted in an opinion of either Full or Substantial Assurance. In the opinion of the Corporate Assurance Manager, at this stage there are no emerging issues arising from the work of Internal Audit which impact upon the Internal Audit opinion of the Council's Control Framework. It should be noted, however, that owing to previously reported resourcing issues, the annual Internal Audit opinion of the Council's control environment, which will be presented at the next Committee meeting in June, will be based upon a reduced level of coverage for 2015/16.

Five assignments from the 2015/16 Internal Audit Plan have been finalised since the last Committee meeting and the key findings are as follows:

Payroll – **Substantial Assurance**

The audit confirmed that:

- Monthly reconciliations were being completed in a timely and accurate manner;
- New starters were correctly added to the payroll;
- Leavers were correctly removed from the payroll;
- Appropriate procedures are in place to maintain the establishment list;
- Appropriate system access controls are in place;
- Deductions were correctly processed;
- The annual pay award was accurately applied in January 2015;
- The correct rates were being applied to car allowance and mileage claims;
- Officers had been correctly designated as either casual or essential users;
- With one minor exception, claims were appropriate and correctly authorised and processed; and
- All members were in receipt of the correct basic and special responsibility allowances as appropriate. No overpayments to previous members were identified.

The audit also highlighted that notifications of new starters and leavers were being completed by officers who were not authorised to do so under the approved scheme of delegation. Management have agreed that, in future, any such cases will be escalated to the next most senior level of management.

Election Payments – **Substantial Assurance**

The audit confirmed that:

- Staff were in receipt of the correct allowances;
- Payments had been accurately processed; and
- Tax on mileage claims was deducted where appropriate.

The audit highlighted three minor issues and management has agreed appropriate action in each case.

Counter Fraud Strategy – **Not Graded**

A draft Counter Fraud Strategy has been developed, and is being submitted to this Committee for approval. Following approval of the Strategy, the Council's fraud risks will be assessed, and an appropriate action plan will be developed and implemented.

ICT Third Party Suppliers – **Substantial Assurance**

The Council, like many organisations, places ever greater reliance on third parties to support package applications and bespoke services incumbent to the delivery of quality ICT services to its internal users and wider external customer community. It is therefore important that a robust mechanism of control over third parties requiring access to the Councils network to maintain systems and services is in place and operating effectively.

The audit confirmed that:

- The Council uses a third party solution to control remote access to its servers;
- Appropriate procedures are in place for setting up supplier accounts; and
- Legal Services are currently working with IT to develop a “Contractors Terms” document for use whenever access to the Council’s network or systems is required. This contains the information security principles to be circulated to all service providers requesting their adoption and sign up.

The audit also highlighted that the Council does not have a definitive list of its third party support providers. It is best practice to identify and document all supplier relationships, the services provided and to categorise them according to supplier type, significance and criticality. Management have agreed to review all third party accounts, and to devise a new protocol for the creation, annotation, documentation and housekeeping of such accounts.

IT Strategy – **Substantial Assurance**

An IT Strategy linked to the objectives of the Council is essential and significantly reduces the risks to service delivery. However, the continual changing face of technology, driven by technological enhancements and innovation to assist the business model, makes a long term strategy potentially redundant. The Council has therefore adopted a shorter term strategy and whilst some projects may extend into future years, the strategy plan is reviewed annually against the individual annual service plans, to form the central IT work plan for that year.

The overall ICT Strategy document is dated October 2012 and provides a high level overview which informs the direction of Council ICT investment and delivery. The Strategy is aligned to the Council’s Corporate Strategy and sets out in nine areas of strategic focus which outline the Council’s commitment and visions for development of essential areas within ICT.

The Corporate Strategy is currently under review is due to be published during 2016. Once published, a review of the ICT Strategy will take place to update the strategic focus areas and priorities as necessary.

ICT resource planning for the year ahead takes place at an IT planning session once all service plans and their potential ICT requirements are known. There is an ICT Work Programme spreadsheet which sets out the current projects and assigns a resource requirement to each project defined as High, Medium or Low Resources. In assessing the resources required in person days, a judgement is made on how many staff will be involved, the skill level of those staff and the complexity of the task. For greater clarity, especially where it may be necessary to bring in external support to assist resources, it may be beneficial to replace or supplement the high medium and low resource requirements with the estimates of the number of person days.

Copies of all Internal Audit reports are available to Members at any time and can be requested via the Corporate Assurance Manager or the Head of Resources.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, there are two agreed management actions which are overdue for implementation. Implementation of the actions will continue to be monitored by Internal Audit and reported to each Committee meeting. Further details are provided at page 11.

An analysis of progress on implementation of audit recommendations is shown at pages 10.

Limitations and Responsibilities

Limitations inherent to the internal auditor's work

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

Opinion

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

Internal Control

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

Future Periods

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

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

Responsibilities of management and internal auditors

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

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

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Payroll	25						✓	Substantial	Refer to summary of findings – Pages 3 to 4
Election Payments	10						✓	Substantial	Refer to summary of findings – Pages 3 to 4
Housing Benefits	20					✓			
Council Tax	15					✓			
Income Management System	20			✓					
Counter Fraud									
Counter Fraud Strategy	10						✓	Not Applicable	Draft Strategy being presented to this Committee for approval.
Governance									
Enterprise Risk Management	10						✓	Not Graded**	
Service Delivery									
Housing Rents	15					✓			Being delivered by Grant Thornton. Management comments on the draft report have been provided to Grant Thornton. Report expected to be finalised in April.
Stocks and Stores	5						✓	Full	

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Visitor Centre									
Trade Waste	15						✓	Substantial	
Management of Special Events	10						✓	Substantial	
ICT									
Third Party Suppliers	5						✓	Substantial	Refer to summary of findings – Pages 3 to 4
IT Strategy	5						✓	Substantial	Refer to summary of findings – Pages 3 to 4
Grant Certification									
Homes and Communities Agency – Woodside Park							✓	Full	Compliance audit carried out by Grant Thornton, to provide assurance that grant terms and conditions had been complied with.

** The Council was assessed against 8 key categories, and rated between risk naïve and risk enabled. The overall opinion was that the Council was “Risk Managed”.

Implementation of Audit Recommendations Made in 2014/15

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected
Corporate Governance	1	1	0	0	0	0
Crematorium	2	2	0	0	0	0
Sports and Recreation	7	6	1	0	0	0
Corporate Fraud	3	2	0	0	0	0
Land Charges	2	2	0	0	0	0
Creditors	1	0	1	0	0	0
Planning	2	0	0	0	2	0
Income Management	2	2	0	0	0	0
Benefits	3	2	1	0	0	0
Trade Waste	2	1	0	1	0	0
Management of Special Events	3	2	1	0	0	0
Totals	28	20 (71%)	5 (18%)	1 (4%)	2 (7%)	0

Implementation of Audit Recommendations Made in 2015/16

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected
Stocks and Stores – Visitors Centre	1	1	0	0	0	0
Enterprise Risk Management	3	1	0	2	0	0
Payroll and Election Payments	4	2	0	2	0	0
Totals	8	4 (50%)	0	4 (50%)	0	0

Details of Overdue Audit Recommendations

Audit Title and Year	Issue/Outstanding Action	Updated Position	Officer Responsible	Original Date	Revised Date
Planning 2014/15	Development Strategy Manager reviews the Moving In Grant scheme.	The SLA with Rugby First is currently under review. A report on a revised Forward Plan is due to be presented to Cabinet on 4 April 2016.	Development Strategy Manager	30 September 2015	30 April 2016
Planning 2014/15	The Development Strategy Manager ensures that the issue of Moving In Grant funding is paid in accordance with agreed procedure. A more robust method of monitoring the Moving in Grants from application through to the end of the first twelve months of trading should be implemented.	A review is to be completed, following agreement of the revised SLA with Rugby First, to ensure that grant funding is utilised in a way which provides the most effective support to new businesses. The review is expected to be complete by the end of June 2016 and will incorporate revised administrative arrangements. Pending completion of the review, no Moving In Grants are currently being issued.	Development Strategy Manager	30 September 2015	30 June 2016

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	2016/17 Internal Audit Plan
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Directors and Heads of Service
<i>Reporting Director</i>	Head of Resources
<i>Contact Officer</i>	Chris Green, Corporate Assurance 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 and the framework of policies and standards within which it operates.
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards
<i>Summary</i>	The Committee has specific responsibility to review the work of Corporate Assurance. The report outlines the internal audit plan for 2016/17.
<i>Risk Management Implications</i>	There are no risk direct management implications arising from this report.
<i>Financial Implications</i>	There are no direct financial implications arising 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.
<i>Recommendations</i>	<ol style="list-style-type: none">1. The report be considered and approved, subject to any alterations required by members.2. The Committee grants delegated authority to the Head of Resources, in consultation with the Chair of the Committee, to make amendments to the Internal Audit Plan to

address any urgent requirements for additional work in between Committee meetings.

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

Audit and Ethics Committee – 12 April 2016

2016/17 Internal Audit Plan

Report of the Head of Resources

Recommendation

The Internal Audit Plan be considered and approved, subject to any alterations required by members.

The Committee grants delegated authority to the Head of Resources, in consultation with the Chair of the Committee, to make amendments to the Internal Audit Plan to address any urgent requirements for additional work in between Committee meetings.

1. Background

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

2. Internal Audit Plan

- 2.1** The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:

- an assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
- an assessment of the range of individual opinions arising from the risk based assignments, which will be reported throughout the year.

- 2.2** The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Section 151 Officer/Head of Resources and the Audit and Ethics Committee on the degree to which risk management, control and governance support the achievement of Council objectives; and
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

- 2.3** The Committee approved changes to the way in which the Internal Audit Plan is developed, at the previous meeting on 2 February 2016. A gross list of potential areas for internal audit review has been developed by identifying key risks from the following sources:

- Risk Management Framework, Strategic and Operational Risk Registers
- Corporate Strategy

- Financial Statements
- Service Plans
- Project, Contract and Partnership Registers
- Cumulative knowledge and experience
- Stakeholder engagement

2.4 The gross list of potential audits formed the basis of stakeholder discussions with the Senior Management Team during February 2016 from which the planned audit coverage for 2016/17 was refined and prioritised. Following this consultation, a draft Internal Audit Plan was compiled and approved by the Leadership and Operations Team on 22 March 2016. The draft Internal Audit Plan is set out at Appendix A and covers a broad range of areas including financial risks, IT risks, fraud risks, corporate/strategic risks, and operational/service risks.

