

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Time/Day/Date	6.30 pm on Wednesday, 25 March 2015
Location	Council Chamber, Council Offices, Coalville
Officer to contact	Democratic Services (01530 454512)

All persons present are reminded that the meeting may be recorded and by attending this meeting you are giving your consent to being filmed and your image being used. You are kindly requested to make it known to the Chairman if you intend to film or record this meeting.

The Monitoring Officer would like to remind members that when they are considering whether the following items are exempt information under the relevant paragraph under part 1 of Schedule 12A of the Local Government Act 1972 they must have regard to the public interest test. This means that members must consider, for each item, whether the public interest in maintaining the exemption from disclosure outweighs the public interest in making the item available to the public.

## **AGENDA**

<b>Item</b>	<b>Pages</b>
<b>1. APOLOGIES FOR ABSENCE</b>	
<b>2. DECLARATIONS OF INTEREST</b>	
Under the Code of Conduct members are reminded that in declaring disclosable interests you should make clear the nature of that interest and whether it is pecuniary or non-pecuniary.	
<b>3. MINUTES</b>	
To confirm and sign the minutes of the meeting held on 10 December 2014.	<b>3 - 6</b>
<b>4. STANDARDS AND ETHICS - QUARTER 3 REPORT</b>	
Report of the Head of Legal and Support Services	<b>7 - 16</b>
<b>5. WHISTLE BLOWING POLICY AND PROCEDURE</b>	
Report of the Head of Legal and Support Services	<b>17 - 28</b>



<b>6.</b>	<b>INTERNAL AUDIT PROGRESS REPORT - FEBRUARY 2015</b>	
	Report of the Head of Finance	<b>29 - 48</b>
<b>7.</b>	<b>2015/16 INTERNAL AUDIT ANNUAL PLAN</b>	
	Report of the Head of Finance	<b>49 - 60</b>
<b>8.</b>	<b>TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO FEBRUARY 2015</b>	
	Report of the Head of Finance	<b>61 - 68</b>
<b>9.</b>	<b>EXTERNAL AUDIT PLAN 2014-15</b>	
	Report of the Head of Finance	<b>69 - 96</b>
<b>10.</b>	<b>COMMITTEE WORK PLAN</b>	
	To note the Committee's Work Plan.	<b>97 - 98</b>

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Council Chamber, Council Offices, Coalville on WEDNESDAY, 10 DECEMBER 2014

Present: Councillor J Cotterill (in the Chair)

Councillors A Bridges, D De Lacy, D Everitt, D Howe, C Large, A C Saffell and N Smith

In Attendance: Councillors

Officers: Mr R Bowmer, Mr D O'Nyons, Miss E Warhurst and Miss A Wright

External Audit: Ms S Brown

## **22. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors G Jones and T Neilson.

## **23. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **24. MINUTES**

Consideration was given to the minutes of the meeting held on 24 September 2014.

It was moved by Councillor N Smith, seconded by Councillor A Bridges and

RESOLVED THAT:

The minutes of the meeting held on 24 September 2014 be approved and signed by the Chairman as a correct record.

## **25. STANDARDS AND ETHICS - QUARTER 2 REPORT**

The Head of Legal and Support Services presented the report to Members that three complaints had been received in Quarter Two and, that all three were related to District Councillors. She commented that these complaints were still going through the process of dealing with complaints and there had not been any Sub-Committees-meetings to date.

Members' attention was also drawn towards further information included within the report relating to Freedom of Information requests. Members had expressed an interest in having further information on this statistic at a previous meeting. It was stated that the number of Freedom of Information requests continued to increase year on year despite a fall between quarters one and two.

Councillor D De Lacy asked if there was an explanation for the significant increase in the number of corporate complaints the Council had received, particularly in the Housing Services. This seemed at odds with the information which members' received regarding high levels of customer satisfaction in the Housing Service

The Head of Legal and Support Services informed Members that the Council had seen an increase in the number of complaints regarding work related to the Decent Homes programme and Housing work within the District as a result of the large volume of work that had been undertaken. She said that she will raise Cllr De Lacy's query with the Service and request that he be provided with a response.

Councillor N Smith stated that he suspected that some of the complaints that the Council received were most likely unfounded and cited an example where recently a constituent had complained to him that he might have to leave his house for a couple of weeks whilst improvements were made to his home, much to his disbelief.

Furthermore, Councillor N Smith enquired why £500 was paid in compensation to a complainant.

The Head of Legal and Support Services stated that the Council had taken an approach to record all expressions of dissatisfaction as a complaint, to provide an opportunity to look into the issue. She added that sometimes people were unhappy about things the Council had very little control over, a decision that the Council had made or unhappy about the service that they had received. However the Council still tried to address their concerns. In relation to the compensation paid, the Head of Legal and Support Services failed to recall the particular case, but informed Councillor N Smith that she would find out for him.

RESOLVED THAT:

The report be received and noted.

## **26. ANNUAL AUDIT LETTER 2013/14**

Mrs Sarah Brown, External Auditor, presented the report to Members explaining that the Annual Audit Letter concluded all of the Audit work for the 2013/14 financial year.

Members' attention was drawn to the final page of the report that summarised the fees charged for the year. She highlighted that there was a fee variation of £900, which was not specific to North West Leicestershire District Council, but to all District Councils determined by the Independent Audit Commission attributed to the extra work that was undertaken.

It was moved by Councillor N Smith, seconded by Councillor A Bridges and

RESOLVED THAT:

That the 2013/14 Annual Audit Letter be noted.

## **27. INTERNAL AUDIT PROGRESS REPORT - NOVEMBER 2014**

The Head of Finance introduced the report and informed Members that the Senior Auditor for this period had recently started her new role as Team Leader for Financial Services. He added that a new Senior Auditor had been appointed that would commence work in January.

The Financial Services Team Manager presented the report to Members.

She provided the Audit and Governance Committee with an update on each of the following Appendices included with the report.

Appendix A

The Financial Services Team Manager stated that nine audits had been completed for this financial year and that although there had been some delays, the team would catch up by the end of the financial year.

## Appendix B

Members were informed that Appendix B summarised all Internal Audit Reports between September 2014 and November 2014, and that there were no issues to bring to Members' attention.

## Appendix C

The Financial Services Team Manager stated that Appendix C contained all the outstanding high & medium recommendations and that few had gone over due, however explanations had been provided.

## Appendix D

The Financial Services Team Manager informed Members that all key financial systems were up to date; however non key financial systems were a little behind but they would be resolved by the end of the financial year.

Councillor D De Lacy congratulated The Financial Services Team Manager on recently starting her new role, and enquired whether the organisational changes would impact on the completion of audits. In addition he asked whether the outstanding recommendations were a consequence of a high work load.

In response to Councillor D De Lacy's question, the Financial Services Team Manager informed Members that she was currently performing a dual role until January 2015 and that there would be no impact on the completion of audits as a consequence.

In addition it was stated by the Financial Services Team Manager that there had recently been some internal staffing issues and that they had recently been resolved, however she informed Councillor D De Lacy that she would provide him with more information if he was interested.

Councillor A C Saffell enquired whether the Council's target to reconcile all ICT accounts against Human Resources records would include everyone that worked for the District Council, including contractors and consultants and those given temporary ICT accounts and not only full-time employees.

In response to this enquiry the Head of Finance informed Members that he would look into this with the Team Manager for ICT and make sure a way was found to ensure this check was completed.

It was moved by Councillor N Smith, seconded by Councillor A Bridges and

RESOLVED THAT:

Members note the contents of the report.

## **28. TREASURY MANAGEMENT ACTIVITY REPORT - APRIL TO OCTOBER 2014**

The Head of Finance presented the report to Members, explaining that the report was the second of the regular updates this year presented to the Committee as a requirement of the Council's Treasury Management Policy.

He informed Members that the UK's economy was predicted growth of 3.5% in 2014 2.9% in 2015 and that interest rates continued to remain low, and that this was affecting the levels of returns that the Council was achieving.

The Head of Finance stated that the Council had not borrowed between April and October 2014 and drew Members' attention to the investments made during the same period.

Councillor D De Lacy enquired how long ago a maturing loan had been taken out, as the interest rate was particularly high. The Head of Finance explained that the loan would have likely have been taken out between twenty-five and thirty years ago and unfortunately the Council would not have been able to repay it prematurely without paying a penalty.

Furthermore, Councillor D De Lacy asked for a breakdown of all loans that the Council had outstanding. The Head of Finance agreed to the request.

It was moved by Councillor C Large, seconded by Councillor N Smith and

RESOLVED THAT:

The report be approved.

## **29. CORPORATE RISK UPDATE**

The Head of Finance presented the report to Members, reminding the Committee that as part of the Risk Management Strategy approved by Cabinet, regular monitoring information and updates would be presented to the Audit and Governance Committee in addition to Cabinet.

The Head of Finance informed Members that Appendix 1 of the report outlined the Corporate Risk Register and explained how inherent risks were measured and assessed.

Councillor D De Lacy enquired how often are the risks were re-assessed. The Head of Finance responded that as part of the Risk Management System every service within the Council carried out a risk assessment every month that was presented to CLT. There was also a Risk Management Scrutiny Group which was chaired by the Director of Services that also had the ability to escalate risks onto the Corporate Risk Register. He also informed Members that the Corporate Risk Register was also presented to Cabinet every quarter.

It was moved by Councillor A Bridges, seconded by Councillor N Smith.

RESOLVED THAT:

The Audit and Governance Committee notes the Quarter 2 Corporate Risk Update.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 6.56 pm

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL****AUDIT AND GOVERNANCE COMMITTEE – 25 MARCH 2015**

Title of report	<b>STANDARDS AND ETHICS – QUARTER 3 REPORT</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Legal and Support Services and Monitoring Officer 01530 454762 <a href="mailto:elizabeth.warhurst@nwleicestershire.gov.uk">elizabeth.warhurst@nwleicestershire.gov.uk</a></p>
Purpose of report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 3 of 2014/15.
Council's Priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	N/A
Consultees	N/A
Background papers	None.
Recommendations	<b>THAT THE REPORT BE RECEIVED AND NOTED.</b>

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# STANDARDS AND ETHICS

## QUARTER 3 REPORT 2014-2015

## 1. Introduction

This is the first quarterly report to the Audit & Governance Committee detailing both the figures for the Ethical Indicators and the figures for the Local Determination of Complaints process for 2014/15.

For clarification purposes the months covered by the quarters are as follows:

Quarter 1 – 1 April to 30 June  
Quarter 2 – 1 July to 30 September  
Quarter 3 – 1 October to 31 December  
Quarter 4 – 1 January to 31 March

The report is split into 2 parts for ease of reference; Part 1 refers to the local determination of complaints, part 2 is the table showing the ethical indicators figures.

The report will enable the Audit & Governance Committee to build up a picture over time of how many complaints are received and where these are coming from. The parts of the Code of Conduct which have been breached will also be recorded to enable training to be targeted effectively.

## 2. Part 1 – Local Determination of Complaints

The Monitoring Officer received 1 complaint in Quarter 3 of 2014/15. The complaint related to a District Councillor.

### 2.1 Source of Complaints

The complaint was received from a council officer.

### 2.2 Assessment Sub-Committee Decisions

There has been 1 Assessment Sub-committee meeting in this quarter.

On 21 July 2014 Councillor Cotterill made a complaint about Councillor Johnson regarding comments he made in a pre-briefing for Planning Committee on 8 July 2014. Councillor Cotterill was sitting next to Councillor Allman and overheard the comments being made to him by Councillor Johnson. Councillor Allman had previously posted something on his Facebook page about an event which he had attended as Chairman and Andrew Bridgen MP had attended. The comments made by Councillor Johnson concerned Andrew Bridgen MP and Councillor Cotterill felt that the conduct brought the office into disrepute.

The Assessment Sub-committee meeting was held on 15 December 2014 and the decision was that no further action was required.

As members will be aware, the Monitoring Officer now pursues an informal dispute resolution process prior to initiating formal proceedings via the sub-committee route.

One complaint received in this quarter is currently in that process.

### **2.3 Timeliness of Decision**

The Standards for England Guidance stated that the Assessment Sub-committee should complete its initial assessment of an allegation “within an average of 20 working days” to reach a decision on what should happen with the complaint. The Council has taken this standard and adapted it under the new rules to aim to hold an Assessment Sub-committee within 20 working days of notifying the parties that informal resolution is not possible.

### **2.4 Review Requests**

There have been no review requests this year. Review requests can only be made following a decision of ‘No further Action’ by the Assessment Sub-committee where there is submission of new evidence or information by the complainant.

### **2.5 Subsequent Referrals**

None to report – see above.

### **2.6 Outcome of Investigations**

There were no investigations concluded in this period.

### **2.7 Parts of the Code Breached**

This section is intended to show where there are patterns forming to enable the Audit & Governance Committee to determine where there needs to be further training for Councillors. Targeting training in this way makes it more sustainable and, hopefully, more effective.

