Sevenoaks
DISTRICT COUNCIL

Despatched: 06.01.14

AUDIT COMMITTEE

14 January 2014 at 7.00 pm
Conference Room, Argyle Road, Sevenoaks

AGENDA

Membership:

Chairman: Cllr. Grint

Cllrs. Mrs. Bayley, Ms. Chetram, Mrs. Cook, Fittock, McGarvey, Orridge, Mrs. Purves and Towell

		Pages	Contact
Apologies for Absence			
1.	**Minutes** To agree the Minutes of the meeting of the Committee held on 10 September 2013, as a correct record	(Pages 1 - 6)	
2.	**Declarations of Interest** Any declarations of interest not already registered.		
3.	**Responses of the Council, Cabinet or Council Committees to the Audit Committee's reports and / or recommendations (if any)**		
4.	**Actions Arising from the Minutes (if any)**		
5.	**External Audit - Update**	(Pages 7 - 58)	Adrian Rowbotham Tel: 01732 227153
6.	**External Audit - Housing and Council Tax Benefit Grant 2012/13**	(Pages 59 - 64)	Adrian Rowbotham Tel: 01732 227153
7.	**Internal Audit 2013/14 - 2nd Progress Report**	(Pages 65 - 80)	Bami Cole Tel: 01732 227236
8.	**New Audit Standards Charter**	(Pages 81 - 92)	Bami Cole Tel: 01732 227236
9.	**Risk Management Update**	(Pages 93 - 98)	Bami Cole Tel: 01732 227236

10.	**Member Training**	(Pages 99 - 102)	Adrian Rowbotham Tel: 01732 227153
11.	**Work Plan**	(Pages 103 - 104)	

EXEMPT INFORMATION

(At the time of preparing this agenda, there were no exempt items. During any such items which may arise, the meeting is likely NOT to be open to the public.)

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Contact Officer named on a report prior to the day of the meeting.

Should you require a copy of this agenda or any of the reports listed on it in another format please do not hesitate to contact the Democratic Services Team as set out below.

For any other queries concerning this agenda or the meeting please contact:

The Democratic Services Team (01732 227241)

AUDIT COMMITTEE

Minutes of the meeting held on 10 September 2013 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllrs. Mrs. Bayley, Ms. Chetram, Mrs. Cook, Fittock, McGarvey, Orridge and Towell

Apologies for absence were received from Cllrs. Mrs. Purves

Cllrs. Ramsay were also present.

12. Declarations of Interest

There were no additional declarations of interest.

13. Minutes

Resolved: That the minutes of the Audit Committee held on 11th June 2013 be agreed and signed as a correct record.

Referring to Minute 4, the Chairman reported that he had been advised by the Council's Monitoring Officer that it was not appropriate to meet with the Auditors at a public meeting without the Committee Clerk present. In light of this the Chairman would be meeting with the Auditors outside of the public meetings and reporting back to the Committee if necessary.

Referring to Minute 5, a Member queried whether errors of as little of 1p were considered to be errors. The District Auditor confirmed that these were the rules established by the Department for Work and Pensions and that the adjustments had to be recorded. This was the cause of much of the additional work.

The Chairman also reported that following discussions with the Portfolio Holder for Finance and Resources it had been agreed that the Pensions Scheme would be discussed at the Finance and Resources Advisory Committee meeting in January 2014 and Members of the Audit Committee would be welcome to attend that meeting.

14. Surveillance Policy - Report of the Chief Surveillance Commissioner

The Committee considered a report recommending the adoption of a revised surveillance policy and the approval of reporting arrangements to Elected Members following a recent inspection by the Office of the Surveillance Commissioner.

On 19th June 2013, the Council was inspected by the Officer of the Surveillance Commissioner (OSC). These inspections were carried out on a three yearly basis. The Council received a report from the OSC and contained within the report were a small number of recommendations, including some minor changes to the Council's surveillance policy.

The report of the OSC made 3 recommendations:

- Elected members of a local authority should review the authority's use of the 2000 Act and set out the policy at least once a year. They should also consider internal reports on the use of the 2000 Act on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose. They should not however, be involved in making decisions on specific authorisations.

- The Council ensure that the extant recommendations of 2010 with regard to training is acted upon without delay.

- The future training encompasses the following issues:

  The applicant for directed surveillance understands that they not only have to set out the investigation objectives of the covert activity along with a narrative of the intelligence but an outline of the provenance of the intelligence.

  That the covert activity should be reviewed during the period of authorisation.

The above recommendations had been addressed in that it would be recommended to Council that it agreed that an annual report with quarterly updates be made to Councillors through the Members' Electronic Portal. Training for Officers had also been organised.