2.5 The Head of Resources and Corporate Assurance Manager have reviewed the level of resources required to deliver the proposed risk based Internal Audit Plan. An external provider, TIAA, is already contracted to deliver the IT audits under a framework agreement via Warwickshire County Council. In 2015/16 Grant Thornton were commissioned to deliver the planned review of Integrated Housing Repairs and Stock Control; this review has been scheduled for the second quarter of 2016/17. Delivery of the remainder of the plan will require approximately 40 days of additional resource, which will be provided by suitably skilled officers from elsewhere within the Council. It is therefore not felt necessary to recruit to the vacant position; this will generate a saving of £32,000 in 2016/17. As such, significant improvements to the Internal Audit service are being delivered alongside a significant reduction in cost.

2.6 The full gross list of potential audits is also set out at Appendix B. This enables members to see the basis upon which assignments have been included or excluded from the Internal Audit Plan. The Plan is flexible and members can request amendments to the audits included.

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

3.1 The Public Sector Internal Audit Standards require the Audit and Ethics Committee to act as the 'Gate Keeper' to any significant changes to the Internal Audit Plan. For example, if circumstances during the year result in changes to the Council's risk profile being identified, then the Internal Audit Plan may need to be amended to ensure that the service adds the maximum value and remains aligned with the needs of the organisation.

3.2 Before authorising changes to the Internal Audit Plan, the Committee would need to be satisfied that such a change would not impact, negatively, on the ability for Internal Audit to provide an adequate level of assurance to the Council. Due to the timings of Committee meetings, and to avoid delays in completion of audit work, it would be more appropriate to grant the Head of Resources delegated authority to approve such changes in consultation with the Chair. Such decisions would then be subject to approval by the Committee at the subsequent meeting.

3.3 In this context, significant changes to the Internal Audit Plan are regarded as any alteration in the allocation of resources of more than 5 days.

Name of Meeting: Audit and Ethic Committee
Date of Meeting: 12 April 2016
Subject Matter: 2016/17 Internal Audit Plan
Originating Department: Head of Resources

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	12/04/2016	Draft Internal Audit Plan		
Appendix B	12/04/2016	Gross List of Potential Audits		

APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2016/17

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<u>Financial Risks</u>					
Financial System Key Controls	Resources	To provide assurance that appropriately designed controls are in place, and operated consistently, to mitigate the key risks to the Council in respect of its financial systems.	Q3/Q4	Fundamental financial systems. Risk of fraud, error and/ or financial loss.	30
<u>Counter Fraud</u>					
Fraud Awareness	Resources	Provision of training to raise awareness of fraud - what is fraud, types of fraud, how the risks can be reduced, and what to do if fraud is suspected.	Q2/Q3	The Council is developing and implementing a new Counter Fraud Strategy.	10
Fraud Risk Review	Corporate	Consultative support to identify and assess the Council's fraud risks. Provision of support to enable appropriate mitigating controls to be developed and implemented.	Q1	In order to implement the new Counter Fraud Strategy, the Council will need to assess its fraud risks, in order to develop and implement an appropriate fraud response plan.	10
				Total - Counter Fraud	20

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<u>IT</u>					
Disaster Recovery and Backup	Customer and Information Services	Review of arrangements in place to ensure, in the event of a disaster, that systems are restored in a prioritised and timely manner, and that there are appropriate arrangements to prevent loss of data. The previous review conducted in 2014/15 provided only Limited Assurance. To be delivered by TIAA.	Q4	Loss or outage of various systems is highlighted on the operational risk register; could cause significant disruption to services.	10
Systems Admin - Account Creation and Deletion	Customer and Information Services	Review of the administration of software and systems, specifically in relation to the creation and deletion of user accounts. To be delivered by TIAA.	Q2	Risk highlighted by the Corporate ICT Manager. There might not be effective and controlled administration of access to the Council's software and systems.	5
Helpdesk	Customer and Information Services	Assurance that the helpdesk service is effectively managed, within its established level of resources, in a way which meets the needs of the Council. Assurance that common themes and issues are addressed at a corporate level. To be delivered by TIAA.	Q3	Fundamental back office service. New system and processes being implemented in 2016.	10

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Payment Card Industry Data Security Standards Compliance	Customer and Information Services	General review of compliance with the standards across the Council. To include a review of data retention and disposal arrangements. To be delivered by TIAA.	Q2	Risk highlighted by the Corporate ICT Manager. Failure to comply with standards could lead to reputational damage and loss of ability to process card payments.	5
				Total - IT	30
<u>Corporate Risks</u>					
Business Continuity/ Emergency Planning	Corporate	Assurance that the Council's business continuity and emergency plans are fit for purpose and have been adequately tested.	Q4	Corporate risk register highlights this area as being high risk.	15
Change Management - Consultancy Support	Corporate	Consultative support as required throughout the year to ensure that end to end reviews deliver the intended outcomes without compromising the Council's overall control environment.	Q1 - Q4	A key element of the Council's strategy to achieve financial self-sufficiency. Increased risk of the control environment being compromised.	15
Income, Fees and Charges	Corporate	Assurance that the Council is setting its fees and charges for non-statutory services at appropriate levels, sufficient to ensure full recovery of costs. The review will include RAGM, Licensing, the Crematorium, Pest Control and Corporate Property.	Q2	Key to the Council achieving financial self-sufficiency.	20

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Discretionary Expenditure	Corporate	Assurance that discretionary expenditure is subject to appropriate review and challenge, and that such expenditure is consistent with the Council's published corporate priorities.	Q3	Key to the Council achieving financial self-sufficiency.	15
Corporate Health and Safety	Corporate	Assurance that appropriate policies and procedures are in place and operated effectively, and that appropriate staff training, monitoring and remedial action is taken where necessary. Assurance that the Council is operating in compliance with its statutory health and safety responsibilities in relation to communal areas and open spaces.	Q1	There would be substantial reputational and financial damage to the Council in the event of a serious incident caused by negligence.	25
Procurement and Contract Management	Corporate	Assurance that controls are appropriately designed and operated to ensure that the Council complies with statutory and policy requirements, and to ensure that value for money is demonstrated throughout procurement activities. Assurance that contract managers have received appropriate training, that Contract Standing Orders are complied with and that financial and project related risks are adequately managed.	Q2	Closely aligned with the Council's financial self-sufficiency agenda. Risk of significant financial and/or reputational damage.	20

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Expenditure on Consultants	Corporate	Assurance that expenditure on consultants is appropriately controlled, that there are clear terms of reference, that intended outcomes are delivered and Value for Money is secured.	Q3	Risk of poor Value for Money; expenditure might not be aligned with corporate priorities, risk of failure to achieve intended outcomes.	15
Business Improvement District	Corporate	Review of income and expenditure to provide assurance that monies are utilised for the purposes intended and that value for money is achieved.	Q4	SLA being reviewed in 2016/17. Some concerns have been expressed around financial transparency.	15
				Total - Corporate Risks	140
<u>Operational Risks</u>					
Equalities and Diversity	Customer and Information Services	Equality Framework for Local Government, quality of Equality Impact Assessments, Employee Awareness, recruitment practices, review of evidenced outcomes.	Q1	Accreditation review to take place in Q4 2016/17. The Council is currently accredited as 'excellent'.	10
Stocks and Stationery	Customer and Information Services	The budget for this area has been reduced by 50%. Assurance sought that procurement processes are being correctly followed, that best value is obtained when purchasing supplies, and that the issue of stationery is appropriately controlled.	Q2	Assurance sought by the Head of Customer and Information Services that procurement processes are properly followed, and that issues of stationery are subject to appropriate control.	7

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Benn Hall Income and Expenditure	Planning and Recreation	Assurance requested that income and expenditure is appropriately accounted for, with a particular focus on ticket sales and cash receipting.	Q3	Assurance requested by Head of Planning and Recreation. Concerns expressed that the Hall is running at a net cost to the Council.	10
Integrated Housing Repairs and Stock Control	Housing and Property Services	Audit initially scheduled for completion in 15/16; deferred to 2016/17 due to end to implementation of new systems. A new stock control system is also being implemented. To be delivered by Grant Thornton.	Q2	Assurance that the new system is delivering its intended outcomes. Assurance that appropriately designed controls are in place to minimise the risk of loss of materials, to ensure that appropriate levels of stocks are held, and to ensure that financial records are accurate and up to date.	10
Tenant Recharges	Housing and Property Services	Assurance that recharges are accurate and complete, and correctly reflect the Council's expenditure incurred when carrying out repairs. Assurance that there are appropriate arrangements in place to maximise the collection of outstanding income.	Q3	New system of recharges being introduced in April 2016.	15

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Right to Buy	Housing and Property Services	Assurance that property transactions are at the correct prices based upon market rates, the Council has appropriate procedures to prevent fraudulent abuse of the Right to Buy scheme (for example through identity checks), that tenancy length conditions have been met, and that management are operating appropriate monitoring controls.	Q2	Assurance requested by the Head of Housing and Property Services that the Council is correctly administering the Scheme.	10
				Total - Operational Risks	62
<u>Additional Areas of Support</u>					
Annual Governance Statement		Assurance that the Council operates a robust framework of corporate governance.	Q1	Statutory requirement under Regulation 4(3) of the Accounts and Audit Regulations 2011.	10
National Fraud Initiative		Co-ordination of submission and review of data matching, and assurance that investigations are conducted where required.	Q4	The Council participates in the National Fraud Initiative, in line with its Counter Fraud Strategy.	15

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Corporate Investigation Work		Provision of independent investigatory support, in relation to allegations or suspicions of fraud, bribery and/ or corruption.	Q1-Q4	In line with the public interest and the Council's zero tolerance approach to fraud, bribery and corruption, as set out in the Counter Fraud Strategy.	25
Contingency Allowance				An allowance to enable unforeseen events to be absorbed without the need to revise the approved audit plan. This represents the application of sound project management. For example, an audit might take longer than estimated due to an extension of the scope or additional testing being required.	33
INTERNAL AUDIT PLAN – TOTAL DAYS					365