So far this year, the following areas of the code were found to have been breached:

N/A

#### 4. Part 2 – Ethical Indicators

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15
SE1	Objections to the Councils Accounts	Financial Planning Team Manager	0	0	0	0	0	0	0	
SE3	Follow up action relating to breaches of the Member/Officer Protocol (Members)	Head of Legal and Support Services	0	0	0	0	0		0	
SE3a	Disciplinary action relating to breaches of the Member/Officer Protocol (staff)	Human Resources Team Manager	0	0	0	0	0	0	0	
SE4	District Audit Public Interest Reports	Senior Auditor	0	0	0	0	0	0	0	
SE5	Number of Whistle blowing Incidents reported		0	0	0	0	0	0	0	
SE6	No. of recommendations made to improve governance procedures / policies		4	5	5	1	0	2	17	
SE6a	No. of recommendations implemented		5	5	2	7	1	10	9	
SE7	No. of Ombudsman complaints received	Customer Services and Corporate Complaints Officer	2	0	2	1	2	2	0	

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15
Ref	PI Description	Responsible Officer	Quarter 1		Quarter 2		Quarter 3		Quarter 4	
			2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
SE7	No. of Ombudsman complaints received	Customer Services and Corporate Complaints Officer	2	0	2	1	2	2	0	
SE7a	No. of Ombudsman complaints resolved		1 (1 where LGO has sent further enquiries)	0	2 (1 awaiting final decision)	1	1 (1 awaiting final decision)	0 (awaiting final decision on both)	0	
SE7b	No. of Ombudsman complaints where compensation paid	Customer Services and Corporate Complaints Officer	1	0	0	0	0 (based on 1 resolved in Q3)	0	0	
SE8	No. of Corporate Complaints received		72	75	75	104	53	70	84	
SE8a	No. of Corporate Complaints resolved		68	69	71	113	50	91	79	
SE8b	No. of Corporate Complaints where compensation paid		3	1	2	4	2	4	3	

- A total of 70 corporate complaints were received during Q3 which is an increase of 24% when with the same period for Q3 13/14, but is lower than the number received in Q1 or Q2
- Of the 2 complaints received from the Ombudsman, one was relation to works carried out under the Decent Homes Programme, and the other related to way the Council has handled an Anti-Social Behaviour case. We are awaiting the outcome of both, having submitted all the required evidence.
- 39 of the complaints (56%) were for the Housing Service. The most common reason for a tenant making a complaint against the Housing Service was delays in carrying out agreed work (20 complaints received, which equates to 56% of all Housing complaints).

Most of these related to repair works which were delayed during the autumn period of 2014 which are now being completed, and this situation is projected to be corrected in full by the end of Q1 of 2015/16.

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15
Freedom of Information Act Indicators										
SE9	Total no. of requests received	Head of Legal and Support Services	116	178	109	147	165	109	208	
SE9a	No. of requests compliant		100	125	92	83	125	82	151	
SE9b	No. of Non compliant requests		14	45	15	47	31	19	51	
SE9c	No of requests still open and within the 20 working days		0	0	0	3	0	0	0	
SE9d	Number withheld due to exemptions/fees applied		5	10	4	29	5	27	6	

- There has been a 34% deduction in FOI requests during Q3 this year compared to the same period of 2013/14.
- Between Q1 & Q3 this financial year there has been a 10% increase in FOI requests overall.
- The sustained increase in exemptions used during quarter 2 and 3 reflects the fact that more information is being made available via the council's web pages. The majority of requests being diverted to the web pages using Exemption 21 (Information reasonably accessible to the applicant by other means) related to Non Domestic Rates (NDR). Moving forward the amount of information made available via the web pages will continue to increase.

Ref.	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15	Actual 2013/14	2014/15
Regulation of Investigatory Powers Act Indicators										
SE10	No. of Directed Surveillance authorisations granted during the quarter	Senior Auditor	0	0	0	0	0	0	0	
SE10a	No. in force at the end of the quarter		0	0	0	0	0	0	0	
SE10b	No. of CHIS recruited during the quarter		0	0	0	0	0	0	0	
SE10c	No. ceased to be used during the quarter		0	0	0	0	0	0	0	
SE10d	No. active at the end of the quarter		0	0	0	0	0	0	0	
SE10e	No. of breaches (particularly unauthorised surveillance)		0	0	0	0	0	0	0	
SE10f	No. of applications submitted to obtain communications data which were rejected		0	0	0	0	0	0	0	
SE10g	No of notices requiring disclosure of communications data		0	0	0	0	0	0	0	
SE10h	No of authorisations for conduct to acquire communications data		0	0	0	0	0	0	0	

SE10i	No of recordable errors		0	0	0	0	0	0	0	
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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL****AUDIT AND GOVERNANCE COMMITTEE – 25 MARCH 2015**

Title of report	<b>WHISTLE BLOWING POLICY AND PROCEDURE</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Legal and Support Services and Monitoring Officer 01530 454762 <a href="mailto:elizabeth.warhurst@nwleicestershire.gov.uk">elizabeth.warhurst@nwleicestershire.gov.uk</a></p>
Purpose of report	To review the Whistle Blowing policy and procedure and make recommendations to Cabinet
Council Priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	N/A
Consultees	N/A
Background papers	None.
Recommendations	<b>THAT MEMBERS NOTE AND COMMENT ON THE REVISED POLICY AND RECOMMEND ITS ADOPTION TO CABINET.</b>

**1. INTRODUCTION**

- 1.1 Under the provisions of the Public Interest Disclosure Act 1998, employees of the council are protected from victimisation, discrimination or disadvantage if they raise concerns under the confidential Reporting policy.
- 1.2 The Council's Whistle Blowing Policy sets out how the Council will deal with complaints made under the policy.

- 1.3 The policy was first introduced in 1999 and has been revised on a regular basis with the last draft revision being in November 2014.
- 1.4 The draft revised policy is brought to the Audit and Governance for members to note and recommend its adoption to Cabinet.

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**  
**CONFIDENTIAL REPORTING (WHISTLEBLOWING) POLICY**  
**POLICY STATEMENT**

“North West Leicestershire District Council is committed to the prevention, deterrence, detection and investigation of fraud, corruption and malpractice in all forms. It encourages employees and members of the Council and its contractors who have serious concerns about any aspect of its work, including matters of health and safety, to voice those concerns.”

**1. INTRODUCTION**

1.1 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect employees, members and others that we deal with, who have serious concerns about any aspect of the Council’s work to come forward and voice those concerns. This Confidential Reporting Policy is intended to encourage and enable employees, members, contractors or suppliers to raise serious concerns **within** the Council rather than overlooking a problem or “blowing the whistle” outside.

1.2 This Policy:

- applies to all employees of the Council,
- applies to all members of the Council,
- applies to contractors working for the Council on Council premises,
- applies to suppliers and service providers under a contract with the Council,
- applies to people working in partnership with the Council (e.g. volunteers)

and provides guidance on the way in which those people mentioned above can raise any concerns they may have in relation to those matters mentioned in paragraphs 1.4 and 2.2 below, and sets out how they will receive feedback on the action taken.

This Policy also sets out how those individuals mentioned above can take matters further if they remain dissatisfied with the Council’s response to any concerns raised.

1.3 Employees, members, contractors and suppliers are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council, or they perceive that it

could harm their chances of future business or their career prospects. They may also fear harassment or victimisation. In such circumstances individuals may consider it to be easier to ignore the concern rather than report what may only be a suspicion of malpractice. This Policy document makes it clear that individuals raising concerns will do so without fear of victimisation, subsequent discrimination or disadvantage.

- 1.4 It is recognised that, where concerns are raised, most cases will have to proceed on a confidential basis. The Council will do everything it can to protect the confidentiality of those individuals raising concerns. However, there may be times when the person making the complaint can be identified due to the nature of the allegation made and in such cases it will not be possible to keep the identity of the complainant confidential. In addition, there may be times when the Council will believe it is appropriate to let the subject of a complaint know who made any allegation.
- 1.5 The Council recognises that individuals raising concerns, termed “qualifying disclosures” under the Public Interest Disclosure Act 1998 are entitled to protection under that Act and/or this Policy and may be eligible to compensation if they subsequently suffer victimisation, discrimination or disadvantage. The Act stipulates what is classed as a “qualifying disclosure” as follows:

a "qualifying disclosure" means any disclosure of information which, in the reasonable belief of the worker making the disclosure, tends to show one or more of the following –

  - (a) that a criminal offence has been committed, is being committed or is likely to be committed,
  - (b) that a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject,
  - (c) that a miscarriage of justice has occurred, is occurring or is likely to occur,
  - (d) that the health or safety of any individual has been, is being or is likely to be endangered,
  - (e) that the environment has been, is being or is likely to be damaged, or
  - (f) that information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.
- 1.6 The procedures outlined in this Policy **are in addition to** the Council’s complaints procedures and other statutory reporting procedures applying to some divisions.
- 1.7 This Policy has been discussed with the relevant trade unions and has their support.
- 1.8 The principles of this Policy also apply to concerns of the general public.

## **2. AIMS AND SCOPE OF THIS POLICY**

### **2.1 This Policy aims to:**

- encourage all to be alert in their dealings within / with the Council so as to help them in identifying any issues that may lead to concerns about activities / behaviour within the Council;
- encourage individuals to feel confident in raising concerns and to question and act upon your concerns;
- provide avenues for all to raise those concerns and receive feedback on any action taken;
- ensure that you receive a response to your concerns and that you are aware of how to pursue matters if you are not satisfied;
- reassure you that you will be protected from the risk of reprisals or victimisation if you have a reasonable belief that you have made any disclosure in good faith;
- provide an avenue for members of the public to raise those concerns listed at 2.2 below which would not ordinarily be considered under the Council's formal Complaints Procedure.

### **2.2 If Council employees have concerns relating to their employment with the firm, these should be raised under the Council's Grievance Policy. This Policy is intended to cover major concerns that fall outside the scope of other policies and procedures. As stated in paragraph 1.5, these include:**

- conduct which is an offence or a breach of law,
- disclosures related to miscarriages of justice,
- health and safety risks, including risks to the public as well as other employees,
- damage to the environment,
- the unauthorised use of public funds,
- possible fraud and corruption,
- sexual or physical abuse of clients, or
- other unethical conduct.

### **2.3 Any serious concerns that you have about any aspect of service provision or the conduct of officers or members of the Council or others acting on behalf of**

the Council can be reported under this Policy. This may be about something that:

- makes you feel uncomfortable in terms of known standard, your experience or the standards you believe the Council subscribes to, or
- is against the Council's Constitution and policies, or
- falls below established of practice, or
- amounts to improper conduct.

### **3. SAFEGUARDS - HARASSMENT OR VICTIMISATION**

3.1 The Council is committed to good practice and high standards and aims to be supportive of employees and others using this Policy.

3.2 The Council recognises that the decision to report a concern can be a difficult one to make. You are legally entitled to protection from unfair treatment if:

- (a) you honestly think what you are reporting is true,
- (b) you believe that you are telling the right person,
- (c) you believe that raising your concerns is in the public interest.

Put simply, if you are acting in good faith when raising any concerns, you should have nothing to fear because you will be doing your duty to your employer, and/or the Council and those for whom the Council provides a service. In the event that the concerns raised are substantiated, you will be ensuring that bad practice / unethical behaviour / illegal conduct is curtailed.

3.3 The Council will not tolerate any harassment or victimisation (including informal pressures) against individuals who raise concerns in good faith under this Policy and will take appropriate action to protect those who raise a concern in good faith and, where necessary, will take action against those subjecting any complainant to harassment, victimisation or any other pressures as a result of raising concerns.

3.4 Any investigation into allegations of matters listed in paragraph 2.2 of this Policy will not influence, or be influenced by, any disciplinary, redundancy or similar procedures which may already affect either the person raising the concerns or the individual(s) who are the subject of those concerns.

### **4. CONFIDENTIALITY**

4.1 All attempts will be made to ensure any concerns raised will be treated in confidence and to protect your identity if you so wish. The Council cannot ensure your confidentiality if you have informed others of any alleged concerns.

- 4.2 In addition, there may be times when the identity of the person making the complaint is clear due to the nature of any allegations made. In such cases, the Council cannot take any steps to protect your identity. You will, however, still be entitled to the same protection against harassment, victimisation and other pressures as if your identity remained confidential.
- 4.3 In a small number of cases, the Council may find it is appropriate to disclose your identity to the person who is the subject of any complaint. It will, however, inform you of this before doing so. Again, you will receive the same protection against harassment, victimisation and other pressures as if your identity had remained confidential.
- 4.4 You should note that, whilst every effort will be made to protect your identity, the Council may, at an appropriate time ask you to come forward as a witness. If you do become a witness in any case, you will be entitled to the same protection against harassment, victimisation and other pressures that you are entitled to when making the initial complaint under this Policy.