The Chairman sought more information on the one instance of covert monitoring. In response the Chief Officer Legal and Governance reported that this had related to a housing benefit contravention and it had been necessary to undertake surveillance outside a house.

A Member queried whether, in terms of shared services, Dartford Borough Council had the same policies, procedures and training as Sevenoaks District Council. The Chief Officer Legal and Governance reported that whilst policies, procedures and training may not be identical they should be similar.

The Chairman noted that the Council used its powers of covert surveillance extremely rarely and the Committee were advised that there was no reason to presume that there would be a dramatic increase in use.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That Council be recommended to:

(a) Note the report of the Chief Surveillance Commissioner;

(b) Adopt the revised Surveillance Policy as set out at Appendix B to the report; and

(c) Agree that an annual report with quarterly updates be made to Councillors by email in addition to being available on the Members Electronic Portal.

15. Statement of Accounts 2012/13 - Outcome of External Audit

The Committee considered a report setting out the external audit findings of the 2012/13 accounts. The external audit of the accounts began on 15 July and the Audit Findings Report, attached at Appendix A to the Committee report, set out the findings and changes to the accounts agreed as part of the process. A draft Statement of Accounts had been reviewed by a working group from the Audit Committee. Since the review by the Working Group the Auditors had reviewed the accounts and the following changes had subsequently been made:

a. Sevenoaks Environmental Park had been erroneously included as a Community Asset at the end of March with a ‘carrying value’ of £171,000. The lease of this park expired in September and was not renewed. The balance sheet had been adjusted. This adjustment did not impact on the amount transferred to the earmarked reserves.

b. The service analysis within the Comprehensive Income and Expenditure statement had merged the costs of ‘Central Services to the public’ and ‘Corporate and Democratic core’ which did not meet the disclosure requirements; the expenditure and income lines had now been disaggregated.

c. Grant Income - this related to the accounting treatment of grant income received from central government and used to fund projects such as Disabled Facilities. In previous years this had been treated this as non-specific grant income, however Grant Thornton had advised that this should be treated as service income.

d. Housing Benefit Subsidy –the housing benefit subsidy (£34.2m in 2012/13) was now disclosed as a grant item.

The Head of Finance reported that Grant Thornton, the District Auditors, anticipated giving an unqualified opinion.

Mr Andy Mack, the District Auditor, thanked all Officers who had been involved in the Audit process and reported that the proposed unqualified opinion given to the Statement of Accounts was essentially a 'clean bill of health' and that there were no material issues arising from the accounts. The Auditors had made a recommendation in their report suggesting that the Council should consider building into the financial statements preparation process a comprehensive quality assurance review to identify errors and this had been agreed by Officers.

A Member noted that the audit report assumed a basic financial knowledge that many people who may read the document may not have. In response the District Auditor reported that new national guidance had led to very prescriptive Statements of Accounts across Local Authorities. Grant Thornton were now encouraging Local Authorities to produce Annual Reports which were not bound by the strict guidance.

It was also suggested that it would be helpful to give an indication of when the valuation bands referred to in the glossary were set.

The Committee considered issues around net pensions liability and the District Auditor confirmed that there was nothing to concern Members at this time.

Mr Geoffrey Bannister from Grant Thornton reported that Sevenoaks District Council had a very good track record in terms of Use of Resources and Value for Money. There were a number of areas where the Council was performing very well and the Auditors had given an unqualified opinion in terms of Value for Money.

The Auditors tabled a standard Audit Letter, written from the Chief Executive to Grant Thornton and asked the Committee to confirm that it was satisfied that the letter contained no factual inaccuracies. Members confirmed that they were happy for the Chief Executive to sign the letter, subject to paragraph 15 being slightly reworded.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

The Committee expressed its gratitude to the Finance Team and the District Auditors for the extensive work that had been undertaken in producing the Statement of Accounts.

Resolved: That

(a) the Statement of Accounts 2012/13, as amended, be approved; and

(b) the audit letter of representation, as amended, be approved.

16. Annual Governance Statement 2012/13

The Committee considered the Annual Governance Statement for 2012-2013. The report explained that the Council was responsible for ensuring that its business was conducted in accordance with the law, proper standards, good governance and that public money was safeguarded and properly accounted for. In discharging this overall responsibility, the Council had to ensure that there were sound systems of internal controls and good governance arrangements in place to facilitate the exercise of its duties. The report set out the Council's governance arrangements and systems of internal control which operated during 2012/13.

The Annual Governance Statement confirmed that the Council had sound systems of internal control and good governance arrangements in place.