APPENDIX B – GROSS LIST OF POTENTIAL AUDITS

Corporate Risks

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
Business Continuity/ Emergency Planning	Strategic and Operational Risk Registers	Consistently referred to as being high risk.	Assurance that plans are fit for purpose.	HIGH	Yes	Not Applicable
Partnership Governance	Strategic Risk Register	Risk of loss of sovereignty.	Appropriate arrangements to manage partnerships such that corporate objectives and VFM are achieved.	MEDIUM	No - Deferred	Decision on combined authority expected late 2016/17. Schedule for inclusion in 2017/18.
Income generation/ Delivery of Savings/ Financial self sufficiency	Financial Reports	Challenging climate, financial sustainability of the Council depends on successful income generation and delivery of savings.	Assurance that schemes are on track to deliver the expected levels of income and savings. To include a review of the provision of sports and recreation services to Schools.	HIGH	No - Deferred	Preferred timing 2017/18, to be aligned with planned delivery of schemes.
Change Management	Business Improvement – Operational Risk Register	Critical to achievement of financial self-sufficiency, increased risk of the control	Consultative support to ensure that end to end reviews are delivering the intended outcomes/ benefits without	HIGH	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
		environment being compromised.	compromising the Council's overall control environment.			
Corporate Health and Safety	Health and Safety Operational Risk Register	Substantial damage to the Council in the event of a serious incident e.g. reputation, finance, fatality, loss of building.	Assurance that appropriate policies and procedures are in place and operated effectively, and that appropriate staff training, monitoring and remedial action is taken where necessary.	HIGH	Yes To incorporate communal areas and open spaces	Not Applicable
Fraud Risk Review	Internal Audit	In order to implement the new Counter Fraud Strategy, the Council will need to assess its fraud risks, in order to develop and implement an appropriate fraud response plan.	Assurance that appropriate risk assessments have taken place, and that appropriate mitigating controls are being developed and implemented.	HIGH	Yes	Not Applicable
Corporate Properties (Communal Areas and Open Spaces)	Internal Audit	Significant reputational and financial damage if the Council has not taken reasonable steps to ensure health and safety.	Assurance that the Council is operating in compliance with its statutory health and safety responsibilities in relation to communal areas. Could be delivered alongside the corporate health and safety audit.	HIGH	Yes To be delivered alongside review of corporate health and safety	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
Business Improvement District	Stakeholder consultation meetings	SLA being reviewed in 2016/17. Some concerns have been expressed around financial transparency.	Review of income and expenditure to provide assurance that monies are utilised for the purposes intended and that value for money is achieved.	HIGH	Yes	Not Applicable
Agency Staff	Internal Audit	Risk of poor Value for Money; excessive need for agency staff may indicate an ineffective workforce retention strategy.	Assurance that use of Agency Staff is for appropriate reasons, authorised in advance, and not used to circumvent procedures such as restrictions on filling vacant positions. Assurance that use is not for extended periods of time.	MEDIUM	No - deferred	The Council is currently reviewing its arrangements for commissioning agency staff; an audit review will therefore be scheduled for 2017/18.
Business Improvement District	Stakeholder consultation meetings	SLA being reviewed in 2016/17. Some concerns have been expressed around financial transparency.	Review of income and expenditure to provide assurance that monies are utilised for the purposes intended and that value for money is achieved.	HIGH	Yes	Not Applicable
Workforce Development and Retention	Common theme throughout the Council's strategic and	Critical to the success of the organisation; higher risk due to the economic climate and	Review of design and effectiveness of the Council's strategy to develop and retain its	MEDIUM	Yes – will be included within review of agency staffing	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
	operational risk registers.	recovery of the private sector. Workforce planning currently in progress.	workforce in key areas.			
Consultancy Expenditure	Internal Audit	Poor Value for Money, failure to achieve intended outcomes.	Assurance that expenditure on consultants is appropriately controlled, that there are clear terms of reference, that intended outcomes are delivered and Value for Money is secured.	MEDIUM	Yes	Not Applicable
Financial Planning and Governance	Financial Reports	Challenging financial climate for local government.	Financial resilience, financial planning follows best practice. Openness and transparency. Priority assessed as Medium because the latest external audit annual report, dated September 2015, stated “although the Council continues to face financial challenges, it has proper arrangements in place for securing financial resilience. The Council has effective financial	MEDIUM	No - Deferred	Assurance provided by External Audit in 2015. Will be reconsidered for inclusion in 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
			management arrangements in place”.			
Contract Management	Internal Audit	Failure to deliver outcomes and achieve value for money	Contract manager training, compliance with Contract Standing Orders, financial, project and risk management.	MEDIUM	Yes	Not Applicable
Project Management	Internal Audit	Projects fail to deliver outcomes in a way which demonstrates value for money. Failure to achieve corporate objectives.	Project risk management, officer skills and expertise, design and operation of project governance and monitoring arrangements, consistency of application of good project management.	MEDIUM	No - Deferred	Medium risk; audit will be scheduled for 2017/18
Capital Programme	Internal Audit	Risk of non-delivery of the programme and/ or poor use of monies.	Assurance that appropriate arrangements are in place to ensure delivery of the programme on time, and in a way which secures Value for Money.	MEDIUM	No - Deferred	Medium risk; audit will be scheduled for 2017/18
Fraud Awareness	Internal Audit	The Council is developing and implementing a new Counter Fraud Strategy	Training to raise awareness of fraud – what is fraud, types of fraud, how the risks can be reduced, what to do if fraud is suspected.	MEDIUM	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
Member Development	Internal Audit	Risk of failure to hold officers to account, poor decision making, failure to achieve corporate priorities.	Review of arrangements designed to ensure that Members are equipped to effectively carry out their role, make effective decisions (where appropriate), and effectively scrutinise senior officers.	MEDIUM	No - Deferred	Medium risk; audit will be scheduled for 2017/18
Freedom of Information	Internal Audit	Significant risk of reputational damage. Failure to minimise costs of compliance.	To provide assurance that the Council meets its statutory obligations in relation to the Freedom of Information Act, and that the arrangements are efficient and effective.	MEDIUM	No - Deferred	Medium risk; audit will be scheduled for 2017/18
Records Management	Internal Audit	Risk of inconsistent approach to records retention and disposal, including potentially unnecessary creation of records.	Assurance that the Council operates in compliance with the Code of Practice on Records Management, including a review of records retention and disposal procedures.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Equal Pay	Internal Audit	Risk of employee Equal Pay claims leading to significant financial loss and reputational damage.	Comparison of the pay of men and women carrying out equal work, identification and review of equal pay gaps,	LOW	No	HR department has assurance arrangements in place.

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan?</u>	<u>Rationale for Excluding</u>
			resolution of equal pay gaps, ongoing monitoring arrangements.			
Corporate credit/purchase cards	Internal Audit	Potential fraudulent use of the card/s	Detailed review of transactions to provide assurance that purchases were appropriate and supported by valid receipts.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Community Engagement and Consultation	Internal Audit	Risk of legal challenges if insufficient engagement and consultation is carried out.	Assurance that appropriate and effective community engagement and consultation arrangements are in place.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Risk Management	Internal Audit	Failure to achieve organisational objectives.	Assessment of the effectiveness of the Council's arrangements to manage its risks, and the level of risk maturity of the Council.	LOW	No	Full audit review completed in 2015/16

Service Risks – Business Transformation

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Procurement and Value for Money	Internal Audit	Risk of fraud/corruption.	Design and operation of controls designed to ensure that the Council	MEDIUM	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
			complies with statutory and policy requirements, and to ensure that value for money is demonstrated throughout procurement activities.			
Performance management and data quality	Business Improvement Operational Risk Register	Risk of ineffective management, failure to achieve outcomes, inappropriate targeting of resources.	Governance, accuracy of information.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Legal Services	Legal Services Operational Risk Register	Risk register highlights risks of failure to deliver prompt service and to meet deadlines.	Timeliness of service provision, prioritisation of workload, efficiency and effectiveness.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Elections	Stakeholder Consultation	Legal and reputational damage.	Assurance that elections are managed efficiently and effectively to ensure the smooth running of elections.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

Service Risks – Customer and Information Services

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Equalities Act 2010 Compliance	Operational Risk Register, Stakeholder	Accreditation review to take place in Q4 2016/17. The Council	Equality Framework for Local Government, quality of Equality Impact	HIGH	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
	Consultation	is currently accredited as 'excellent'.	Assessments, Employee Awareness, recruitment practices, review of evidenced outcomes.			
Rugby Art Gallery, Museums and Visitors Centre – Fees and Charges	Stakeholder Consultation – Requested by Head of Customer and Information Services	Assurance sought by the Head of Customer and Information Services	Review of fees and charges to ensure all income is appropriately accounted for and in full.	MEDIUM	Yes – Included within review of income, fees and charges	Not Applicable
Stocks and Stationery	Stakeholder Consultation – Requested by Head of Customer and Information Services	Assurance sought by the Head of Customer and Information Services	The budget for this area has been halved. Assurance sought that procurement processes are being correctly followed, that best value is obtained when purchasing supplies, and that the issue of stationery is appropriately controlled.	MEDIUM	Yes	Not Applicable
Customer Service Centre Demand Management	Customer and Business Support Services Operational Risk Register	Risk of inconsistent approach to dealing with customers either on demand or through appointments. Reputational damage.	Review organisational arrangements in place to ensure that customers are attended to in a fair consistent and timely manner.	MEDIUM	No - Deferred	Will be scheduled for completion in 2017/18
ICT Disaster Recovery/	ICT Services Operational	Loss or outage of various systems is	Appropriate arrangements in place to	MEDIUM	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Backup Procedures	Risk Register	highlighted on the risk register; could cause significant disruption to services.	ensure, in the event of a disaster, that systems are restored in a prioritised and timely manner, and that there are appropriate arrangements to prevent loss of data.			
Data Protection	Internal Audit	Risk of significant financial loss and reputational damage	Assurance that the Council operates in compliance with the Data Protection principles when storing and sharing data.	MEDIUM	No - Deferred	Will be scheduled for completion in 2017/18
IT Systems Admin	Internal Audit	There might not be effective and controlled administration of the Council's IT network.	Administration of software and systems, including user access rights. Specific focus on administration of user account creation and deletion.	MEDIUM	Yes	Not Applicable
IT Helpdesk	Internal Audit	Fundamental back office service.	Assurance that the helpdesk service is managed, within its agreed level of resources, in a way which meets the needs of the Council.	MEDIUM	Yes	Not Applicable
Payment Card Industry Data Security	Stakeholder Consultation	Failure to comply with standards leading to reputational damage	General review of compliance with the standards across the	MEDIUM	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Standards Compliance		and loss of ability to process card payments.	Council.			
Complaints, Compliments and Suggestions	Internal Audit	Reputational damage if complaints are not dealt with appropriately	Assurance that complaints are handled in an appropriate and timely manner, and that learning lessons are consistently applied.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Cash and Banking	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Assurance that income from all sources is received and accounted for in full in a timely manner. System access controls, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16.
IT Security	Internal Audit	Risk of data loss or theft, substantial reputational damage	Assurance that appropriately embedded IT Security measures are in place.	MEDIUM	No - Deferred	Full audit completed in 2014/15. Will be reviewed in 2017/18.
IT Strategy, Governance and Policies	Internal Audit	Effective ICT Governance is vital in ensuring that the ICT team are fully engaged with all services areas, can meet their needs and, in return, service areas also work in line	Assurance that appropriate and embedded ICT governance arrangements are in place, including strategy and policies.	LOW	No	Full audit completed in 2015/16

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
		with the Council's ICT requirements.				