## **5. ANONYMOUS ALLEGATIONS**

- 5.1 This Policy aims to protect those raising concerns and, therefore, it is hoped that any person raising concerns will do so in their own name whenever possible.
- 5.2 Whilst any concern will be taken seriously, those expressed anonymously will carry less weight but will be given consideration by the Council; an investigation into the matters raised will be investigated at the discretion of the Council.
- 5.3 In exercising this discretion the factors to be taken into account will include:
- the nature and seriousness of the issues raised,
  - the apparent credibility of the concern, and
  - the probable likelihood of being able to confirm the allegation from attributable sources.
- 5.4 If the Council does not know who has made an allegation, it will not be possible for the Council to offer reassurance and protection to the individual.

## **6. UNTRUE ALLEGATIONS**

- 6.1 If an allegation is made in good faith, but is not confirmed following an investigation by the Council, no action will be taken against the person making the allegation. This should encourage those who have concerns to raise it in the appropriate manner without fear of any reprisals.

- 6.2 If, however, an allegation is made frivolously, maliciously or for personal gain, disciplinary action may be taken against the person making that allegation where appropriate.

## **7. HOW TO RAISE A CONCERN**

- 7.1 Advice and guidance on how to pursue matters of concern may be obtained from the Council's nominated contact points who are:

- Chief Executive: [CHRISTINE.FISHER@nwleicestershire.gov.uk](mailto:CHRISTINE.FISHER@nwleicestershire.gov.uk)  
Telephone 01530 454500
- Monitoring Officer: [ELIZABETH.WARHURST@nwleicestershire.gov.uk](mailto:ELIZABETH.WARHURST@nwleicestershire.gov.uk)  
Telephone 01530 454762
- Section 151 Officer: [RAY.BOWMER@nwleicestershire.gov.uk](mailto:RAY.BOWMER@nwleicestershire.gov.uk)  
Telephone 01530 454520
- Senior Auditor: [LISA.COTTON@nwleicestershire.gov.uk](mailto:LISA.COTTON@nwleicestershire.gov.uk)  
01530 454728

- 7.2 Concerns may be raised verbally or in writing, to any of the above named individuals. If raising a concern in writing, it should be addressed to the named individual at the:

Council Offices  
North West Leicestershire District Council  
Whitwick Road  
Coalville  
Leicestershire  
LE67 3FJ

Clearly mark the envelope "Confidential".

If you wish to make a written report you are invited to use the following format:

- the background and history of the concern (giving relevant dates);
- the reason why you are particularly concerned about the situation.

- 7.3 If you wish to make a verbal report of any concerns that you have identified, you are invited to contact one of the officers named at paragraph 7.1 above to arrange a mutually convenient appointment. When arranging an appointment, it would be helpful if you could mention that you would like to speak to them about a matter under the Confidential Reporting Policy.

- 7.4 When making a verbal report, you are invited to set out the facts using the same format identified at paragraph 7.2 above.



- 7.5 The earlier you express any concerns the easier it is for the Council to investigate and take any relevant action.
- 7.6 Although you are not expected to prove beyond doubt the truth of an allegation, you will need to demonstrate to the person contacted that there are reasonable grounds for your concern.
- 7.7 You may wish to consider discussing your concern with a colleague or trade union representative first and you may find it easier to raise the matter if there are two (or more) of you who share any concerns.
- 7.8 You may invite your trade union, professional association representative or a friend to be present during any meetings or interviews in connection with the concerns you have raised.
- 7.9 If you feel unable to raise your concerns directly with the Council, you should report the matter to a “prescribed person”. This will ensure that your legal rights are protected. The list of prescribed persons can change and so up to date information can be obtained by accessing an online brochure entitled “Blowing the Whistle to a Prescribed Person - List of Prescribed Persons and Bodies” available at [www.gov.uk](http://www.gov.uk).

## **8. HOW THE COUNCIL WILL RESPOND**

- 8.1 The Council will respond to your concerns but within the constraints of maintaining confidentiality or observing any legal restrictions. In any event, a confidential record of the steps taken will be kept in accordance with the Data Protection Act 1998.
- 8.2 The Council may also ask to meet with you in order to gain further information from you. Do not forget that testing out your concerns is not the same as either accepting or rejecting them. It is sometimes necessary to test out any concerns raised in order to identify how strong any evidence may be.
- 8.3 Where appropriate, the matters raised may be:
- investigated internally,
  - referred to the police,
  - referred to the external auditor,
  - made the subject of an independent enquiry.

Following any of the action above, a concern may be upheld or may be dismissed.

- 8.4 In order to protect individuals and those accused of misdeeds or possible malpractice, the Council will undertake initial enquiries to decide whether an investigation is appropriate and, if so, what form it should take. In most

cases, it is anticipated that these initial enquiries will be completed within ten working days of an allegation being made. The overriding principle which the Council will have in mind when deciding what steps to take is whether the matter falls within the public interest. Any concerns or allegations which fall within the scope of any other specific procedures (for example, misconduct or discrimination issues) will normally be referred to the relevant service area for consideration under those procedures.

- 8.5 Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required this will be taken before any investigation is conducted.
- 8.6 Within seven working days of a concern being raised, the nominated contact will write to you:
- acknowledging that the concern has been received,
  - indicating how we propose to deal with the matter,
  - giving an estimate of how long it will take to provide a final response,
  - telling you whether any initial enquiries have been made,
  - supplying you with information on staff support mechanisms, and
  - telling you whether further investigations will take place and if not, why not.
- 8.7 The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, the Council will seek further information from you.
- 8.8 Where any meeting is arranged, off-site if you so wish, you can be accompanied by a trade union or professional association representative or a friend.
- 8.9 The Council will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Council will arrange for you to receive advice about the procedure.
- 8.10 The Council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the outcome of any investigation.

## **9. THE RESPONSIBLE OFFICER**

- 9.1 The Chief Executive has overall responsibility for the maintenance and operation of this Policy. That officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality)

and will immediately notify the Monitoring Officer and Section 151 Officer of all issues raised under this Policy and will report as necessary to the Council.

## **10. HOW THE MATTER CAN BE TAKEN FURTHER**

10.1 This Policy is intended to provide you with an avenue within the Council to raise concerns. The Council hopes you will be satisfied with any action taken. If you are not, and if you feel it is right to take the matter outside the Council, the following are possible contact points:

- the Audit Commission (special telephone line - 0845 0522 646)
- one of the “prescribed persons”
- your trade union
- your local Citizens Advice Bureau
- relevant professional bodies or regulatory organisations
- a relevant voluntary organisation (Public Concern at Work - 020 7404 6609)
- the Police.

10.2 If you take the matter outside the Council, you should ensure that you do not disclose confidential information. Check with one of the Council’s nominated contact points about that (see 7.1).

A/ASG Aug 1999  
Revised May 2002  
Revised July 2003  
Reviewed Oct 2004  
Reviewed Jan 2005  
Reviewed June 2005  
Revised Nov 2005 (Constitution)  
Revised Jan 2006 (AC phone number)  
Revised Dec 2006 (para 7.1)  
Revised Nov 2007 (para 7.1)  
Revised Mar 2008  
Reviewed May 2009  
Revised July 2010  
Revised Nov 2014

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 25 MARCH 2015**

Title of report	<b>INTERNAL AUDIT PROGRESS REPORT – FEBRUARY 2015</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Finance 01530 454520 <a href="mailto:ray.bowmer@nwleicestershier.gov.uk">ray.bowmer@nwleicestershier.gov.uk</a></p> <p>Senior Auditor 01530 454728 <a href="mailto:lisa.cotton@nwleicestershire.gov.uk">lisa.cotton@nwleicestershire.gov.uk</a></p>
Purpose of report	To inform the committee of the progress against the internal audit plan for 2014/15 and to highlight incidences of any significant control failings or weaknesses.
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	The Internal Audit planning process is based on a risk assessment methodology
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Head of Finance
Background papers	<a href="#">Public Sector Internal Audit Standards</a>

Recommendations	<b>MEMBERS NOTE THE CONTENTS OF THE REPORT AND CONSIDER THE TIMING OF THE EXTERNAL ASSESSMENT OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS.</b>
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## **1. INTRODUCTION**

- 1.1 The Public Sector Internal Audit Standards require the authority's Audit Committee to approve the audit plan and monitor progress against it. They should also receive periodic reports on the work of internal audit. The Audit and Governance Committee approved the Audit Plan on 26 March 2014. They receive quarterly progress reports.

## **2. TERMS OF REFERENCE**

- 2.1 Section 3 of Part 3 of the Constitution sets out the Terms of Reference of the Audit and Governance Committee, as set out at the extract below:  
 'To act as the Authority's Audit Committee, to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to be responsible for the financial reporting process'.

## **3. PROGRESS REPORT**

- 3.1 The Internal Audit Progress Report for the period to the end of February 2015 is attached at Appendix 1.
- 3.2 The Quarter 3 update on the Council's Corporate Risks which was presented to Cabinet on 3 March 2015 is also included in Appendix 1.



## INTERNAL AUDIT SHARED SERVICE

**North West Leicestershire District Council**  
Internal Audit Progress Report: February 2015





## **1. Introduction**

- 1.1 The assurances received through the Internal Audit programme is a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to highlight the progress against the Internal Audit Plan up to the end of February 2015.

## **2. Purpose of Internal Audit**

- 2.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 This is achieved through Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

## **3. Authority of Internal Audit**

- 3.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, sets out that 'Internal Audit has authority to:
- a) enter any Council owned or occupied premises or land at all times (subject to any legal restrictions outside the Council's control);
  - b) have access at all times to the Council's records, documents and correspondence;
  - c) require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
  - d) require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.
  - e) The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.

## **4 Responsibility of Internal Audit**

- 4.1 Internal Audit will have the responsibility to review, appraise and report as necessary on:
- a) the adequacy and effectiveness and application of internal controls and processes and systems;
  - b) the extent of compliance with Financial Regulations and Standing Orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation; and
  - c) the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.

## **5 Independence of Internal Audit**

- 5.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made.

- 5.2 If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to senior management and the Audit and Governance Committee. There are no impairments to report to senior management and the Audit and Governance Committee for the current financial year.

## **6 Internal Audit Team Update**

- 6.1 The interim Senior Auditor started her four month appointment on 5<sup>th</sup> January 2015. A review of the Internal Audit Service by the Head of Finance determined that the Service would continue to be delivered via the shared service arrangement with Blaby DC for 2015/16.

## **7 Internal Audit Plan Update**

- 7.1 A progress report against the 2014/15 Internal Audit plan is documented in Appendix A. Thirteen audits have been completed for 2014/15. One is in progress and the remaining two are at the engagement planning stage.
- 7.2 The Internal Audit plan needs to be flexible in order to reflect current issues and resource requirements. There has been a number of changes to the Internal Audit plan approved in March 2014 and details are documented in the 'comments' column in Appendix A.
- 7.3 An Executive Summary of all final reports issued since the progress report in December 2014 is documented in Appendix B.

## **8 Internal Audit Recommendations**

- 8.1 Internal Audit monitors and follows up all medium and high risk recommendations. Appendix C lists all outstanding recommendations along with a status update. Eight recommendations outstanding have not been fully implemented by the agreed target date. Non implementation of recommendations exposes the council to risks within the internal control environment as highlighted within the internal audit report.

## **9 Internal Audit Performance Indicators**

- 9.1 Period 11 performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

## **10 Public Sector Internal Audit Standards (PSIAS) Action Plan Update**

- 10.1 The action plan was put on hold during the service review. The new Senior Auditor started on 5<sup>th</sup> January 2015 and has continued to progress priority items (see Appendix E). The Senior Auditor will be undertaking a self-assessment for 2014/15 and currently estimates 85% full or partial conformance with applicable questions.
- 10.2 In order to ensure that the limited resources of the team are effectively focussed on achieving an appropriate level of conformance, the Senior Auditor recommends that the external assessment of conformance with the PSIAS is carried out over the next few months. The Senior Auditor is currently looking into options for the external assessment for the shared internal audit service. A new action plan will be produced

following this. It should be noted that, due to the size of the Internal Audit team and the resources available, 100% full conformance with the Standards is not feasible. All areas of non-conformance will be reported in the Internal Audit Annual Opinion report.

## **11 Risk Management**

- 11.1 The Cabinet approved an updated Risk Management Strategy at its meeting on 29 July 2014 and this was presented to Audit and Governance Committee on 24 September 2014.
- 11.2 One of the requirements of the Strategy is for members of the Cabinet and this Committee to receive details of the high level risks monitored through the Corporate Risk Register. These are now included in the Quarterly Performance Reports which are presented to Cabinet. Appendix F to this report shows the information presented to Cabinet at its meeting on 3 March 2015.
- 11.3 The Council's Risk Scrutiny Group, chaired by the Director of Services, reviews the corporate risks quarterly and recommends any changes through the Corporate Leadership Team prior to the information being presented to the Cabinet. No changes were made to the Corporate Risk Register reported at Quarter 3.