The Audit, Risk and Anti Fraud Manager reported an amendment to paragraph 7.1 of Appendix A to the report. The date should have read 13th September 2010.

A Member expressed concern that after three years the Health and Safety Executive had still not concluded the investigations raised in the significant governance issue. The Chief Officer Legal and Governance reported that investigations following accidents of this type tended to take a long time however there had been no criticism of delay on the part of the Council.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

> Resolved: That the Annual Governance Statement for 2012/13 as amended, which accompanies the Council's Accounts, be agreed.

17. Internal Audit Progress Report

The Committee considered a report providing details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2013/14 and outcomes of final internal audit reports issued since the meeting of the Audit Committee in June 2013.

Three planned reviews had been finalised with a further five were shown as work in progress.

The Committee expressed concern surrounding the outcome of the audit of IT Implementation and Network. The Audit, Risk and Anti Fraud Manager reported that since the audit, five out of six recommendations had been implemented and based on the actions taken by management to date there was no longer a matter of concern, if the audit were undertaken now the audit opinion would be 'Good'.

Members reported that they would like to continue monitoring IT and the Chief Finance Officer suggested that a further report could be provided to the Committee following the IT Audit Review which would be undertaken in January 2013.

A Member suggested that the Committee should ask the Environment and Local Planning Advisory Committee to look at issues surrounding the future of the Dunbrik site.

The Committee expressed concern that the Environmental Health Partnership schedule between Dartford Borough Council and Sevenoaks District Council had not been formally agreed and signed. The Chief Officer Legal and Governance and the Audit, Risk and Anti Fraud Manager confirmed that agreements were in place and working arrangements and the delivery of the service had not been impeded. However, Members were still not satisfied that the agreement had not been formally signed and suggested that this was something else that the Environment and Local Planning Advisory Committee may wish to investigate.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That

(a) the report and progress made by the Audit Team in delivering the 2013/14 Annual Internal Audit Plan be noted; and

(b) the Environment and Local Planning Advisory Committee be asked to look at issues surrounding the future of the Dunbrik site.

Following the meeting the Chief Officer Legal and Governance followed up on the matter concerning the Environmental Health Partnership schedule between Dartford Borough Council and Sevenoaks District Council had not been formally agreed and signed.

18. Work Plan

The Committee considered its work plan for 2013/14. The Chairman reported that an additional item *Review of Housing Benefit Grant* had been added to the work plan for the January 2014 meeting.

Resolved: That an additional item, 'Review of Housing Benefit Grant' be added to the Work Plan for the January 2014 meeting.

THE MEETING WAS CONCLUDED AT 8.31 PM

CHAIRMAN

EXTERNAL AUDIT - UPDATE

Audit Committee – 14 January 2014

Report of:	Chief Finance Officer
Status:	For Information
Key Decision:	No

This report supports the Key Aim of providing value for money.

Portfolio Holder	Cllr. Ramsay
Contact Officer(s)	Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the report be noted.

Introduction

1 Andy Mack, from Grant Thornton, would like the opportunity to present the following items to Members:

- Annual Audit letter 2012/13 (Appendix A).
- The Grant Thornton document: 2016 Tipping Point? (Appendix B).

2 Grant Thornton were appointed as the Council's external auditors to replace the Audit Commission with effect from 1 November 2012. This followed a procurement exercise to outsource the work of the Commission's in-house audit practice into five regional contracts.

Annual Audit letter 2012/13

3 The purpose of this letter is to summarise the findings arising from the work carried out for the year ended 31 March 2013 and to communicate key messages to the Council and external stakeholders, including members of the public.

4 The work carried out during the year consisted of:

- Audit of the accounts.
- Value for money
- Certification of grant claims and returns.

2016 Tipping Point?

5 This document contains a summary of the financial health checks carried out on 138 English local authorities which were audited by Grant Thornton.

6 This is the first year that this Council has been included in the report following the change of auditors in 2012.

7 There are several 'good practice case studies' included in the report including one on this council's ten-year budget strategy.

Key Implications

Financial

There are no financial implications.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Appendices	Appendix A – Annual Audit letter 2012/13 Appendix B – Grant Thornton document: 2016 Tipping Point?
Background Papers:	None.

Adrian Rowbotham
Chief Finance Officer

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Grant Thornton

The Annual Audit Letter for Sevenoaks District Council

Year ended 31 March 2013

October 2013

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Contents

Section 1: Executive summary

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Sevenoaks District Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 10 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been completed in line with the Audit Plan that we presented to the Audit Committee on 11 June 2013. Our audit was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions we have provided in relation to 2012/13 are as follows:

- unqualified opinion on the accounts which give a true and fair view of the Council's financial positions as at 31 March 2013 and the income and expenditure for the year
- unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- submitted the short form assurance statement on the Council's Whole of Government Accounts
- certified completion of the audit
- the National Non Domestic Rates return has been certified with a very small amendment.