Service Risks – Environmental Services

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Streetscene	Environmental Services Operational Risk Register	Operational risk register highlights the risk of deterioration of assets.	Assurance that the inspection regime is being operated as expected, and that repairs and maintenance is carried out in an effective and timely manner.	MEDIUM	No - Deferred	Will be considered for inclusion in 2017/18
Crematorium	Stakeholder Consultation – Requested by Head of Environmental Services	Assurance requested by the Head of Environmental Services	Review of the governance and operation of the Joint Venture with Daventry District Council. To include assurance that recharges are appropriate and that any surplus is fairly distributed between the two authorities.	MEDIUM	Yes – Included within review of income, fees and charges	Not Applicable
Licensing	Stakeholder Consultation – Requested by Head of	Assurance requested by the Head of Environmental Services.	Assurance requested that the service is cost neutral, and that back office costs are	MEDIUM	Yes – Included within review of income, fees and charges	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
	Environmental Services.		appropriately incorporated when considering whether or not the provision of such licenses is cost neutral.			
Car Parking	Internal Audit	Traditionally a risky area from an audit perspective.	Assurance that income is accounted for correctly and in full.	MEDIUM	No - Deferred	Will be considered for inclusion in 2017/18
Fleet Management	Internal Audit	Risk of loss of operator's licence, risk of reputational damage	Compliance with operator licence regulations, value for money, planning of the fleet to ensure that operational needs are met, compliance with safety standards, purchasing and disposals.	MEDIUM	No - Deferred	Full audit completed in 2013/14. Will be considered for inclusion in 2017/18
Use of s106 Monies	Stakeholder Consultation	As s106 commuted sum monies come to an end, the Council/ Parishes may be exposed to liabilities in relation to ongoing upkeep of open spaces.	Assurance that the Council is proactively mapping the timescale of reductions in s106 monies, and actively planning, including consideration of the costs, how the ongoing upkeep of open spaces will be delivered.	MEDIUM	No	Management action already in progress, audit not viewed as required at present, but will be reconsidered later in 16/17.
Pest Control	Internal Audit	Financial loss, reputational damage	Accuracy and completeness of income	MEDIUM	Yes - Included with income, fees	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
			and expenditure, compliance with statutory obligations, value for money.		and charges review	
Trade Waste	Internal Audit	Risk of financial loss, reputational damage due to failure to deliver a quality service.	Accuracy and completeness of billing, value for money of the service, financial sustainability of the service, collection and recovery of outstanding income.	LOW	No	Full audit completed in 2014/15
Transport – Fuel Usage	Transport Operational Risk Register	Risk of fuel loss due to theft.	Assurance that appropriate controls are operated to mitigate the risk of fuel theft, either by officers or by members of the public.	MEDIUM	No	Full audit completed in 2014/15

Service Risks – Housing and Property Services

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Depot Stock Control	Internal Audit	Awareness that a new stock control system is being implemented.	Assurance that appropriately designed controls are in place to minimise the risk of loss of materials, to ensure that appropriate levels of stocks are held, and to	HIGH	Yes - Grant Thornton to deliver alongside Integrated Repairs review in an advisory capacity	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
			ensure that financial records are accurate and up to date.			
Housing – Integrated Repairs	2015/16 Audit Plan	Audit initially scheduled for completion in 15/16; deferred to 2016/17 due to end to implementation of new systems.	Assurance that the new system is delivering its intended outcomes.	HIGH	Yes – Grant Thornton commissioned to deliver in an advisory capacity	Not Applicable
Tenant Recharges	Resources Management Team	New system of recharges being introduced in April 2016	Assurance that recharges are accurate and complete, and correctly reflect the Council's expenditure incurred when carrying out repairs. Assurance that there are appropriate arrangements in place to maximise the collection of outstanding income.	HIGH	Yes	Not Applicable
Right to Buy	Stakeholder Consultation – Requested by Head of Housing and Property Services.	Assurance requested by the Head of Housing and Property Services.	Assurance sought that property transactions are at the correct prices based upon market rates, the Council has appropriate procedures to prevent fraudulent abuse of the Right to Buy scheme (for example through identity	MEDIUM	Yes	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
			checks), that tenancy length conditions have been met, and that management are operating appropriate monitoring controls.			
Housing Options	Internal Audit	Risk of significant reputational damage, customer hardship	Assurance that the Council complies with its statutory responsibilities in relation to homeless persons. Processing of housing applications, assurance that allocations are in line with policy.	MEDIUM	No - Deferred	Will be included in 2017/18 audit plan.
Intensive Housing Management	Internal Audit	The service might not meet the needs of stakeholders and charges might be insufficient to cover income.	Assurance that the service meets the needs of stakeholders and that service expenditure is sufficiently covered by income.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Housing Rents	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16.

Service Risks – Planning and Recreation

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Benn Hall	Stakeholder Consultation – Requested by Head of Planning and Recreation	Assurance requested by Head of Planning and Recreation. Concerns expressed that the Hall is running at a net cost to the Council.	Assurance requested that income and expenditure is appropriately accounted for, with a particular focus on ticket sales and cash receipting.	MEDIUM	Yes	Not Applicable
Tool Shed Café	Internal Audit	Risk of financial loss	Assurance that income and expenditure is correctly accounted for.	LOW	No	Full review completed in 2014/15, viewed as lower risk at present.
Land Charges	Internal Audit	Risk of financial loss and/ or reputational damage.	Maintenance and update of the land charges register, efficient and timely completion of search requests, accuracy and completeness of land charge search income, system access controls.	LOW	No	Full review completed in 2014/15, viewed as lower risk at present.
Planning Development and Enforcement	Internal Audit	Risk of fraud/ corruption/ bribery	Assurance that planning admin, management and enforcement processes are consistently applied, efficiently and effectively, in line with Council policies and statutory requirements.	LOW	No	Full review completed in 2014/15, viewed as lower risk at present.

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Building Control	Internal Audit	Risk of financial loss	Assurance that charging is timely and accurate, and that income is collected in full and correctly accounted for. Service managed by Warwick District Council.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

Service Risks – Resources

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Including in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Creditors	Operational Risk Register, Fundamental Financial System	Risk register highlights risk of incorrect payments, late payments, and fraud.	Accuracy and timeliness of payments, system accuracy, recovery of duplicate payments, accuracy of accounting records.	MEDIUM	Yes – included within review of financial key controls	Not Applicable
Absence Management	Human Resources Operational Risk Register	Risk register highlights the risk of adverse impacts on services and teams caused by sickness absence. Leadership Team review currently in progress.	Assurance that policy and procedures are appropriately designed, and consistently applied to ensure that absence is effectively managed.	MEDIUM	No - Deferred	New procedures being implemented; audit will be scheduled for 2017/18
Income Collection and Recovery (Sundry	Internal Audit	Fundamental financial system. Risk of fraud, error, financial loss.	Assurance that income is billed in full and in a timely manner, and that procedures are sufficiently	MEDIUM	Yes – included within review of financial key controls	Not Applicable

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Including in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Debtors)			robust to ensure that collection rates are maximised. System access review. Accuracy and completeness of accounting records.			
Council Tax and NDR Fraud	Internal Audit	Risk of financial loss and reputational damage, limited internal resource capacity to undertake proactive work in this area.	Review of the design of controls in place to mitigate the risk of Council Tax and/ or NDR fraud. Proactive sample testing of a sample of accounts to confirm the operation of controls and to provide assurance that fraud is not taking place.	MEDIUM	No	Risk reviewed as part of Council Tax audit completed in 2015/16. County Counter Fraud Initiative in progress. Will be reconsidered in 1 year.
Fixed Assets	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Valuations, additions and disposals, accuracy and completeness of accounting records.	MEDIUM	Yes – included within review of financial key controls	Not Applicable
Treasury Management	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of financial losses on investments, higher than necessary debt, and insufficient cash.	Authorisation of transactions, compliance with Treasury Management Practices, assurance that there is an appropriate strategy in place, system access controls, accuracy and completeness of accounting records.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Including in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Budget Setting and Monitoring	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of significant budget setting errors.	Assurance that the budget setting process is robustly designed to mitigate the risk of significant error. Assurance that budget monitoring is sufficiently robust to identify and address any in year financial pressures.	LOW	No	Full audit completed in 2014/15. Regarded as low risk at present; will be reconsidered in 1 year.
Recruitment and Selection	Internal Audit	Risk of fraud/ corruption. Recruitment may not meet the needs of the Council e.g. if the officer does not have the skills or potential to carry out the duties of the post.	Review of design and compliance with recruitment and selection procedures.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Insurance	Internal Audit	The Council's insurance coverage might be inappropriate for its needs and might not represent value for money; claims processing arrangements might not be sufficiently robust.	Review of the levels of insurance cover, arrangements to ensure value for money, and claims processing procedures. Review would need to be undertaken by an officer outside of the Corporate Assurance service, or an external assurance provider.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Including in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Benefits	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy of payments to claimants, system access control, recovery of overpayments, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16
Council Tax	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16
NDR	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, processing and authorisation of reliefs, system access controls, maximisation of collection, accuracy and completeness of accounting records.	MEDIUM	Yes – included within review of financial key controls.	Not Applicable
Payroll	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Payroll processing including deductions, administration of starters and leavers, system access controls, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Including in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Main Accounting System	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss. System under review in 2016/17.	Assurance that the Main Accounting System is secure, and adequately supports the production of accurate financial statements.	MEDIUM	Yes – included within review of financial key controls	Not Applicable

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Treasury Management
<i>Portfolio</i>	Resources and Corporate Governance
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	None
<i>Contact Officer</i>	Chris Blundell, Financial Services Manager Tel: 01788 533416
<i>Report Subject to Call-in</i>	This report is not subject to Call-in.
<i>Statutory/Policy Background</i>	The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management.
<i>Summary</i>	This report sets out the statutory and regulatory guidance providing the framework for the Council's treasury management activities and makes recommendations for the effective inclusion of the Committee in the governance of those activities.
<i>Risk Management Implications</i>	There are no risk management implications for this report.
<i>Financial Implications</i>	There are no direct financial implications arising 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>Recommendations</i>	That scrutiny of the Council's treasury management activities is incorporated into the annual timetable of the Committee through: <ul style="list-style-type: none">• detailed consideration of the Council's annual Treasury Management Strategy,

Mid-Year Report, and Annual Treasury Report; and

- consideration of the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensuring that they meet best practice following appropriate member training.

Reasons for Recommendation

To comply with best practice as recommended by the CIPFA Code of Practice on Treasury management in the Public Services.

Audit and Ethics Committee – 12 April 2016

Treasury Management

Report of the Head of Resources

Recommendation

That scrutiny of the Council's treasury management activities is incorporated into the annual timetable of the Committee through:

- detailed consideration of the Council's annual Treasury Management Strategy, Mid-Year Report, and Annual Treasury Report; and
- consideration of the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensuring that they meet best practice following appropriate member training.

1. Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) defines treasury management activities as:

'The management of a Council's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.'

To provide context, the Council's debt portfolio as at 31 March 2016 is in excess of at £90m and its investment portfolio was £41m. Annual cash inflows and outflows are in excess of £100m and comprise receipts from central government, council taxpayers, housing rents, business rates, payments to employees, suppliers, other local authorities, and central government.

2. The Regulatory Framework

Treasury management in local authorities is extremely well regulated. Specific policy and operational guidance is contained in professional codes of practice, with overarching statutory and regulatory guidance drafted by the Government.

This framework of regulation and codes of practice provides the basis for the governance and reporting of treasury management activities in local authorities.

Statutory and regulatory guidance is provided by the Local Government Act 2003 and the Government's Investment Guidelines 2010 (Revised). Codes of best practice include the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management

Code of Practice and the Prudential Code. The Council adheres to all these in the way it manages its treasury services.

CIPFA's Code of Practice for Treasury Management in the Public Services (the Code) recommends the adoption of four key clauses as part financial regulations and procedures. The Council adopted the fully revised edition of the Code in February 2012, and subsequently updated financial regulation and procedures. Two of the clauses relate to governance and reporting arrangements, as follows:

- That the Council delegates responsibility for the implementation of its treasury management policies and practices to the Council's Cabinet and for the execution and administration of treasury management decisions to the Council's Head of Finance.
- That the Council receives reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

Complementary to the CIPFA Treasury Management Code, the Government's Investment Guidelines requires the full Council to approve an Annual Investment Strategy.

3. Governance, Control and Risk Management

The Council has integrated the governance requirements of the CIPFA Treasury Management Code and the Government's Investment Guidelines into a single report. 'The Treasury Management Strategy' is presented to Cabinet and Council in January and February each year at the same time as the Council's annual budget proposals. It is proposed that, prior to consideration by Cabinet, and in accordance with best practice, the Strategy is examined in detail by the Audit and Ethics Committee. The Committee may ask for specific changes to be made to the report and/or provide a verbal briefing to Cabinet.

The annual Treasury Management Strategy report details economic forecasts, criteria for choosing investment counterparties, monetary limits and deposit periods, the strategy for long term borrowing, treasury management prudential indicators and leasing activity.

In accordance with the CIPFA Treasury Management Code, an annual report is also produced *after* financial year-end. The 'Annual Treasury Management Report' is presented to Cabinet and Council in July/August each year. It is proposed that, prior to presentation to Cabinet and Council, the report is considered by the Audit and Ethics Committee. The Annual Report reviews treasury activities undertaken in the previous 12 months and contains details of performance against key treasury management indicators and budgets. It also provides confirmation that all monies invested during the year was in accordance with the approved investment criteria.

A mid-year monitoring report on treasury activities is also produced for Cabinet and Council and, like the Strategy and Annual Reports, it is proposed that it be considered in detail by the Audit and Ethics Committee.

During financial year 2015-16, the Council will meet the reporting requirements of the Treasury Management Code by receiving:

- an annual treasury strategy in advance of the year (Council February 2015)

- a mid-year treasury update report (Council November 2015); and
- annual report following the year-end describing activity (Council July 2016).

To aid transparency these reports are presented to Cabinet and Council as agenda items in their own right, rather than as appendices to other financial reports.

If the recommendations within this report are accepted, subject to delivery of appropriate member training, the indicative timetable for the scrutiny of future reports would be:

Report	Consideration by Audit and Ethics Committee (Draft)	Consideration by Cabinet	Approval by Council
Mid-Year Report 2016/17	September 2016	November 2016	December 2016
Treasury Management Strategy 207/18	November 2016	February 2017	February 2017
Annual Report 2016/17	June 2017	June 2017	July 2017

4. Internal Audit of Treasury Management

An audit of Treasury Management is undertaken annually by the Council's Corporate Assurance service, testing key controls including:

- Cash Flow Forecast
- Investment/Loan Forms
- Journals
- Treasury Management Strategy
- Reporting to Committee of Adherence to Policy
- Annual Reporting
- Reconciliations of Investments/Borrowing systems records to Nominal Ledger
- Independent management review of cash position, debt profile and performance
- Access Controls
- Borrowing
- Interest Received/Paid
- Icelandic Banks

The 2014/15 audit provided a 'Full' opinion meaning that:

"A sound system of internal control, that is likely to achieve the system objectives and which is operating effectively. "

5. Internal Procedures

The Council's Financial Regulations and Procedures have specific sections dedicated to Treasury Management. They set out the key controls and specific responsibilities of the Statutory Finance Officer (Head of Resources) and the other Chief Officers with regard to Treasury Management. The regulations and procedures are reviewed and updated annually.

6. Conclusion

The Council's treasury management operations form an important part of the overall financial management of the authority. These operations comply with statutory and regulatory requirements, including appropriate Member scrutiny and reporting. To provide further assurance and comply with best practice recommendations this report makes suggestions to enhance the role of the Audit and Ethics Committee to give detailed consideration of the main treasury management activities as reported during the financial year. This will be accompanied by appropriate member training to ensure that those charged with scrutiny and oversight are able to meet the responsibility to complete their role effectively.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Treasury Management
Originating Department: Resources

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Statement of Accounts 2015/16 – Accounting Policies
<i>Portfolio</i>	Resources and Corporate Governance
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	None
<i>Contact Officer</i>	Chris Blundell, Financial Services Manager Tel: 01788 533416
<i>Report Subject to Call-in</i>	This report is not subject to Call-In.
<i>Statutory/Policy Background</i>	Accounts and Audit Regulations 2011, Local Government Accounting Code of Practice
<i>Summary</i>	Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. The Committee is responsible for approving the financial statements and therefore required to understand the basis on which they have been prepared.
<i>Risk Management Implications</i>	There are no risk management implications for this report.
<i>Financial Implications</i>	As detailed in the 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>Recommendations</i>	The accounting policies to be used in completing the 2015/16 Statement of Accounts be approved.
<i>Reasons for Recommendation</i>	Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. The Committee is responsible for approving the

financial statements and therefore required to understand the basis on which they have been prepared.

Audit and Ethics Committee – 12 April 2016

Statement of Accounts 2015/16 – Accounting Policies

Report of the Head of Resources

Recommendation

The accounting policies to be used in completing the 2015/16 Statement of Accounts be approved.

1. Background and Issues

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

The Head of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices and, in preparing those Accounts, is responsible for selecting suitable accounting policies and applying them consistently.

The Audit and Ethics Committee is responsible for approving the Statement of Accounts and should therefore be aware of and understand the basis on which those Accounts have been prepared. The draft accounting policies are provided at Appendix A for consideration.

Should there be any deviation from the proposed policies in the production of the 2015/16 Statement of Accounts this will be reported to the committee in due course.

2. Local Authority Accounting Framework

The main changes to the Local Authority Accounting Framework in 2015/16 are:

- Restricting disclosure in the financial statements to those items which are material to the Council's financial position and which influence the understanding of and decisions made by users of the financial statements;
- Introduction of the Narrative Report to replace the Explanatory Foreword;
- Adoption of International Financial Reporting Standard (IFRS) 13 *Fair Value*.

The Council undertook a fundamental review of the presentation of its Statement of Accounts in 2014/15, which included the presentation of the accounting policies within the relevant section of the accounts, as opposed to within a standalone section in previous years. In line-with the disclosure restrictions set out above, the Council will again review the presentation of its accounting policies and related disclosures in the 2015/16 Statement of Accounts.

The adoption of IFRS 13 *Fair Value* introduces a consistent definition of fair value throughout the accounts and also introduces the concept of "current value". The

implication for the Council of this accounting change is that its Surplus Assets must now be valued at their highest and best possible usage, as opposed to a valuation based upon the asset's previous use. Aside from the some minor change to the terminology this change will have limited effect on the Council's accounting policies. The Royal Institute of Chartered Surveyors (RICS) have been consulted with and been long aware of these forthcoming changes and the Council's valuers have been instructed to undertake the valuation in-line with IFRS13 requirements.

3. Faster Closedown

From 2017/18 local authorities will be required to complete draft Statement of Accounts by the 31 May, in contrast to the existing 30 June deadline. These new faster closedown requirements represent a significant challenge for local authorities with an approximate 33% reduction in the time permitted to produce the accounts.

The Council is already planning various means and new working methods to meet the new deadline, some of which may include changes to accounting policies in future years. The Council has opened early dialogue with the external auditors to can discuss these planned approaches to support potential new working methods.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Statement of Accounts 2015/16 – Accounting Policies
Originating Department: Resources

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), which is based on International Financial Reporting Standards (IFRS), and the Service Reporting Code of Practice 2015/16. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of noncurrent assets.

The Accounting Policies outlined are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these financial statements.

Critical Judgements in Applying Accounting Policies

In applying these accounting policies the Council has had to make judgements about complex transactions or those involving uncertainty about future events. There are no specific judgements that require disclosure at this point in time although the Council continues to review its plans to manage the high degree of uncertainty about future levels of funding from local government.

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, some may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

Changes in Accounting Policies, Estimates and Errors

The Code requires that a change in accounting policy should only be made if the change:

- is required by the Code; or
- will result in the financial statements providing more reliable and relevant financial information about the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Where a change is made, it is applied retrospectively, where material, by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively.

Accruals of Income and Expenditure

The accounts of the Council are prepared on an accruals basis. This means that the sums due to or from the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. Accruals have been made for all known material debtors and creditors for goods and services supplied both by and to the Council during the year. Interest payable and receivable is accounted for in the year to which it relates.

Reserves

Reserves are an accumulation of previous years' surpluses, deficits and transfers. The Council has an agreed policy with respect to reserves and sets aside specific amounts for future policy purposes or to cover contingencies. Transfers in and out of reserves are shown in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year to score against the Surplus or Deficit in the Provision of Services in the Comprehensive Income and Expenditure Statement. A transfer is then made, through the Movement in Reserves Statement, into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are classed as unusable reserves as they are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and cannot be used to support revenue spending, although an element of the Capital Adjustment Account can be used to repay external loan debt.

Usable reserves are those the Council may use to fund either revenue or capital expenditure as prescribed. The usable reserves held at 31 March 2016 include General Fund, Earmarked Revenue Reserves, Capital Receipts Reserve, and Capital Grants Unapplied. Unusable reserves held at 31 March 2016 include Capital Adjustment Account, Revaluation Reserve, Pensions Reserve, Accumulated Absences Account, and Collection Fund Adjustment Account.