## 2014/15 Audit Plan Progress: February 2014 (In-house Audit Team Audits)

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
Business Rates Retention	Risk Based	6.0	5.5	Final Report Issued	Grade 1	-	-	-	-	Audit undertaken by agency auditor.
Capital	Key Financial System	5.0	0	Audit removed from plan	-	-	-	-	-	Audit no longer required.
Cash and Bank	Key Financial System	6.0	6	Final Report Issued	Grade 1	-	-	-	-	
Contracts and Procurement	Risk Based	6.0	0.7	Engagement Planning						Aids and Adaptations contracts.
Creditors	Key Financial System	8.0	6.3	Final Report Issued	Grade 1	-	-	-	-	
Debtors	Key Financial System	8.0	8.8	Final Report Issued	Grade 1	-	-	-	1	
Decent Homes Improvement Programme	Risk Based	10.0	8.5	Final Report Issued	Grade 2	-	1	-	-	
Ethics	Assurance	8.0	0	Removed from plan						Testing included within the Governance audit.
Fraud	Assurance	8.0	10.3	Final Report Issued	Grade 2	3	6	1	-	Audit undertaken by agency auditor.
Governance & Ethics	Assurance	10.0	11.5	Final Report Issued	Grade 2	-	1	1	-	Audit now includes Ethics and number of days has increased.
Grant Income	Key Financial System	5.0	0	Removed from plan						Audit no longer required.
Housing – Other Capital Works	Risk Based	8.0	0.1	Removed from plan						Moved to 2015/16 plan.
ICT Security/Back Up	Key Financial System	2.0	0	Removed from plan						Testing to be included within IT Key Controls audit to be undertaken by Leicestershire County Council.
Information Sharing	Risk Based	6.0	0	Removed from plan						Moved to 2015/15 plan to be combined with a Data Protection audit.
Main Accounting	Key Financial System	8.0	6.7	Final report issued	Grade 1					
Payroll	Key Financial System	8.0	6	In progress						
Performance Management	Assurance	6.0	0.8	Engagement Planning						Moved to Quarter 4 at the request of the Head

Audit Area	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						H	M	L	A	
										of Legal and Support Services
Planned Housing Maintenance	Risk Based	8.0	7.7	Final Report Issued	Grade 2	2	-	-	-	
Planning Policy/Local Plan	Risk Based	6.0	0.6	Removed from plan						The Council is currently engaging the service of a consultant which is providing independent assurance.
Rent Accounting	Key Financial System	8.0	4.6	Final Report Issued	Grade 2	-	2	-	-	
Risk Management	Assurance	8.0	4.2	Final Report Issued	Grade 1	-	-	-	-	Moved to Quarter 4 due to the resources available within Internal Audit.
Sunbed Policy	Risk Based	4.0	4.1	Final Report Issued	Grade 2	3	-	-	-	Additional audit requested by the Head of Community Services.
Treasury Management	Key Financial System	6.0	5.8	Final Report Issued	Grade 1	-	-	-	-	Audit undertaken by agency auditor.

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## KEY

### Assurance Levels:

- Grade 1** Internal Controls are adequate in all important aspects  
**Grade 2** Internal Controls require improvement in some areas  
**Grade 3** Internal Controls require significant improvement  
**Grade 4** Internal Controls are inadequate in all important aspects

### Recommendations:

- H** High Priority  
**M** Medium Priority  
**L** Low Priority  
**A** Advisory

# EXECUTIVE SUMMARY OF FINAL INTERNAL AUDIT REPORTS ISSUED BETWEEN DECEMBER 2014 AND FEBRUARY 2015

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
6 - Fraud Prevention and Detection	Corporate	Head of Finance	Grade 2	<p>All Members and staff should be provided with information detailing their responsibilities regarding fraud prevention and detection and provided with clear links to the Anti-Fraud and Corruption Strategy and the Confidential Reporting (Whistle-blowing) Policy.</p> <p>Members (in particular, the Audit and Governance Committee) should be provided with training to ensure they can effectively consider the effectiveness of the Authority's Anti-Fraud and Corruption Arrangements.</p> <p>Staff whose duties might bring them into contact with situations where fraud or corruption is a potential risk (e.g. procurement, exchequer, benefits, planning) should be identified and targeted with specific training.</p> <p>All new staff and Members should be made aware of their fraud prevention and detection responsibilities, with training as appropriate, as part of their induction programme.</p> <p>The Anti-Fraud and Corruption Strategy and the Confidential Reporting (Whistle-blowing) Policy should be reviewed and</p>	3	6	1	

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
69				<p>up-dated as soon as possible.</p> <p>The individual service risk registers should be revisited to ensure that any potential risks regarding fraud or corruption are identified and that appropriate mitigating actions and controls are in place.</p> <p>Details regarding the management of fraud risks and any identified incidences of fraud should be included within the Council's Annual Governance Statement.</p> <p>Quarterly reporting to the Corporate Leadership Team and the Audit and Governance Committee on how well the council is tackling fraud risks should be undertaken.</p> <p>Human Resources staff should ensure that the new starter checklist is properly completed in all cases, and that internal procedures regarding the retention of (copies of) personal documents such as passports and birth certificates is followed correctly.</p>				
9 - Rent Accounting	Housing	Head of Housing HRA Business Support Team Manager	Grade 2	<p>The Senior Housing Officers should review all static arrears and arrears below £100 every 6 months to ensure adequate recovery action has been taken. All unsatisfactory recovery action should be followed up with the appropriate officer.</p> <p>The Income and Systems Officer should monitor all accounts in credit on a quarterly basis, and report any accounts that have been written off and subsequent payments have been made</p>	-	2	-	-

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Areas for Improvement	Recommendations			
					H	M	L	A
				to the Housing Management department to enable recovery action to recommence.				
10 – Main Accounting System	Corporate	Head of Finance	Grade 1	None identified	-	-	-	-
11 – Risk Management	Corporate	Director of Services and Head of Finance	Grade 1	None identified	-	-	-	-
12 – Creditors	Corporate	Head of Finance Financial Services Team Manager	Grade 1	None identified	-	-	-	-
13 – Debtors	Corporate	Head of Finance Financial Services Team Manager	Grade 1	None identified however an advisory note suggesting the ongoing approach for tackling aged debt is reviewed to ensure it is done in the most efficient way.	-	-	-	1

**Key – see Appendix A**



## Recommendations Tracker – Outstanding High &amp; Medium Recommendations

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
2013/14 Reports								
16	Payroll	5	The draft service level agreement prepared by Selima should be redrafted with more performance targets identified. Until this happens it would be sensible to have formal recording of issues maintained by NWLDC and Selima with monthly exchange of such detail	High	Head of Finance	August 2014  Revised to March 2015	OVERDUE  In Progress	Formal recording of issues has been introduced and these are now raised at quarterly meetings with more senior Selima staff. A new SLA will operate from April 2015.
17	ICT Security & Back Up Controls	3	ICT in conjunction with Departmental managers should review the network access for staff under their control on an annual basis and the ICT Service Desk staff should ensure that managers authorise the required data areas for any user that has a change of role necessitating a variation in their access rights.	High	ICT Team Manager	March 2015	In Progress	
2014/15 Reports								
1	Planned Maintenance	2	The workload of the Repairs Client Team Leader should be reviewed by management and appropriate measures considered and implemented.	High	Repairs & Investments Team Manager	October 2014  Revised date: March 2015	OVERDUE In Progress	This is on track as the date for completion is end of March 2015. The workload has been reviewed as part of a review of the whole of the repairs structure.
6	Fraud Prevention and Detection	1	All Members and staff should be circulated with information detailing their responsibilities regarding fraud prevention and detection and provided with clear links to the Anti-Fraud and Corruption	High	Head of Finance / Head of Legal and Support Services	December 2014  Revised Date: March 2015	OVERDUE In progress	A number of modules on the Learning Pool have been identified which are currently being validated – once approved they will be made mandatory for

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
			Strategy and the Confidential Reporting (Whistle-blowing) Policy.					all staff and members.
6	Fraud Prevention and Detection	2	Members (in particular, the Audit and Governance Committee) should be provided with training to ensure they can effectively consider the effectiveness of the Authority's Anti-Fraud and Corruption Arrangements.	Medium	Head of Finance	June 2015		
6	Fraud Prevention and Detection	3	Staff whose duties might bring them into contact with situations where fraud or corruption is a potential risk (e.g. procurement, exchequer, benefits, planning) should be identified and targeted with specific training.	Medium	Head of Finance	March 2015	In progress	
6	Fraud Prevention and Detection	4	All new staff and Members should be made aware of their fraud prevention and detection responsibilities with training as appropriate as part of their induction programme.	Medium	Head of Legal and Support Services/Head of Finance/Human Resources Team Manager	December 2014 Revised Date: March 2015	OVERDUE In progress	As response to Fraud recommendation 1 above.
6	Fraud Prevention and Detection	6	The Confidential Reporting (Whistle blowing) Policy should be reviewed and up-dated as soon as possible.	Medium	Head of Legal and Support Services	November 2014 Revised Date: March 2015	OVERDUE In progress	The report has been drafted and will go to Audit and Governance on 25 March.
6	Fraud Prevention and Detection	7	The Council's strategic risk register and all individual service risk registers should be revisited to ensure that any potential risks regarding fraud or corruption are identified and that appropriate mitigating actions and controls are in place.	High	Head of Finance	January 2015 Revised Date: March 2015	OVERDUE In progress	
6	Fraud Prevention and Detection	9	Details regarding the management of fraud risks and any identified incidences of fraud should be included within the Council's Annual Governance Statement.	Medium	Head of Finance	September 2015		
6	Fraud Prevention and Detection	10	Quarterly reporting to the Corporate Leadership Team and the Audit and Governance Committee on how well the council is tackling fraud risks should be	High	Head of Finance	April 2015	In progress	

Report		Recommendation		Rating	Officer Responsible	Target Date	Status	Management Comments
			undertaken.					
7	Governance and Ethics	2	Governance and Ethics awareness training should be provided to all relevant officers.	Medium	Legal Services Team Manager	March 2015	In progress	Training with be delivered via the Learning Pool (as with fraud awareness).
9	Rent Accounting	1	The Senior Housing Officers should review all static arrears and arrears below £100 every 6 months to ensure adequate recovery action has been taken. All unsatisfactory recovery action should be followed up with the appropriate officer.	Medium	Senior Housing Officers	January 2015 Revised Date: March 2015	OVERDUE In progress	Original staff member allocated left abruptly. Replacement started in February with plan to review cases with less than £100 static arrears first by the end of February with full completion by the end of March.
9	Rent accounting	2	The Income and Systems Officer should monitor all accounts in credit on a quarterly basis, and report any accounts that have been written off and subsequent payments have been made to the Housing Management department to enable recovery action to recommence.	Medium	Income and Systems Officer	January 2015 Revised Date: March 2015	OVERDUE In progress	Report passed to Senior Housing Officer and is in process of being checked by two administrative officers with an expected completion by the end of March.

## Internal Audit Performance: February 2015

### Performance Measures:

Performance Measure	2014/15 Qtr 4 Target	Position as at 28.02.15	Comments
Delivery of Audit Plan – Key Financial Systems	100%	86%	The payroll system is the only key financial system audit that has not been completed yet. Work started in February and is expected to be completed by March 2015.
Delivery of Audit Plan – Non Key Financial Systems	100%	78%	Two audits are outstanding. Engagement planning has commenced and audit work is expected to be completed during March 2015.
Percentage of time spent on audit work	75%	79%	
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	
Compliance with the Internal Audit Standards	Full	Partial	See section 10 for update and Appendix E.
Compliance testing of completed recommendations	90%	100%	

### Service Plan Actions:

Key Deliverables (Action)	Quarter 4 Milestone	Position as at 28.02.15
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Set action plan and timescale to deliver improvements where highlighted in reviews	Achieved No actions required
Undertake audits as per agreed Audit Plan.	Complete audits of 3 systems to enable the completion of the audit plan	On Target Three audits completed in the quarter, the three audits remaining to complete the plan are in progress.
Provide the Audit and Governance Committee with quarterly reports on the work and performance of internal audit.	Progress report to March Audit and Governance Committee	On Target
Achievement of the PSAIS	Completion of action plan targets	Failing – see section 10 and appendix E.
Produce the 2013/14 Annual Audit Opinion Report by 30 <sup>th</sup> June 2014.	No action for Quarter 4	-
Produce and have approved the 2015/16 Internal Audit Plan by 31 <sup>st</sup> March 2015.	Present the 2015/16 Internal Audit Plan to the March 2015 Audit and Governance Committee.	Achieved.

## Public Sector Internal Audit Standards (PSIAS) – Action Plan

Action		Target Date	Status
1	Set-up quarterly meetings with the Chair of the Audit Committee.	28 <sup>th</sup> February 2014	Implemented
2	Develop comprehensive performance targets for Internal Audit.	28 <sup>th</sup> February 2014	Implemented
3	Review the format of the Engagement Plan (Terms of Reference) to ensure conformance with the PSIAS.	28 <sup>th</sup> February 2014	Implemented
4	Review the format of the Engagement Programme (Audit Programme) to ensure conformance with the PSIAS.	28 <sup>th</sup> February 2014	Implemented
5	Update the Internal Audit Report format to ensure conformance with the PSIAS.	28 <sup>th</sup> February 2014	Implemented
6	Update the issuing of reports and the monitoring and follow up of management actions process.	28 <sup>th</sup> February 2014	Implemented
7	Produce a risk based annual audit plan.	31 <sup>st</sup> March 2014	Implemented
8	Update the Progress Report to Managers and Audit Committee Members to ensure conformance with the PSIAS.	31 <sup>st</sup> March 2014	Implemented
9	Update the Declaration of Interest Form for Internal Audit Staff.	31 <sup>st</sup> March 2014	Implemented
10	The Senior Auditor to provide the Internal Auditors with training in relation to the Bribery Act 2010	31 <sup>st</sup> March 2014	Implemented
11	Review the Annual Internal Audit Opinion Report to ensure conformance with the PSIAS.	31 <sup>st</sup> May 2014	Implemented
12	The NWLDC Head of Finance to obtain feedback on the performance of the Chief Audit Executive from the Chief Executive, the Chair of the Audit Committee and Blaby District Council as part of the appraisal process.	31 <sup>st</sup> May 2014	Implemented
13	Undertake a self-assessment against the PSIAS.	30 <sup>th</sup> June 2014	Implemented
14	Agree the process for the acceptance and authorisation of consulting engagements.	30 <sup>th</sup> June 2014	Implemented
15	Develop a Quality Assurance and Improvement Programme.	30 <sup>th</sup> September 2014	Implemented
16	Review and update the job descriptions and personal specifications for Internal Audit Staff.	30 <sup>th</sup> September 2014	On hold
17	Assess the collective skills, knowledge and competencies of the Internal Audit Team.	31 <sup>st</sup> December 2014	On hold
18	Develop a programme of continuing professional development	31 <sup>st</sup> December 2014	On hold
19	Update the Internal Audit manual.	31 <sup>st</sup> December 2014	On hold – process flowcharts are currently being produced.
20	Review the computer assisted audit techniques available and access whether they could be used to perform audit testing.	31 <sup>st</sup> December 2014	On hold
21	Undertake an assurance mapping exercise.	31 <sup>st</sup> January 2015	On hold
22	Produce an Internal Audit Strategy in conformance with the PSIAS.	28 <sup>th</sup> February 2015	Internal Audit Charter and Audit Plan each year. Internal Audit Strategy is not required by PSIAS therefore remove action.
23	Produce a risk based annual audit plan in conformance with the PSIAS.	28 <sup>th</sup> February 2015	Implemented
24	Undertake a fraud evaluation of the authority.	31 <sup>st</sup> March 2015	Fraud Prevention and Detection undertaken during 2014/15.

## MANAGEMENT OF RISK

Corporate Risk Register							
Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
Finance & Budget 46	4	4	16	Monthly management reviews are performed of actual against budgets and forecast to the end of the year. Monthly reporting and challenging at CLT, and reported to Cabinet quarterly Sound policies and procedures are in place. Planning for the Future has been documented and is reviewed regularly. Internal and External audit of systems and accounts.	4	1	4
Resource Capacity & Capability	4	4	16	Advance planning will mitigate this risk; however should it occur diverting resources from other services, bringing in additional resources from other sources (e.g. Agencies, Consultants, Voluntary/Community sector etc.) would be activated. Market conditions are tested through recruitment processes. The Council offers a package of additional benefits to enhance the recruitment offer. Linked to the above, the Council has developed innovative partnering relationships with other sectors including the private sector to make posts uniquely attractive. Best Employee Experience is a programme to attract and develop the right skills. It is a programme developing the talent within the staff resource through secondments and tailored	2	2	4

Corporate Risk Register							
Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
				development programmes.			
Contract Management & Procurement	4	4	16	Corporate procurement staff and legal team to support where necessary on contract management. Policies and procedures are in place. Procurement Gateway Board oversees a procurement planning process. Training programme in place for staff.	3	2	6
Information Governance & Data Protection	4	4	16	Policies and procedures are in place. Corporate Governance is training is undertaken annually and includes information governance as appropriate to reflect changes in legislation. The Council has a dedicated SIRO. Corporate Governance Groups are in place to scrutinise impacts/issues arising.	4	1	4
Emergency Planning & Business Continuity arrangements	4	4	16	Business continuity plans have been documented, policies and procedures are in place, initial continuity plans are in place to allow access to the service through alternative mechanisms (Hermitage Leisure Centre)	4	1	4
Effective IT Systems & Procedures	4	4	16	Fully resilient environment in place with no single points of failure for core systems, other critical systems use cold standby equipment. New business services are being run in remote fully resilient data centres and existing systems are being progressively	3	2	6

## Corporate Risk Register

Risk Area	Inherent Risk			Control Measures	Residual Risk		
	Impact	Likelihood	Rating		Impact	Likelihood	Rating
				migrated to these cloud computing centres. Data is backed up to a second disk unit at the council office and a third offsite at Hermitage Leisure Centre so there are multiple levels of protection. Improved business recovery arrangements have been implemented to minimise recovery time.			
Project & Programme Management	4	4	16	Progress is shared with regularly with CLT, experienced PRINCE 2 staff, transformation programme is continually reassessing its objectives	3	2	6
Governance, Policies & Procedures	4	4	16	Policies & procedures in place, governance processes are documented and in operation, ongoing assessments and reviews are performed.	4	1	4



**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE - 25 MARCH 2015**

Title of report	<b>2015/16 INTERNAL AUDIT ANNUAL PLAN</b>
Contacts	<p>Councillor Nicholas Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Senior Auditor 01530 454728 <a href="mailto:lisa.cotton@nwleicestershire.gov.uk">lisa.cotton@nwleicestershire.gov.uk</a></p>
Purpose of report	To inform the committee of the proposed Internal Audit Programme of Work for 2015/16
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	Not Applicable
Equalities Impact Screening	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Corporate Leadership Team
Background papers	<a href="#">Public Sector Internal Audit Standards</a> <a href="#">Internal Audit Charter</a>
Recommendations	<p><b>THAT THE COMMITTEE</b></p> <ol style="list-style-type: none"> <li><b>1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE.</b></li> <li><b>2. APPROVES THE 2015/16 INTERNAL AUDIT ANNUAL PLAN.</b></li> </ol>



# INTERNAL AUDIT SHARED SERVICE

**North West Leicestershire District Council**  
Internal Audit 2015/16 Annual Plan

## **1. INTRODUCTION**

- 1.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
- 1.2 This is assisted by Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems are designed and working, with consulting activities available to help to improve those systems and processes where necessary.
- 1.3 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 it has a reasonable expectation of detecting significant control weaknesses and, if detected, shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.
- 1.4 The Three Lines of Defence Model (Appendix A) is a valuable framework that explains Internal Audit's role in assuring effective management of risk and its position in corporate governance. The first line of defence is formed by managers and staff who are responsible for identifying and managing risks as part of their accountability for achieving objectives. The second line of defence provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed by the first line. It also conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. The third line of defence is provided by internal audit. Its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved.

## **2. INTERNAL AUDIT PLAN**

### **2.1 Overall Strategy**

- 2.1.1 The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:
- establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee (at North West Leicestershire DC the Chief Audit Executive is the Senior Auditor);
  - authorises access to records, personnel and physical properties relevant to the performance of engagements; and
  - defines the scope of Internal Audit activities.
- 2.1.2 The key aim of the service is to provide an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. This

clearly helps North West Leicestershire DC in the achievement of its priorities, in particular in helping services to provide good value for money, as it brings a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The priorities for the Council are:

- providing council services that people feel provide good value for money;
- making the district a better place to invest, work and visit;
- improving the well being of people living in North West Leicestershire; and
- making people feel proud to be part of a greener district.

2.1.3 The key areas of work, supporting the aim of the service and to inform the Senior Auditor's annual opinion, are:

- risk management and control assurance;
- assessment of internal control effectiveness and efficiency;
- supporting the Audit and Governance Committee by demonstrating the importance of good governance and ensuring internal control improvements are delivered;
- supporting organisation change to improve processes and service performance;
- fostering an awareness of risk and control across the organisation; and
- the ability to respond to urgent events.

2.1.4 The risk-based Annual Audit Plan is produced by consulting with key stakeholders including senior management, reviewing risk registers, considering reports from external agencies (for example External Audit) and legislative updates, as well as exercising professional judgement. The outcomes from the Audit Plan underpin the Senior Auditor's Annual Opinion on the Council's internal control environment. This opinion feeds in to the Council's Annual Governance Statement.

2.1.5 The annual planning approach is to prioritise higher risk areas of the council's operations. This is balanced by the need to provide assurance over key financial systems that are fundamental to the successful operation of the Council. The plan needs to balance between core assurance that internal control, governance and risk management is functioning effectively and seeking value-added activity that contributes to the achievement of the Council's priorities.

## 2.2 Resources Available

2.2.1 The Audit Team who deliver the Audit Plan at North West Leicestershire District Council consists of a Senior Auditor (0.6 FTE) and an Internal Auditor (0.49 FTE). Table 1 shows a calculation of the available audit days for 2015/16.

**Table 1: Resources Available**

<b>Total Days</b>	<b>284</b>
Less leave/bank holidays/elections/sickness etc	50
Less training and development	8
<b>Available Days</b>	<b>226</b>
Management/PSIAS/Opinion/Plan/Reporting	34
Admin & Meetings	22
<b>Available Audit Days</b>	<b>170</b>

## 2.3 Internal Audit Annual Plan 2015/16

- 2.3.1 Audit planning is undertaken on an annual basis and audit coverage will be based on the following:
- the Council's risk register;
  - consultation with the Council's Leadership Team and management;
  - consultation with the Audit & Governance Committee; and
  - any requirements as agreed with External Audit (KPMG).
- 2.3.2 Audits are conducted using a risk based approach. This enables the finite resources of the team to be focussed on risk areas that have been identified which may prevent the achievement of the Council's aims and objectives.
- 2.3.3 The areas identified for audit review from the Council's risk register and from consultation with key stakeholders have been assessed in order to prioritise them. The auditable areas have been assessed based on the inherent risk within the area and the quality of controls in place. Other factors are considered such as previous audit work, age of systems and changes in staffing. The risk assessment is subjective and based on the professional judgement of the Senior Auditor, however it does provide a good indication of the areas requiring audit.
- 2.3.4 The proposed 2015/16 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix B. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

**Table 2: 2015/16 Annual Audit Plan**

Key Financial Systems	57
Assurance	27
Risk Based Internal Audits	61
Follow up Reviews	10
Advisory	5
Contingency	10
<b>Total Audit Days</b>	<b>170</b>

Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council (PwC).

No consultancy engagements have been agreed for 2015/16 therefore 5 days have been included to provide any advice requested from managers and staff.

The timings shown within the Internal Audit Annual Plan assume that the expected controls will be in place. A contingency has been included in the plan to allow for ad-hoc or fraud investigations. Due to the limited resources available, only 10 days have been included.

- 2.3.5 As the Audit Plan follows a risk based approach this means that not all areas of the Council will be audited during 2015/16. These areas are listed in Appendix C. The Senior Auditor does not consider that these areas currently present a significant risk to the achievement of the Council's aims and objectives and so will not be included in the 2015/16 plan at this time.

## 2.4 Limitations

- 2.4.1 The matters raised in the audit reports will only be those which are brought to our attention during the internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

## 2.5 Review of the Available Resources

- 2.5.1 The key issue for consideration is whether the Internal Audit Plan has the appropriate high level coverage and is focussed on the key areas of risk facing the Council. The Audit and Governance Committee should ensure that there is adequate coverage to provide appropriate assurance. Key considerations:
- Is the risk appetite and resource allocation appropriate given the level of risk the council is currently facing?
  - Are there any high risk areas that are not being covered by the plan?
  - Is there an appropriate balance between assurance and advisory work to ensure the effective utilisation of Internal Audit expertise?
  - Is there sufficient contingency to enable a flexibility of response to changing needs?