Government Grants and Contributions

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

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

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

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

Employee Benefits

Benefits payable during employment

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

Termination Benefits

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

Pension Benefits

The cost of providing pensions for employees is charged to the accounts in accordance with International Accounting Standard 19 'Employee Benefits'. This policy reflects the requirement to account for retirement benefits when the fund is committed to give them, even if the payment may be many years in the future.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end. All actuarial gains and losses arising from the re-measurement of the net benefit liability are recognised in Other Comprehensive Income and Expenditure.

Value Added Tax (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

Overheads and Support Services

The cost of support services are recharged to services based on use and in accordance with CIPFA's Service Reporting Code of Practice (SERCOP) 2015/16 using the principle of total absorption costing. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of those costs that relate to the elected and multi-functional nature of the Council, which are disclosed separately as Corporate and Democratic Core and Non Distributed Costs. These two categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

Exceptional Items

When items of income and expenditure are material their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts and dependent upon their significance to the Council's financial performance.

Intangible Assets

Intangible assets are defined as assets that do not have physical substance but are identifiable and controlled by their owner. Normal examples are those of software or software licences, which have a value, but over a fairly short life of 3 –10 years and are therefore written down over that useful life.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are

expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Infrastructure assets, community assets and assets under construction are carried at historic cost, net of depreciation where appropriate.
- All other assets are carried at current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets have short useful lives and/or low values, depreciated historical cost is used as proxy for fair value.

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

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

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

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

Impairment

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

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

Depreciation

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

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

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

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

Componentisation

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

Subsequent Expenditure on Property Plant and Equipment

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

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

The writing off of the remaining net book value of assets which are disposed of is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Investment Property

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

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

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

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and building elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. This definition includes rental agreements, contract hire and licences.

Finance leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The Council as Lessor – Where the Council grants a finance lease over a property the relevant asset is written out of the Balance Sheet as a disposal. It is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as a cost to the services benefiting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset or financial liability for the Council and a financial liability or financial asset for another entity.

Financial Liabilities (e.g. Borrowing)

Financial liabilities are initially measured at fair value and carried on the Balance Sheet at that value plus any interest due. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for that particular financial instrument. For most borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Financial Assets (e.g. Investments)

Financial Assets are classified into two types:

- Loans and receivables – investments that have fixed determinable payments but are not quoted in an active market.
- Available-for-sale-assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-sale financial assets

After initial recognition, the carrying amount of an available-for-sale financial asset will be measured at its fair value. Any gain or loss arising from a change in fair value of an available-for-sale financial asset will be recognised in Other Comprehensive Income and Expenditure and taken to the Available-for-Sale Reserve. Interest on an available-for-sale financial asset will be calculated using the effective interest rate method and credited to Surplus or Deficit on the Provision of Services.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Hedge Accounting

In accordance with the Code, the Council will apply Hedge Accounting on a transaction by transaction basis.

The Council will carry out hedging activities, from time to time, to limit its exposure to different financial risks, such as interest rate risk. These activities commonly consist of entering into a forward dated contract with a counterparty to eliminate or limit risk. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

A hedging relationship that qualifies for hedge accounting will be recognised when the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Council's risk management objective and strategy for undertaking the hedge. The documentation will include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- for a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an on-going basis and determined actually to have been effective throughout its life.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in the Comprehensive Income and Expenditure Statement and any ineffective portion is recognised immediately in Other Comprehensive Income and Expenditure. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in the Comprehensive Income and Expenditure Statement are included in the initial

measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in the Comprehensive Income and Expenditure Statement are recognised in Financing and Investment Income and Expenditure.

Cash and Cash Equivalents

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

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

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Provisions

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

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

Contingent Liabilities

Contingent liabilities are not incorporated into the accounting statements. A disclosure is made in the notes to the Balance Sheet where there are any possible obligations that may require a payment or transfer of economic benefit. If it is probable that a transfer of future of economic benefits will be required then a provision is recognised in the Statement of Accounts.

Contingent Assets

Contingent assets are not incorporated into the accounting statements but are disclosed within the notes if the inflow of a receipt or economic benefit is likely.

Events after the Balance Sheet Date

Where an event, with a material impact, occurs after the balance sheet date which provides additional evidence relating to conditions existing at the balance sheet date the amounts recognised in the Statement of Accounts are adjusted to reflect this. For events that concern conditions which did not exist at the balance sheet date, the accounts are not adjusted but a separate disclosure note is made to the accounts.

Jointly Controlled Operations and Jointly Controlled Assets

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

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

The Council has a 50% interest in the Rainsbrook Crematorium Joint Committee with the other 50% relating to Daventry District Council. The decision making and operational arrangements of the crematorium joint committee fulfil the features associated with a jointly controlled operation in that:

- each venturer incurs its own expenses and liabilities and raises its own finance, which represent its own obligations; and
- the joint venture agreement provides a means by which the revenue from the service and any expenses incurred in common are shared among the venturers.

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

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Informing the Audit Risk Assessment for Rugby Borough Council
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Chief Financial Officer (Head of Resources), Deputy Chief Financial Officer (Financial Services Manager), Corporate Assurance Manager
<i>Contact Officer</i>	Chris Blundell, Financial Services Manager Tel: 01788 533410
<i>Report Subject to Call-in</i>	This report is not subject to Call-in
<i>Statutory/Policy Background</i>	International Standards on Auditing
<i>Summary</i>	This is a report from our appointed external auditor (Grant Thornton) which seeks to ensure that there is effective two-way communication between the Audit and Ethics Committee and the external auditor regarding the risks relating to the 2015/16 external audit of the Council.
<i>Financial Implications</i>	There are no financial implications arising from this report.
<i>Risk Management Implications</i>	There are no risk management implications arising from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity Implications</i>	There are no equality and diversity implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report.
<i>Recommendation</i>	Committee confirm that it is satisfied with the arrangements currently in place identified in the report at Appendix 1.
<i>Reasons for Recommendation</i>	The external auditor has a professional responsibility to ensure that there is effective two-way

communication between the auditor and the Council's Audit and Ethics Committee to help reduce the risk of material misstatement.

Audit and Ethics Committee – 12 April 2016

Informing the Audit Risk Assessment for Rugby Borough Council

Report of the Head of Resources

Recommendation

The Committee to confirm that it is satisfied with the arrangements currently in place identified in the report at Appendix 1.

Background

Grant Thornton, the Council's appointed external auditor, has submitted a report on the arrangements currently in place to inform the audit risk assessment for the Council. This is attached at Appendix 1 for consideration.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Informing the Audit Risk Assessment for Rugby Borough Council
Originating Department: Executive Director

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
1.	15 September 2015	Statement of Accounts 2014/15		

Informing the audit risk assessment for Rugby Borough Council

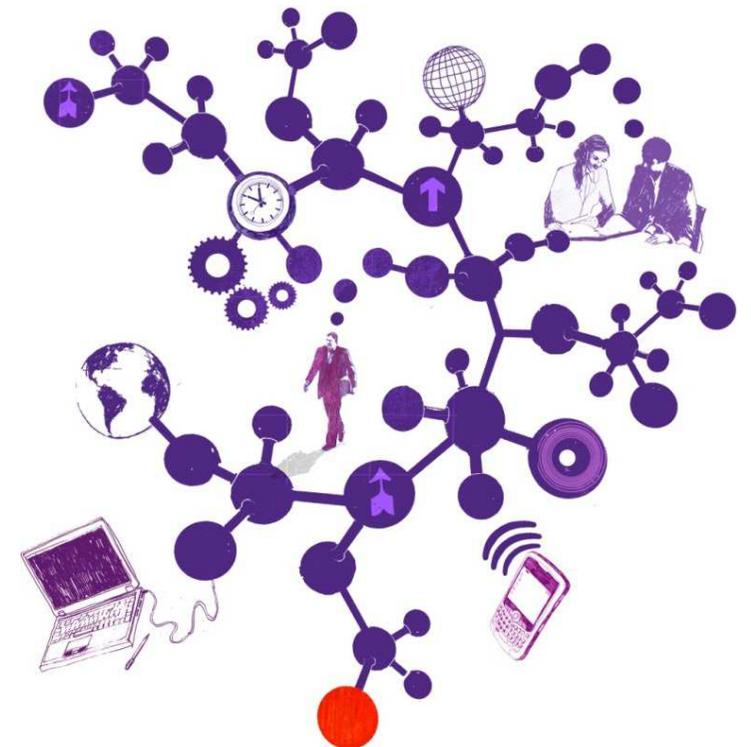
Year ended

31 March 2016

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

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Purpose

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

Background

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

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

Communication

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

- Fraud
- Laws and regulations
- Going concern.
- Related Parties
- Accounting estimates

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

Fraud

Issue

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with management and the Audit and Ethics Committee who consider the control framework.

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</p>	<p><i>The financial statements are subject to internal quality assurance control checks including : i) checks for high risk activities and ii) analytical reviews with the objective of identifying any significant year on year variances.</i></p> <p><i>A risk assessment process related to the preparation of accounts is completed based upon the audit issues raised by both Internal and External Audit.</i></p> <p><i>The monthly monitoring of service revenue and capital budgets will identify any risk of material misstatements.</i></p>
<p>What processes does the Council have in place to identify and respond to risks of fraud</p>	<p><i>The corporate governance framework is reviewed by the Audit and Ethics Committee, for the risk of fraud in relation to the Council's control environment.</i></p> <p><i>The Audit and Ethics Committee consider all internal audit reports where there is limited/no assurance, from a control environment and a risk of fraud perspective, this is in line with the agreed audit protocol.</i></p> <p><i>The annual report from the Corporate Assurance Manager on the adequacy of Internal Control, will also identify fraud risk areas.</i></p> <p><i>Investigations of suspected fraud, as a result of cases brought to the attention of the Monitoring Officer, are carried out by the Internal Audit team.</i></p> <p><i>The Corporate Assurance Manager, keeps the Executive Directors informed of any fraud investigations and periodically provides the Audit and Ethics Committee with fraud activity report updates as necessary.</i></p> <p><i>The arrangements for the prevention of fraud are considered adequate.</i></p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p><i>High Risks are routinely linked to activities within the risk registers, and the required level of internal control to manage High Risks.</i></p> <p><i>Within the Resources Directorate, the highest risks relate to financial transactions for i) creditor payments ii) payroll iii) benefit payments and iv) council tax/nndr billing and recovery.</i></p> <p><i>All four activities have operational risk assessments and are managed by specific financial instructions to ensure that controls are in place to prevent fraud.</i></p>