## 2.6 Conformance with Public Sector Internal Audit Standards (PSIAS)

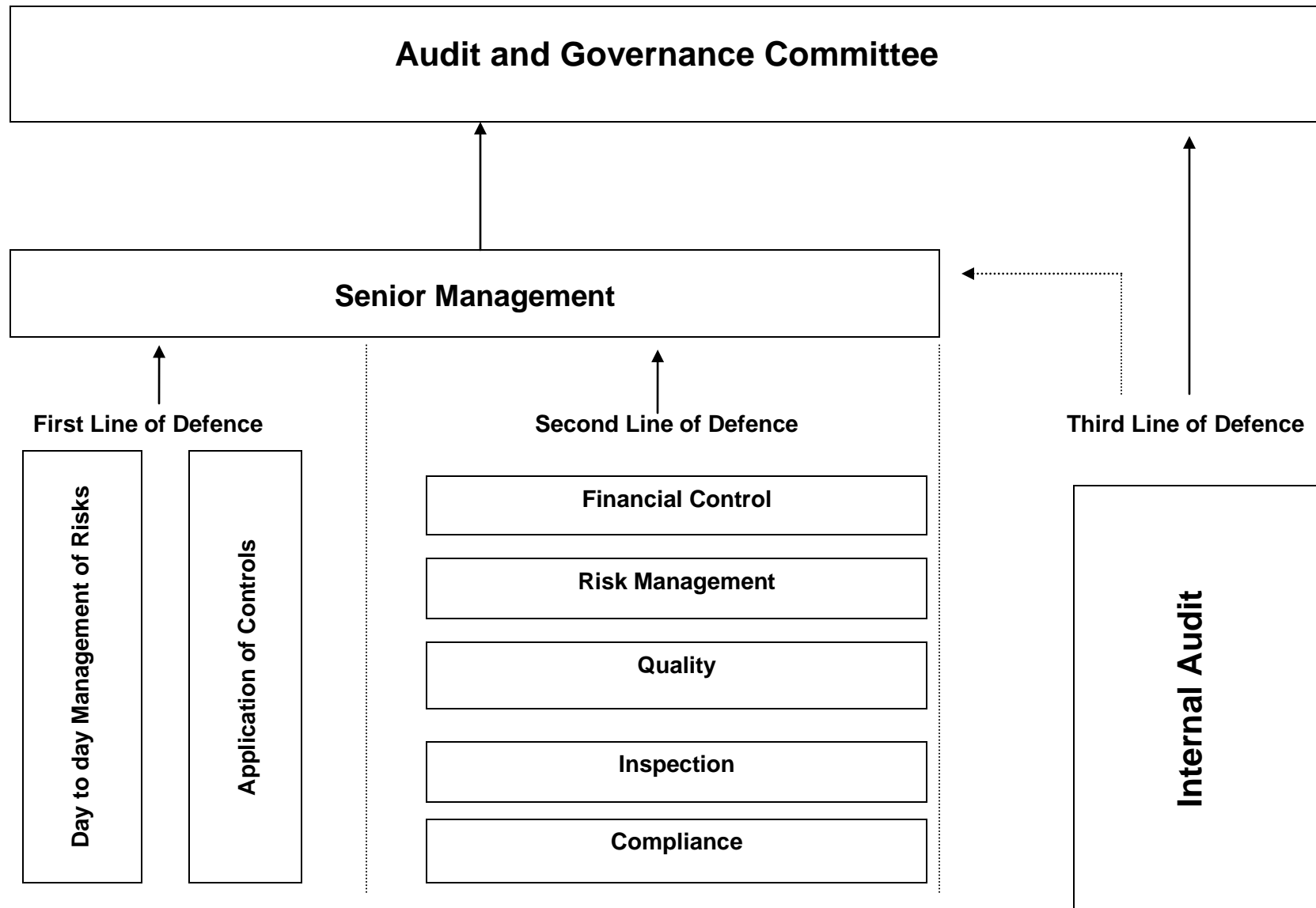
- 2.6.1 Progress was made against the PSIAS Action Plan during 2014/15. This has given the Council a greater level of conformance with the Standards. There are eleven standards in addition to a Code of Ethics. CIPFA has produced a Local Government Application Note which includes a checklist to use for self assessments. This checklist includes over 330 items which are spread out across all of the Standards and the Code of Ethics. The checklist does not weight any item as having more importance than another therefore an overall view should be taken.
- 2.6.2 The Senior Auditor will be undertaking a thorough self-assessment for 2014/15 as part of the annual review of effectiveness of Internal Audit (report to June 2015 Audit and Governance Committee). The Senior Auditor currently estimates 85% full or partial conformance with the applicable questions. It should be noted that, due to the size and nature of the Internal Audit team, 100% full conformance with every item of the checklist is not considered appropriate. This is in line with other similar sized local government

internal audit services. Any significant areas of non conformance will be reported in the Internal Audit Annual Opinion report.

- 2.6.3 The main area of non conformance currently is because the Internal Audit Service has yet not had an external assessment (the Service has until April 2018 to do this). The Senior Auditor is currently looking into options for the external assessment with a view to its completion during early 2015/16. This will allow a new action plan to be produced which will ensure that the limited resources of the team are effectively focussed on achieving an appropriate level of conformance.

## Three Lines of Defence

56





## 2015/16 Internal Audit Plan

Audit Area	Type	Council Priority Area	Priority for Audit	Auditor	Quarter	Audit Days
Benefits	Key Financial System	1,2,3	High	PwC	-	-
Council Tax	Key Financial System	1,3	High	PwC	-	-
Cash and Bank	Key Financial System	1	High	In-house	2	6
Creditors	Key Financial System	1,2	High	In-house	4	8
Debtors	Key Financial System	1,2	High	In-house	4	8
Main Accounting	Key Financial System	1	High	In-house	4	8
NNDR	Key Financial System	1,2	High	PwC	-	-
Payroll	Key Financial System	1	High	In-house	4	8
Rent Accounting	Key Financial System	1,3	High	In-house	2	8
Treasury Management	Key Financial System	1	High	In-house	1	6
ICT Security	Key Financial System	1	High	In-house	2	5
Risk Management	Assurance	1	High	In-house	3	5
Governance and Ethics – New Members	Assurance	1	High	In-house	2	10
Performance Management	Assurance	1	High	In-house	3	6
Fraud	Assurance	1	High	In-house	2	6
Information Sharing and Data Protection	Risk Based	1	High	In - house	2	8
Housing - Other Capital Works/Non DHIP	Risk Based	1,2	High	In - house	1	8
Responsive Housing Repairs & Voids	Risk Based	1,2	High	In - house	2	8
Safeguarding	Risk Based	1,3	High	In - house	1	5
Disabled Facilities Grants	Risk Based	1,3	High	In - house	1	5
Leisure Centres	Risk Based	1,2,3	High	In - house	1	6
Building Control	Risk Based	1,3	High	In - house	1	6
Expenses/mileage claims	Risk Based	1	High	In - house	3	5
Green & Decent	Risk Based	1,4	High	In - house	2	5

DHIP	Risk Based	1,3	High	In - house	2	5
<b>TOTAL</b>						<b>145</b>

### **Council Priority Areas**

Value for Money (1)

Business and Jobs (2)

Homes and Communities (3)

Green Footprints (4)

**2015/16 Internal Audit Plan – Non Coverage**

<b>Audit Area</b>	<b>Type</b>	<b>Priority for Audit</b>
Planning Policy/Local Plan	Risk Based	Medium
Partnerships	Risk Based	Medium
Records Management	Risk Based	Medium
Project Management	Risk Based	Medium
Anti-Social Behaviour	Risk Based	Medium
Planning Enforcement	Risk Based	Medium
S106 Agreements	Risk Based	Medium
CCTV	Risk Based	Medium
Economic Development	Projects	Medium
Human Resources	Projects	Medium
Business Continuity	Projects	Medium
Planned Housing Maintenance	Risk Based	Medium
Vulnerable People	Risk Based	Medium
Asset Management (housing stock)	Risk Based	Medium
Asset Management (council buildings)	Risk Based	Medium
Emergency Planning	Risk Based	Medium
Car parking and enforcement	Risk Based	Low
Equalities	Risk Based	Low
Trade Refuse	Risk Based	Low
Recycling	Risk Based	Low
Ashby TIC	Risk Based	Low
LLPG	Risk Based	Low
Commercial Rents	Risk Based	Low
Member Allowances	Risk Based	Low
Complaints Management	Risk Based	Low
Environmental Health	Risk Based	Low
Food Safety	Risk Based	Low
Licensing	Risk Based	Low
Air Quality	Risk Based	Low
Planning	Risk Based	Low
Land Charges	Risk Based	Low
Health & Safety	Risk Based	Low
Older Persons	Risk Based	Low
Garages	Risk Based	Low
Housing Options/Homelessness	Risk Based	Low
Affordable Housing	Risk Based	Low
Tenant Allocations/Choice Based Letting	Risk Based	Low
Business Rates Retention	Risk Based	Low
Inventory	Risk Based	Low

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 25 MARCH 2015**

Title of Report	<b>TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO FEBRUARY 2015</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Finance 01530 454520 <a href="mailto:ray.bowmer@nwleicestershire.gov.uk">ray.bowmer@nwleicestershire.gov.uk</a></p> <p>Finance Team Manager 01530 454707 <a href="mailto:pritesh.padaniya@nwleicestershire.gov.uk">pritesh.padaniya@nwleicestershire.gov.uk</a></p>
Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April 2014 to February 2015.
Reason for Decision	To ensure that Members are informed of the Authority's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the Authority.
Link to relevant CAT	Could impact upon all Corporate Action Teams.
Risk Management	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice.
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	Not Applicable

Consultees	None
Background Papers	<p>Treasury Management Strategy Statement 2014/15 – Council Meeting 25 February 2014 (presented as part of the Budget and Council Tax 2014/15 Report)  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=160&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=160&amp;Ver=4</a></p> <p>Update on HRA Budget, Housing Capital Programme 2014/15, Treasury Management Strategy Statement for 2014/15, Prudential Indicators - Council Meeting 25 March 2014  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=161&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=161&amp;Ver=4</a></p> <p>Additional Costs Of the Decent Homes Improvement Programme 2014/15 and updated HRA Business Plan – Council Meeting 16 September 2014.  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=1344&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=1344&amp;Ver=4</a></p> <p>Treasury Management Activity Report , April to August 2014 – Audit and Governance Committee 24<sup>th</sup> September 2014  <a href="http://minutes-1.nwleics.gov.uk/documents/s3483/Treasury%20Management%20Activity%20Report%20to%20P5%202014-15%20Final%20-%20Audit%20and%20Governance.pdf">http://minutes-1.nwleics.gov.uk/documents/s3483/Treasury%20Management%20Activity%20Report%20to%20P5%202014-15%20Final%20-%20Audit%20and%20Governance.pdf</a></p>
Recommendations	<b>THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE</b>

## 1.0 BACKGROUND

- 1.1 The Authority's Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and Investment activity.
- 1.2 Treasury Management is defined as "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 The Authority's current Treasury Management Strategy Statement, including the Borrowing Strategy, Debt rescheduling Strategy, Annual Investment Strategy, Prudential Indicators and Annual Minimum revenue Position Statement were approved by Council on 25 February 2014.
- 1.4 This is the third in-year report of 2014/15, to inform Members of the Authority's treasury activity and enable scrutiny of activity and performance. The first activity report was presented to the Audit and Governance Committee on 24 September 2014. The second activity report was

presented to Audit and Governance Committee on 10 December 2014. These reports supplement the annual Treasury Stewardship Report, which will be presented to this Committee and Cabinet as soon as possible after the end of the financial year.

## **2.0 SCOPE**

### **2.1 This report:**

- a) Has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- b) Presents details of capital financing, borrowing, debt rescheduling and investment transactions;
- c) Gives details of the treasury management transactions for the period April to February 2015;
- d) Confirms compliance with treasury limits and Prudential Indicators.

## **3.0 THE U.K. ECONOMY AND EVENTS.**

- The second estimate of Q4 GDP released by the ONS confirmed the UK economy growing by 0.5% over the quarter and 2.7% year-on-year. Both of these figures were unchanged from the first estimate released in January and met market expectations.
- Output saw positive quarterly growth for three of the four main industrial groupings. The main areas of growth came from agriculture, forestry and fishing which grew by 1.6% (an upward revision of 0.3%) and services which grew by 0.8% (unrevised from the previous estimate).
- Production grew by 0.1% (an upward revision of 0.2%). Within production, electricity, gas, steam and air conditioning and supply contracted by 2.7% whereas the remaining three sub-industries experienced growth.
- In other areas, Manufacturing grew by 0.2% (revised upwards from 0.1%) while mining and quarrying including oil and gas extraction, and water and sewerage both grew by 0.5%. Construction saw a quarterly contraction of 2.1% (revised downwards from a 1.8% contraction). In contrast, when comparing Q4 2014 to Q4 2013 construction grew by 4.7%.
- Expenditure components experienced mixed levels of growth for the quarter. The trade deficit narrowed by £2,637m with exports and imports growing by 3.5% and 1.3% respectively. Household final consumption expanded by 0.5%, marking its fourteenth consecutive quarter of growth. General government final consumption expenditure was flat while non-profit institutions serving households, gross fixed capital formation and business investment contracted by 3.3%, 0.5% and 1.4% respectively.
- Employees' compensation increased by 1.2% in Q4 2014; this is the third consecutive quarter of growth. Other income expanded by 0.2%; an eighth consecutive quarter of growth. Taxes less subsidies on products and production increased by 2.5%, a contrast to its 0.6% contraction in Q3 2014. Gross operating surplus of corporations decreased by 2.6%.
- There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

## 4.0 THE AUTHORITY'S TREASURY POSITION.

4.1 The Authority's gross / net debt and investment positions are as follows:

<b>DEBT</b>	<b>Balance at 01/4/2014 £m</b>	<b>%</b>	<b>Maturing loans £m</b>	<b>Premature redemptions £m</b>	<b>New Borrowing £m</b>	<b>Balance at 01/03/2015 £m</b>	<b>%</b>
Long-term fixed rate	£87.523m	100	£1.502m	£0.000m	£0.000m	£86.021m	
Long-term variable rate	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	
Temporary Borrowing	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	
<b>Total borrowing</b>	<b>£87.523m</b>	<b>100</b>	<b>£1.502m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£86.021m</b>	<b>99.84</b>
Other long-term liabilities	£0.136m		£0.000m	£0.000m	£0.000m	£0.136m	0.16
<b>TOTAL EXTERNAL DEBT</b>	<b>£87.659m</b>		<b>£1.502m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£86.157m</b>	<b>100</b>
<b>INVESTMENTS</b>	<b>Balance at 01/4/2014 £m</b>	<b>%</b>	<b>Maturities £m</b>	<b>Sales £m</b>	<b>New Investments £m</b>	<b>Balance at 02/11/2014 £m</b>	<b>%</b>
<b>Internally Managed</b>	<b>£20.728m</b>	<b>100</b>	<b>£137.647m</b>	<b>£0.000m</b>	<b>£142.339m</b>	<b>£25.420m</b>	<b>100</b>
Investments with maturities up to 1 year,	£18.728m	100	£137.647m	£0.000m	£139.339m	£20.420m	80
Investments with maturities in excess of 1 year	£2.000m	0	£0.000m	£0.000m	£3.000m	£5.000m	20
<b>Externally Managed Investments</b>	<b>£0.000m</b>	<b>0</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>0</b>
<b>TOTAL INVESTMENTS</b>	<b>£20.728m</b>		<b>£137.647m</b>	<b>£0.000m</b>	<b>£142.339m</b>	<b>£25.420m</b>	
<b>NET DEBT</b>	<b>£66.931m</b>					<b>£60.737</b>	

4.2 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council tax, business rates, grants, capital receipts, payments to other precepting authorities or central government and interest on treasury activity.

4.3 In the period April 2014 to February 2015, the capacity for investment has currently increased by £6.194m. The volatility of balances is normal throughout the year and a number of factors contribute to this:

- The Authority traditionally benefits from the receipt of Council Tax and Business Rates during the first ten months of the financial year;
- Revenue expenditure is more evenly weighted throughout the financial year;
- Capital expenditure is more heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts.
- The patterns of income and expenditure are reflected in the Authority's cash flow projections. This is monitored and revised daily.

4.4 The current increased capacity for investment is expected to reverse towards the end of the financial year and this is in line with the Authority's experience. The capacity for investment has decreased slightly (by £0.554m) since the activity report presented in December.

## 5.0 BORROWING ACTIVITY.

5.1 The Authority's Borrowing Strategy 2014/15, approved by Council on 25 February 2014, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Authority's Prudential Indicators.



- 5.2 The Authority's revised estimated borrowing requirement for the current financial year is £1.24m. In the two subsequent financial years this is estimated to be £0.749m in 2015/16 and £0.908m in 2016/17. This was reported in the Additional Costs of the Decent Homes Improvement Programme 2014/15 – Appendix C, to Council on 16 September 2014.
- 5.3 The Authority has not undertaken any new long-term borrowing during the period.
- 5.4 A market loan with a value of £1m was repaid in February 2015. This loan had an interest rate of 7.99%.
- 5.5 The Authority's cash flow remained positive during the period. The Authority did not require any temporary loans during the period.

## **6.0 DEBT RESCHEDULING ACTIVITY.**

- 6.1 The Authority's Debt Rescheduling Strategy 2014/15, which was approved by Council on 25 February 2014, establishes a flexible approach where the rationale for rescheduling could be one or more of the following:
- Savings in interest costs with minimal risk.
  - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
  - Amending the profile of maturing debt to reduce any inherent refinancing risks.
- 6.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the Authority has undertaken no debt rescheduling activity during the period.
- 6.3 The Authority's portfolio of thirteen loans - ten PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Authority's Policy and rationale.

## **7.0 INVESTMENT ACTIVITY.**

- 7.1 The Authority's Investment Policy and Strategy 2014/15, which was approved by Council on 25 February 2014, established that the major policy objective is to invest its surplus funds prudently.
- 7.2 The Authority's Investment Policy and Strategy 2014/15, establishes that the major policy objective is to invest its surplus funds prudently. The Authority's investment priorities are:
- security of the invested capital;
  - sufficient liquidity to permit investments; and,
  - optimum yield which is commensurate with security and liquidity.
- 7.3 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2014/15 and are monitored by the Authority's Treasury Management Advisors. The minimum long term rating for counterparties is A- or equivalent. The counterparties and amounts currently invested are shown below:

<b>Counterparty</b>	<b>Length of Investment</b>	<b>£m</b>
HSBC	Overnight	1.5
Lloyds Banking Group / Bank of Scotland	Overnight	1.1
Santander	Overnight	3.0
Handelsbanken	Overnight	1.5

Black Rock MMF	Overnight	0.5
Goldman Sachs MMF	Overnight	2.1
Scottish Widows Investment Partnership	Overnight	1.0
CCLA Investment Management Ltd MMF	Overnight	0.5
Barclays Treasury Direct	3 Months	2.7
Nationwide Building Society	100 days	1.5
Barnsley Metropolitan Borough Council	364 days	3.0
North Tyneside Council	364 days	2.0
Staffordshire Moorland	3 Years	2.0
Greater London Authority	3 Years	3.0
<b>Total Invested</b>		<b>25.4</b>

- 7.4 The average rate of return on the Authority's investment balances during the period was 0.61%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for the period to the end of February 2014 was 0.35%. The average 7 day London Interbank Offered Rate (LIBOR) rate for the period to the end of February 2014 was 0.48%. The comparison of rates of return against a benchmark is less relevant when set against the ultimate priority of Security as set out in the Authority's Treasury Management Strategy Statement 2014/15.
- 7.5 There were 204 investments made during the period, totalling £133.8m. The average balance held for the period was £28.6m.
- 7.6 Short term interest rates remain low resulting in a lengthening of investment periods, where cash-flow permits, in order to lock in higher rates of return. Four fixed term investments were taken out during the period. These investments were for amounts ranging from £1.5m to £3.0m. One Investment of £2.7m had matured within the period. The Authority and its advisors remain on a state of alert for signs of credit or market distress that may adversely affect the Authority.
- 7.7 The Authority has budgeted to achieve £68,000 of income from its investment activity in 2014/15. Investment activity from April 2014 to February 2015 has achieved £166,500.00 in interest. The current forecast that is estimated to be achieved is £176,000.00. Of this total, an element is applied to balances held on external income. This external income represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £26,000, subject to the balances remaining at the end of the financial year.
- 7.8 The estimated remaining balance of interest (£150,000) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on the estimated cash flow position. For 2014/15, the budgeted investment income is apportioned as follows: £43,000 General Fund and £25,000 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis and the current forecast is anticipated as follows:

	<b>Budget</b>	<b>Projected</b>
General Fund	£43,000	£95,0000
HRA	£25,000	£55,000
External Balances	£ 0	£26,000
<b>Total</b>	<b>£68,000</b>	<b>£176,000</b>

- 7.9 All investments made during the period complied with the Authority's agreed Annual Investment Strategy, Treasury Management Practices, Prudential Indicators and prescribed limits.

## **8.0 SUMMARY**

- 8.1 For the period April 2014 to February 2015, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 25 February 2014 and the subsequent update on September 16 2014 as part of the Authority's Treasury Management Strategy Statement.
- 8.2 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary report of the Treasury Management activity for the period April 2014 to February 2015. No indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 8.3 The Authority can confirm that during the period April 2014 to February 2015, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 25 MARCH 2015**

Title of report	<b>EXTERNAL AUDIT PLAN 2014-15</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Chief Executive 01530 454500 <a href="mailto:christine.fisher@nwleicestershire.gov.uk">christine.fisher@nwleicestershire.gov.uk</a></p> <p>Head of Finance 01530 454520 <a href="mailto:ray.bowmer@nwleicestershire.gov.uk">ray.bowmer@nwleicestershire.gov.uk</a></p>
Purpose of report	To approve the External Audit Plan for 2014-15
Council Priorities	Value for Money
Implications:	
Financial/Staff	No direct implications.
Link to relevant CAT	None
Risk Management	The External Audit is an essential part of the Council's arrangements for compliance with laws and regulations, as well as maintaining good Value for Money.
Equalities Impact Assessment	Not applicable
Human Rights	No direct implications.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	<b>THE AUDIT &amp; GOVERNANCE COMMITTEE IS ASKED TO APPROVE THE ATTACHED EXTERNAL AUDIT PLAN FOR 2014-15.</b>

## **1.0 BACKGROUND**

- 1.1 The 2014/15 Financial Year is drawing to a close. Each year the External Auditor provides the Audit Plan for the forthcoming audit of the Council's accounts. This is presented at Appendix A for approval by this Committee. Representatives of the Council's External Auditors, KPMG will attend the meeting to answer the Committee's questions.

# External Audit Plan 2014/15

## Final

North West Leicestershire District Council

March 2015

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■ VFM audit approach	12
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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett on 0116 256 6064, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1<sup>st</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.



This document describes  
how we will deliver our audit  
work for North West  
Leicestershire District  
Council

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## Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for North West Leicestershire District Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will cease to exist on 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts to the existing arrangements.

## Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

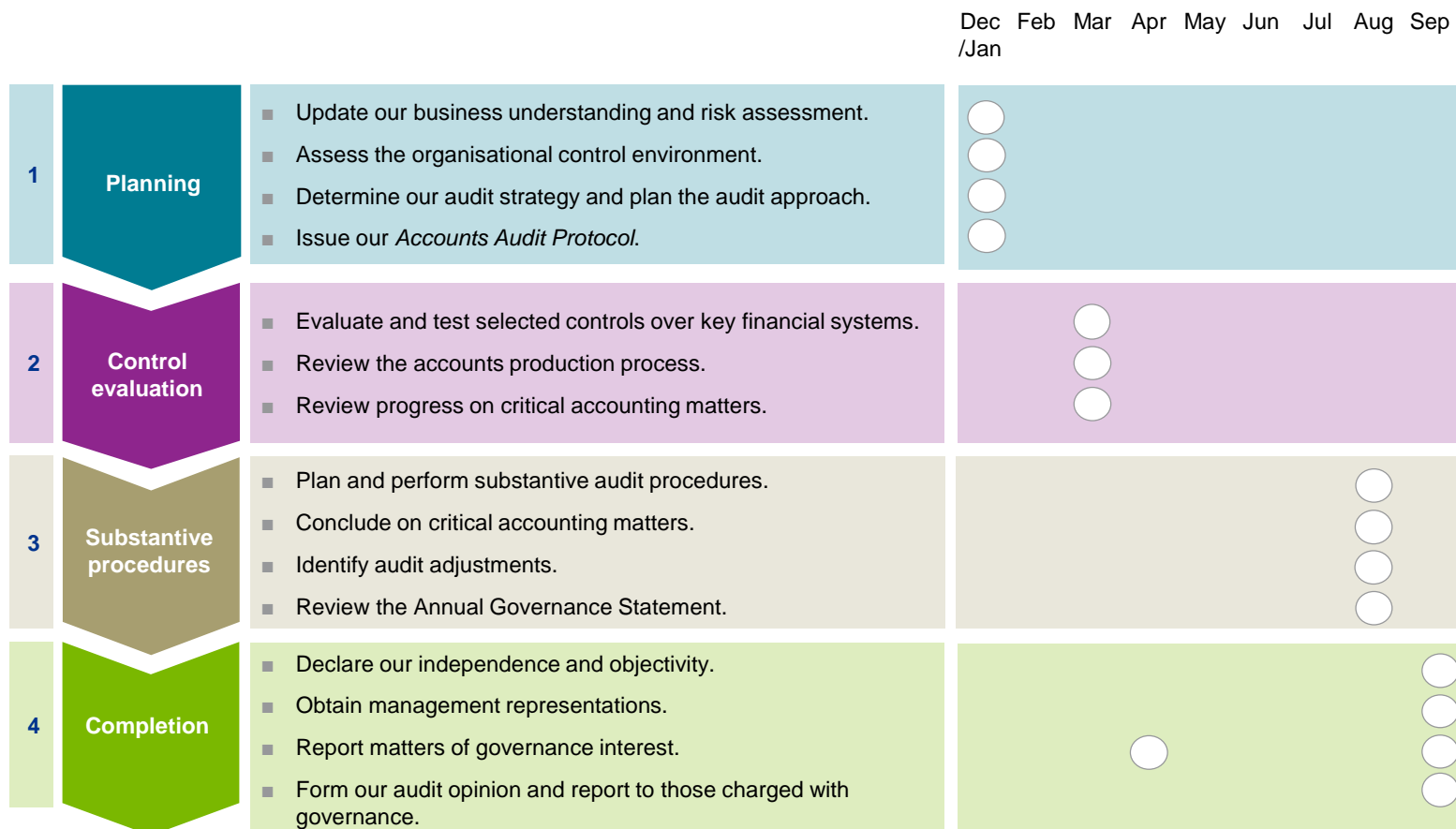
<b>Audit approach</b>	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Financial Planning Manager.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<b>Key financial statements audit risks</b>	<p>We have completed our initial risk assessment for the financial statements audit and have identified three significant risks this year. These risks relate to:</p> <ul style="list-style-type: none"> <li>- Management override of controls</li> <li>- Fraudulent revenue recognition</li> <li>- Valuation and componentisation of fixed assets</li> </ul> <p>These risks are described in more detail on pages 10-11</p>
<b>VFM audit approach</b>	<p>We have identified no specific VFM risks.</p>
<b>Audit team, deliverables, timeline and fees</b>	<p>The audit team remains unchanged from the previous year.</p> <p>Our audit timeline is detailed on page 18, in summary our interim is scheduled for early March 2015 and the main financial statement audit is scheduled to commence on 3<sup>rd</sup> August 2015.</p> <p>Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £67,362, this includes a £900 supplement for additional audit work on business rates.</p>

We undertake our work on your financial statements in four key stages:

- Planning - December 2014/January 2015
- Control Evaluation - March 2015
- Substantive Procedures - August 2015
- Completion - September 2015

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We have summarised the four key stages of our financial statements audit process for you below:



During December 2014 and January 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in December 2014 and January 2015. This involves the following aspects:

## Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

## Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks, including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

## Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

## Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at £1.1m.