Fraud risk assessment

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p><i>Yes, where segregation of duties cannot be maintained on a person by person basis they are maintained on a process by process basis. Any issues relating to this would be covered within Internal Audit investigations.</i></p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p><i>Thorough budget monitoring carried out by Financial Services would identify any deviations from the Council's policies and procedures. Any retrospective adjustments to expenditure would require one officer to authorise the amendment and a second officer to process the transaction therefore maintaining a segregation of duties.</i></p>
<p>How does the Audit and Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit and Ethics Committee?</p>	<p><i>The reporting of fraud issues to Audit and Ethics Committee is made by various Methods: i) Investigation reports by the Corporate Assurance Manager as a result of the Whistleblowing Policy ii) Reports by the Head of Resources and iii) Annual Governance Statement report for Internal Control and includes any fraud risk. Fraud and Corruption are a standing item on the Audit and Ethics Committee Agenda.</i></p>
<p>How does the Council communicate and encourage appropriate business practice and ethical behaviour of its employees and contractors?</p>	<p><i>The updated code of conduct for members and employees outlines the Council's expectations for business practice and ethical behaviour. Employees are aware of the antifraud and corruption strategy - details are available on the Intranet. The Monitoring Officer investigates all employee concerns for suspected fraud. The Fraud and Corruption Strategy also applies to the Council's contractors in addition to relevant terms and conditions printed on the reverse of any orders that are placed with a contractor.</i></p>

Fraud risk assessment (continued)

Question	Management response
<p>How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?</p>	<p><i>The Council has a Confidential Reporting Code which allows employees to report any concerns regarding fraud, unethical behaviour or corruption to the Monitoring Officer or the Corporate Assurance Manager. No significant issues have been reported.</i></p> <p><i>Furthermore there is a Benefits/Whistleblowing reporting line which is monitored by the Council's Counter Fraud Specialist. These are treated as benefits investigations.</i></p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p><i>Most of the related party transactions that could give rise to potential fraud are those in which councillors have a direct interest.</i></p> <p><i>Risks are mitigated, by the councillor declarations of interest and non participation in debates linked to these declarations.</i></p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015? If so how does the Audit Committee respond to these</p>	<p><i>There have been 6 instances of actual, alleged or suspected fraud since 1 April 2015. All cases were fully investigated and all investigations have been completed and closed. Fraud and Corruption is reported as a standing item on the Audit and Ethics Committee Agenda.</i></p>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2015? If so how does the Audit Committee respond to these</p>	<p><i>There has been 1 whistleblower report since 1 April 2015; this case was investigated and closed. There have been no reports under the Bribery Act since 1 April 2015. Fraud and Corruption is reported as a standing item on the Audit & Ethics Committee agenda.</i></p>

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p><i>It is managers' responsibility to ensure that all relevant laws and regulations for their service area are complied with. This requirement forms part of their contract of employment. When a service is audited, one of the areas reviewed is compliance with relevant laws and regulations.</i></p> <p><i>Where breaches are identified the Corporate Assurance Manager and Monitoring Officer should be informed.</i></p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p><i>The Monitoring Officer will advise the Council's Leadership and Operations team and councillors as appropriate.</i></p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p><i>Assurance over compliance with the Council's Constitution is provided through the Corporate Governance internal audit report to Audit and Ethics Committee.</i></p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015 with an on-going impact on the 2015/16 financial statements?	<p><i>No</i></p>
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p><i>Any potential claims are received by either the Councils' Legal Services team or the Risk Management and Insurance Officer. All claims registered with the latter are passed directly to the Council's insurers.</i></p>
Are there any actual or potential litigation or claims that would affect the 2015/16 financial statements?	<p><i>No</i></p>
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p><i>No</i></p>

Going Concern

Issue

Matters in relation to going concern

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

The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts)

Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium – and long- term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.

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

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<i>An updated Medium Term Financial Plan is reported to Cabinet throughout the budget setting process and forms part of the Council Tax Setting process.</i>
Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No.
Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit and Ethics Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	<i>The Council's financial statements are reported directly to the Audit and Ethics Committee prior to approval by Full Council. A key aspect of the external audit of the statements is the opinion that the Council remains a going concern, so Audit and Ethics Committee can directly question both the Chief Financial Officer and the External Auditor about any concerns it may have.</i>
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	Yes.

Going Concern Considerations (continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts?	Yes.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes.

Related Parties

Issue

Matters in relation to Related Parties

Health bodies are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related party considerations have been set out below and management has provided its response.

Related Parties (continued)

Question	Management response
<p>What controls does the Council have in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p><i>Councillors and officers cannot and do not participate in decisions where they are a related party.</i></p> <p><i>Annual accounts disclosures for related parties and transactions are reviewed for completeness by the Financial Services Manager and the Council's Monitoring Officer as part of the Annual Declaration of Interests.</i></p>
<p>Who have the Council identified as related parties?</p>	<p><i>Central government bodies e.g. Department for Works and Pensions</i></p> <p><i>Warwickshire County Council and Warwickshire Office of the Police and Crime Commissioner.</i></p> <p><i>Rugby Borough Parish Councils</i></p> <p><i>Council Members and Chief Officers.</i></p>

Accounting Estimates

Issue

Matters in relation to Accounting Estimates

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

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

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

Accounting Estimates

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	<i>A provision for losses arising from refunds due on appeal to Business Rate valuations.</i>
Are the management arrangements for the accounting estimates as detailed in Appendix 1 reasonable?	Yes.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	<i>This is covered within the process for approval of the Council's financial statements which are reported directly to the Audit and Ethics Committee prior to approval by Full Council.</i>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant and equipment valuations	Valuations are made by the valuer (local RICS/CIB Member) inline with RICS guidance on the basis of 5 year valuations with interim reviews	Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation	Yes – use of local RICS/CIB Member for valuations.	Valuations are made in-line with RICS guidance – reliance on expert	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> · Buildings 5-60 years · Equipment/vehicles 3-25 years · Plant 3-25 years · Infrastructure 7-40 years 	Consistent asset lives applied to each asset category	Yes – use of local RICS/CIB Member for valuations.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years, although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. Overall, the length of life would reflect the views of the qualified RICS or CIB Member.	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	Yes – us of the local RICS/CIB Member for valuations	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> · Assets acquired in the first half of a financial year are depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year. · Assets that are not fully constructed are not depreciated until they are brought into use. 	No

Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Yes – use of the local RICS/CIB Member for valuations	Valuations are made in line with RICS guidance – reliance on experts	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non adjusting events – events after the BS date	<p>S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event.</p> <p>For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.</p>	Heads of Service notify the S151 Officer	This would be considered on individual circumstances	This would be considered on individual circumstances	N/A
Overhead allocation	The Financial Services Team apportion central support costs to services based on SERCOP good Practice.	All support service cost centres are allocated according to SERCOP good practice.	No	Apportionment bases are reviewed each year to ensure fairness and reasonableness.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Council Values financial instruments at fair value based on the advice of their external treasury consultants and other financial professionals	Take advice from finance professionals	Yes – treasury consultants	Take advice from finance professionals	No
Bad debt provision	A provision is estimated using a proportion basis of an aged debt listing	The Financial Services team calculate the provision	No	Consistent proportion used across aged debt	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Quarterly monitoring of expected losses. Use of external experts to inform likelihood and magnitude of future losses.	Yes – in relation to the provision for losses from Business Rate Appeals	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No
Accruals	Financial Services collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest information has been used.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
IAS19 Pensions Post Employment Liabilities	Estimation of the pensions liability depends on a number of complex judgements and assumptions relating to the discount rate, the future value of the assets and liabilities of the pension schemes, the rate of increase in pay, changes in retirement ages and mortality rates.	A firm of consulting actuaries is engaged by Warwickshire authorities with expert advice about the assumptions applied.	Yes -Hymans Robertson	This is a major source of estimation. It depends on a number of complex judgements which interact in complex ways. The actuaries model thousands of possible outcomes in order to establish what the world might look like over the long term.	No



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AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Draft External Audit Plan 2015/16
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	Chief Financial Officer (Head of Resources), Deputy Chief Financial Officer (Financial Services Manager)
<i>Contact Officer</i>	Chris Blundell, Financial Services Manager Tel: 01788 533410
<i>Report Subject to Call-in</i>	This report is not subject to Call-in
<i>Statutory/Policy Background</i>	The Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice.
<i>Summary</i>	The Draft Audit Plan for 2015/16 has been developed by our appointed external auditor (Grant Thornton) and sets out the proposed external audit work and fee relating to the 2015/16 annual audit at Rugby.
<i>Financial Implications</i>	The proposed fee for the 2015/16 annual audit can be met from existing budget provision.
<i>Risk Management Implications</i>	There are no risk management implications arising from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity Implications</i>	There are no equality and diversity implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report.
<i>Recommendation</i>	The Draft External Audit Plan and fee for 2015/16 be approved.
<i>Reasons for Recommendation</i>	The Draft External Audit Plan 2015/16 proposes an appropriate level and scope of external audit work to audit the 2015/16 statement of accounts and give an opinion on the Council's value for money arrangements. Appointed Auditor's work and findings and the charges relating to their work.

Audit and Ethics Committee – 12 April 2016

Draft External Audit Plan 2015/16

Report of the Head of Resources

Recommendation

The Draft External Audit Plan and proposed fee for 2015/16 be approved.

Background

Grant Thornton, the Council's appointed external auditor, has submitted their Draft External Audit Plan and fee proposal for the 2015/16 annual audit following consultation with the Chief Financial Officer and Deputy Chief Financial Officer. This is attached at Appendix 1 for approval. Paul Harvey from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Draft External Audit Plan 2015/16
Originating Department: Resources

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.

The Audit Plan for Rugby Borough Council

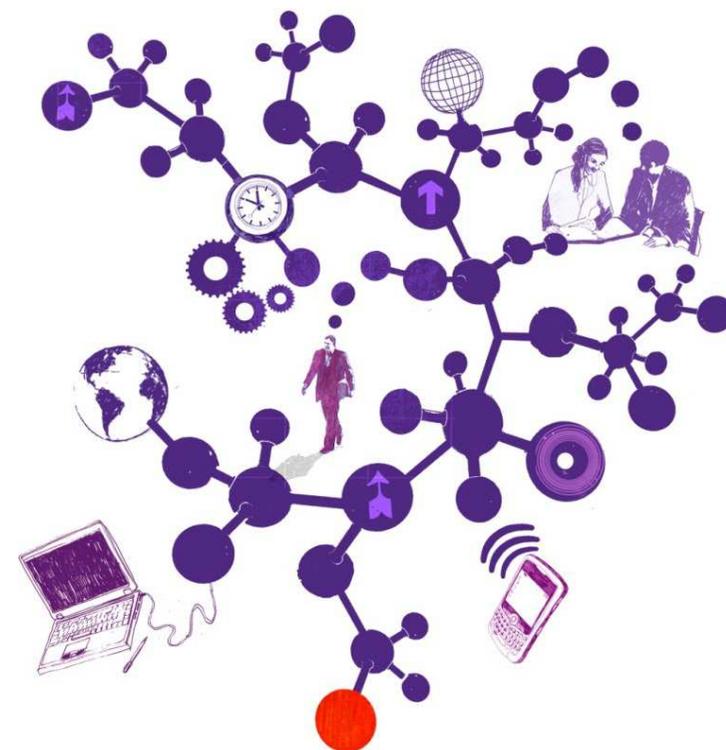
Year ending 31 March 2016

March 2016

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

Rugby Borough Council
Town Hall
Evreux Way
Rugby
CV21 2RR

March 2016

Dear Members of the Audit and Ethics Committee

Audit Plan for Rugby Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Rugby Borough Council, the Audit and Ethics Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

John Gregory
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.