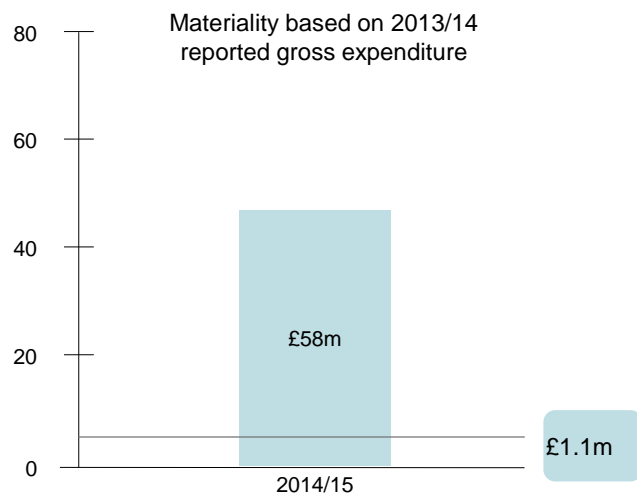
We will report all audit differences over £55k to Audit and Governance Committee.

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## Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £1.1m this is based on 2013/14 reported gross expenditure. This figure is a guide only.

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

## Reporting to Audit and Governance Committee

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

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

ISA 450 (UK&I), '*Evaluation of misstatements identified during the audit*', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55k.

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

**During March 2015 we will complete our interim audit work.**

**We assess if controls over key financial systems were effective during 2014/15.**

**We work with your finance team to enhance the efficiency of the accounts audit.**

**We will report any significant findings arising from our work to the Audit and Governance Committee.**

Our on site interim visit will be completed during March 2015. During this time we will complete work in the following areas:

## Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

## Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

## Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

## Accounts production process

We will assess the Authority's progress in preparing for the closedown and accounts preparation.

## Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

We will discuss and review with officers the valuation and componentisation of fixed assets undertaken in 2014/15.

If there are any significant findings arising from our interim work these will be discussed at the next available Audit and Governance Committee.

During August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit and Governance Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for 3<sup>rd</sup> August 2015. During this time, we will complete the following work:

## Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

## Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

## Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Finance prior to reporting to the Audit and Governance Committee.

## Audit adjustments

During our on site work, we will meet with the Financial Planning Manager on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit and Governance Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

## Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit and Governance Committee in due course.

**In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.**

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

### Whole of Government Accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

### Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

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

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

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

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit and Governance Committee. Our deliverables are included on page 17.

### Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Governance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

### Confirmation statement

We confirm that as of March 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



## Section four

# Key financial statements audit risks

**In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2014/15.**

**For the key risk area we have outlined the impact on our audit plan.**

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

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table over the page sets out the significant risks we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2014/15. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Appendix 3 covers more details on our assessment of fraud risk.


## Section four

# Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2014/15.

For the key risk area we have outlined the impact on our audit plan.

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Key audit risks	Impact on audit
 <p><b>Valuation of tangible fixed assets</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Property, plant &amp; equipment</li> </ul>	<p>In 2013/14 the Authority reported the net book value of tangible fixed assets of £172m. The Authority exercises judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. In 2014/15 the Authority engaged its external valuer to undertake a full revaluation exercise on land and buildings including componentisation of assets to comply with CIPFA Code of Practice as at 31 March 2015. Given the materiality in value, the amendments required in this area of the financial statements last year and the judgement involved in determining the carrying amount for each component of an asset we consider this to be a significant audit risk for 2014/15.</p> <p>We will undertake the following work over the componentisation and valuation of material fixed asset balances:</p> <ul style="list-style-type: none"> <li>■ We will review the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.</li> <li>■ We will review the componentisation and revaluation basis and consider its appropriateness with CIPFA Code of Practice and the underlying IFRS accounting standards.</li> <li>■ We will review the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements.</li> <li>■ We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated.</li> </ul>

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below:

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	<p>The organisation has robust systems and processes to:</p> <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	<p>The organisation is prioritising its resources within tighter budgets, for example by:</p> <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

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### Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul>

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

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VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and / or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any specific risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We have completed our initial VFM risk assessment and have not identified any specific key issues.</p> <p>We are aware of the financial and operational pressures that you are dealing with. At present, we consider that we will be able to obtain the assurances that we need to fulfil our responsibilities for the VFM conclusion from our standard programme of work. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Your audit team remains unchanged from the previous year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

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John Cornett  
Director

"My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit and Governance Committee and Chief Executive."



Sarah Brown  
Senior Manager

"I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with the Director to ensure we add value."



Sundeep Gill  
Assistant Manager

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

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>March 2015</b>
<b>Control evaluation and substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>September 2015</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2015</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>	<b>September 2015</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2015</b>
<b>Grant Certificate Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our grant work for the year.</li> </ul>	<b>January 2016</b>



We will be in continuous dialogue with you throughout the audit.

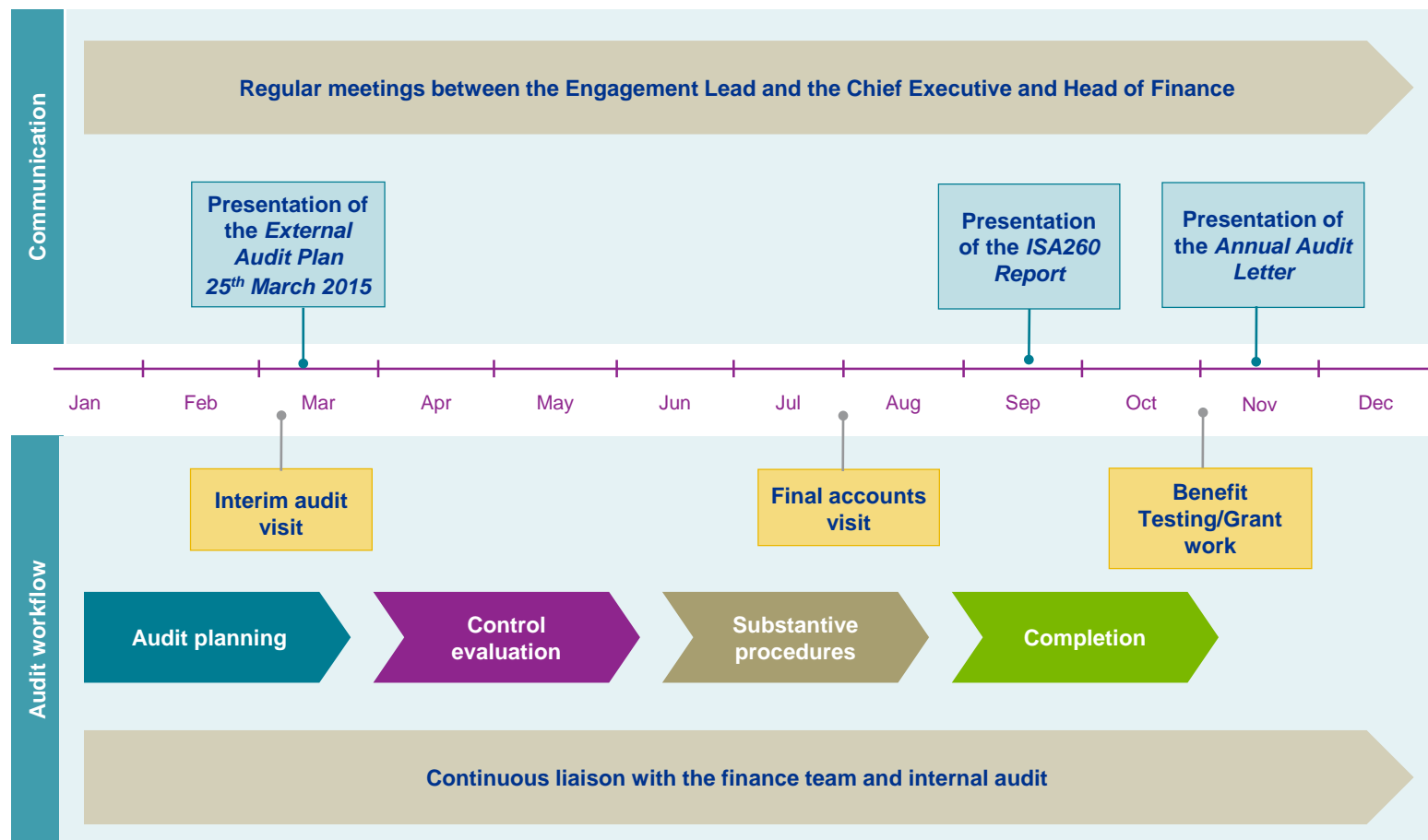
Key formal interactions with the Audit and Governance Committee are:

- March 2015 - External Audit Plan;
- September - ISA 260 Report;
- November - Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March 2015.
- Final accounts audit during August 2015.



Key: ● Audit and Governance Committee meetings.

**The fee for the 2014/15 audit of the Authority is £67,362. The fee has changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014 because of an uplift of £900 for NNDR work.**

**Our audit fee remains indicative and based on you meeting our expectations of your support.**

**Meeting these expectations will help the delivery of our audit within the proposed audit fee**

#### Audit fee

Our *Audit Fee Letter 2014/15* sent to you in April 2014 first set out our fees for the 2014/15 audit. The planned audit fee for 2014/15 is £67,362, (£66,462 in 2013/14) this reflects an increase of £900 for additional work around the NNDR as we are no longer required to audit the NNDR (LA01) Claim.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

#### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

#### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

**This appendix summarises auditors' responsibilities regarding independence and objectivity.**

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### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced

existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

## Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit and Governance Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

## KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit and Governance Committee and others.
- Evaluate controls that prevent, deter and detect fraud.

## KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit and Governance Committee and management.

## KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

## Appendix 4: Transfer of Audit Commission functions

**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.



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**AUDIT AND GOVERNANCE COMMITTEE  
WORK PLAN 2015 - 16**

<b>Issue</b>	<b>Details</b>	<b>Meeting at which will be reported</b>
Internal Audit Update	To receive an update report on the Internal Audit Plan	24 June 2015
Treasury Management Activity Report	To consider the Treasury Management report	24 June 2015
Treasury Management Stewardship Report	To consider the Treasury Stewardship report	24 June 2015
Standards Quarterly Report	To receive the quarterly report	24 June 2015
Internal Audit Update Report	To receive an update report on the Internal Audit Plan	September 2015
Treasury Management Activity Report	To consider the Treasury Stewardship report	September 2015
Annual Governance Statement	To consider the Annual Governance Statement	September 2015
Statement of Accounts	To consider the Statement of Accounts	September 2015
Standards Quarterly Report	To receive the quarterly report	September 2015
Report to those Charged With Governance	To consider the Report Charged with Governance	September 2015
Annual Audit Letter	To consider the Annual Audit Letter	December 2015
Internal Audit Plan Update Report	To receive an update report on the Internal Audit plan	December 2015
Treasury Management Activity Report	To consider the Treasury Stewardship report	December 2015
Standards Quarterly Report	To receive the quarterly report	December 2015

Updated: 12/03/15

Agenda Item 10.

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