3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.

4. Restructure

- The Authority is currently undertaking a review of its senior management structure

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will review the progress on the restructuring and whether there are any implications for the disclosures required in your financial statements, particularly in respect of senior officer's remuneration and provisions.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as a 'dry run'

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.



2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.



3. Other requirements

- The Council is required to submit a Whole of Government account pack on which we provide an audit opinion.
- The Council completes grant claims and returns on which audit certification is required



Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by the Public Sector Audit Appointments Ltd.

Our audit approach

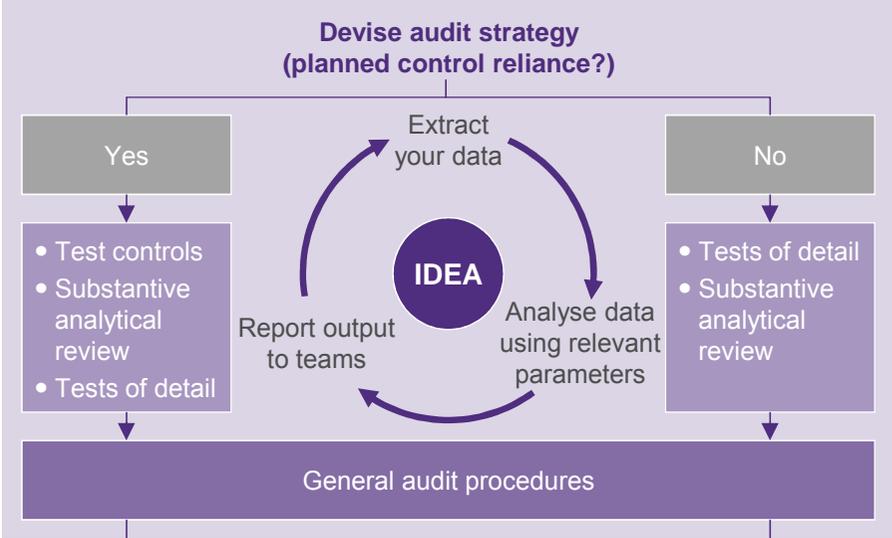
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
Significant risks
Other risks
Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,215k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £61k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Rugby Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have documented our understanding of the operating expenses system and completed walkthroughs where we have identified that the controls are operating effectively.</p> <p>We will:</p> <ul style="list-style-type: none"> • review and test the reconciliation between the creditors ledger and the general ledger. • gain an understanding of the accruals process and any assumptions used. • substantively test post year end payments to ensure expenditure is recorded in the correct period.
Employee remuneration	Employee remuneration and benefit obligations and expenses understated.	<p>We have documented our understanding of the employee remuneration system and completed walkthroughs where we have identified that the controls are operating effectively.</p> <p>We will:</p> <ul style="list-style-type: none"> • review and test the reconciliation between payroll and the general ledger. • perform analytical procedures of the payroll on a month by trend analysis. • undertake testing of payroll expenditure from a sample of employees.
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have documented our understanding of the welfare benefits system and completed walkthroughs where we have identified that the controls are operating effectively.</p> <p>We will perform detailed testing of benefits expenditure by following the HBCOUNT methodology.</p>

Other risks identified (continued)

Other material balances and transactions

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

- Property, plant and equipment
- Heritage assets
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

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

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>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>This links to the Council's arrangements for:</p> <ul style="list-style-type: none"> • planning finances effectively to support its strategic functions • making informed decisions. 	<p>We will assess 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>The Council has already developed a number of working partnerships such as the operation of Rainsbrook Crematorium with Daventry District Council. We need to understand how this and other partnerships help the Council to achieve its strategic priorities.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities.</p>	<p>We will:</p> <ul style="list-style-type: none"> • understand the strategy for collaboration and the overall ambition and limitations in this area. • understand the governance arrangements for partnership working • examine specific examples of partnership working to understand how they are helping the Council achieve its strategic objectives.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

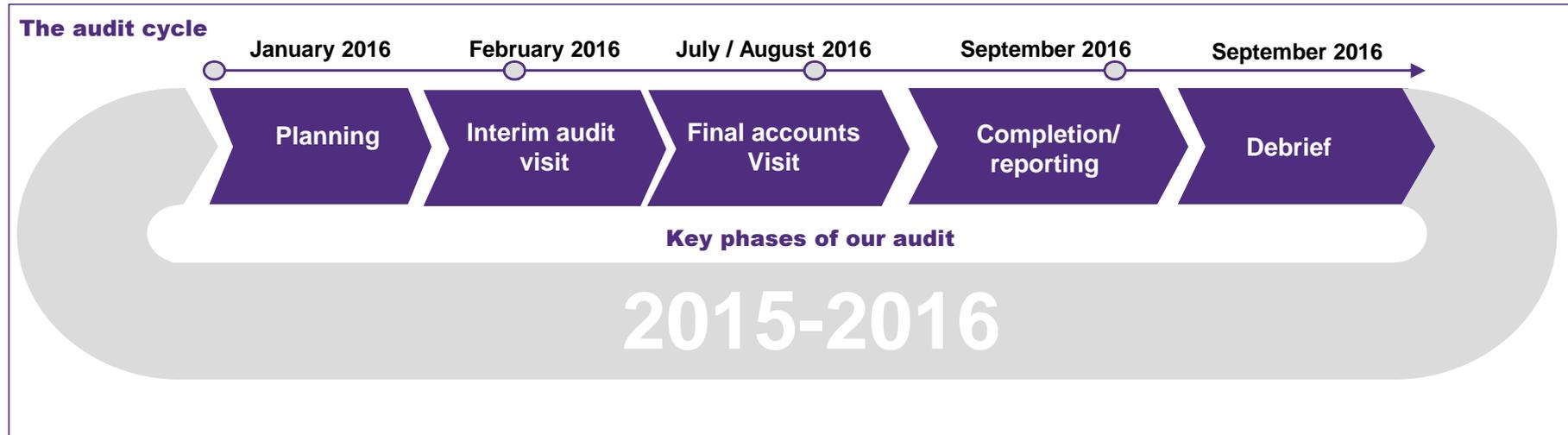
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>Due to changes in personnel during the year internal audit are currently completing their work on the Council's key financial systems. We will review the results of this work when the reports become available.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>Our work on the Council's journal control environment will inform our testing strategy in this area.</p> <p>During our final accounts visit. We will undertake detailed testing on journals transactions recorded for the financial year.</p>
Early substantive testing	<p>We have undertaken early testing the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Employee remuneration • Welfare benefits • Property, Plant and Equipment 	<p>Our early work has not identified any issues we wish to bring to your attention.</p>

Key dates



Date	Activity
January 2016	Planning
February 2016	Interim site visit
April 2016	Presentation of audit plan to Audit and Ethics Committee
July / August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Director of Resources
September 2016	Report audit findings to those charged with governance (Audit and Ethics Committee)
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	54,968
Grant certification	8,149
Total audit fees (excluding VAT)	63,117

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services: <ul style="list-style-type: none">• Anti-fraud and corruptions strategy review• Housing rents review• Housing repairs review	17,223

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	12 April 2016
<i>Report Title</i>	Certification of Grants and Returns – Annual Report 2014/15
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	None
<i>Contact Officer</i>	Chris Blundell, Financial Services Manager Tel: 01788 533410
<i>Report Subject to Call-in</i>	This report is not subject to Call-in
<i>Statutory/Policy Background</i>	The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015
<i>Summary</i>	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 2014/15.
<i>Financial Implications</i>	There are no financial implications arising from this report that cannot be met from existing budgets.
<i>Risk Management Implications</i>	There are no risk management implications arising from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity Implications</i>	There are no equality and diversity implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report.
<i>Recommendation</i>	The Annual Report on the certification of the Council's grants and returns for 2014/15 be accepted.
<i>Reasons for Recommendation</i>	The Annual Report on the certification of the Council's grants and returns for 2014/15 summarises the appointed Auditor's work and findings and the charges relating to their work.

Audit and Ethics Committee – 12 April 2016

Certification of Grants and Returns – Annual Report 2014/15

Report of the Head of Resources

Recommendation

The Annual Report on the certification of the Council's grants and returns for 2014/15 be accepted.

1. Background

Grant Thornton, the Council's appointed external auditor, has submitted its Annual Report on the certification of the Council's grants and returns for 2014/15.

The Annual Report on the certification of the Council's grants and returns for 2014/15 summarises the appointed auditor's work and findings and the charges relating to their work on the certification of the Council's Housing Benefits Subsidy Claim. This is attached at Appendix 1 for consideration.

2. Updated Reporting Requirements

The external auditors were also previously required to formally report of the certification of the Pooling of Housing Capital Receipts return; however following the repeal of the Audit Commission Act 1998 this requirement has been absolved. It should be noted that only the formal reporting requirement that has been removed and that Grant Thornton still certified the Council's pooling return as part of its 2014/15 submission to the Department of Communities and Local Government. The fee for this 2014/15 certification work was £2,138.

In addition, in prior years the Council's auditors were also required to separately certify the NNDR3 return, which relates to the collection of business rates, however from 2013/14 onwards this return is no longer required to be separately certified because its certification has been incorporated to the audit scope of the statement of accounts. The fee for this work is now encompassed within the overall annual audit fee.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 12 April 2016
Subject Matter: Certification of Grants and Returns – Annual Report 2014/15
Originating Department: Resources

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
1.	15 September 2015	Statement of Accounts 2014/15		



Grant Thornton

An instinct for growth™

Our ref: JG

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23 February 2016

Dear Adam

Certification work for Rugby Borough Council for year ended 31 March 2015

We are required to certify certain claims and returns 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 one claims and return for the financial year 2014/15 relating to expenditure of £24.1 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 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £8,720. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
eg. Housing benefits subsidy claim	24,085,342	No	nil	Yes	

Appendix B: Fees for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
eg. Housing benefits subsidy claim (BEN01)	10,865	8,720	8,720	£0	
Total	10,865	8,720	8,720	£0	