Executive summary

Key areas for the Council's attention

We summarise here the key messages arising from our audit for the Council to consider, as well as highlighting key issues facing the Council in the future.

- The financial statements were prepared on time, except for the Annual Governance Statement. The finance team have been fully cooperative throughout the audit, providing information on a timely basis However there is scope to improve the quality review of the financial statements to reduce the number of presentational and typographical errors.
- The Council's key financial indicators demonstrate a track record of strong performance and a healthy financial position.
- The Council's medium term financial planning process is strong and the 10 year financial plan reflects best practice and has helped to mitigate projected funding shortfalls using risk reserves.

Acknowledgements

This Letter has been agreed with the Chief Executive and the Chief Finance Officer and will be presented to the 14 January 2014 Audit Committee.

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

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts, except for the Annual Governance Statement, on 28 June 2013, in accordance with the national deadline. Detailed working papers were made available from the start of the audit fieldwork. The working papers were prepared to a good standard and we received a high level of assistance and cooperation during the audit from Finance staff. However there is scope to improve the quality review of the financial statements to reduce the number of presentational and typographical errors.

Issues arising from the audit of the accounts

The audit of the accounts progressed well, although we identified adjustments affecting the Council's reported financial position. The main change related to a piece of land no longer owned by the Council, following the surrender of the lease. We also made a number of adjustments to improve the presentation of the financial statements.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 10 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the financial position and of the income and expenditure. Also on 27 September 2013, we submitted the short form assurance statement on the Council's Whole of Government Accounts.

Section 3: Value for Money

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our high level risk assessment was that the Councils arrangements in each area met or exceeded adequate standards. The Council's key financial indicators demonstrate a track record of strong performance and a healthy financial position. The Council's track record of good financial performance is indicative of robust financial planning arrangements. The 10 year financial plan reflects best practice and has helped to mitigate projected funding shortfalls using risk reserves. This allows the Council to take a longer term view in regard to addressing funding shortfalls through service development.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and found this to be satisfactory. In particular the Council's plans continue to be on track in relation to the extensive range of shared working and partnerships that deliver services such as Revenues & Benefits, Environmental Health, Licensing, Audit and Fraud.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified one return for the financial year 2012/13 relating to National Non Domestic Rates (NNDR) and have one claim in progress, Housing Benefit and Council Tax Benefit Subsidy.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages from our certification work are summarised in the table below. Further details will be provided in our certification report to be issued in January 2014.

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	One claim and one return were submitted to us in line with the Departments' deadlines.	Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications	The NNDR return was subject to a very small amendment. Our work on the Housing Benefit and Council Tax Benefit Subsidy claim 40 plus testing is in progress.	To be confirmed once Housing Benefit and Council Tax Benefit Subsidy testing complete
Supporting working papers	The quality and timeliness of the working papers to support both the claim and return have been good. We have received a high level of cooperation, especially in relation to the Housing Benefit and Council Tax Benefit Subsidy claim.	Green

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	56,641	58,641
Grant certification fee estimate	30,300	TBC
Total fees	**86,941**	**TBC**

Additional time has been incurred dealing with the misclassification and disclosure changes. This is subject to confirmation by the Audit Commission

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued 2013
Audit Plan	June
Audit Findings Report	September
Certification report	Planned January 2014
Annual Audit Letter	October

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2016 tipping point?
Challenging the current

Summary findings from our third year of financial health checks of English local authorities
December 2013

Contents

Introduction

Local authorities have so far met the challenges they face as pressures mount on their services and finances. But these challenges are set to increase and authorities will have to work harder to ensure they stay financially resilient.

Local authorities are managing the financial challenges they face and delivering against their financial plans. However, the funding reductions are some of the largest in the public sector and set to get deeper. Meanwhile, demographic and economic pressures on authorities' services are increasing.

This report summarises the issues and good practice that emerged from our third national financial health reviews; and looks at how local authorities are coping. It shows that improvements noted in our last survey have in some cases reversed this year. All authorities will need to work hard across a range of important areas to ensure that they avoid this position.

Our third year of financial health checks

We published our report 'Towards a tipping point?' in December 2012. The report examined the resilience of local government to the financial, economic, demographic, policy and other challenges that the sector faces. It also looked at how effectively the sector delivered the first year of the front-loaded 2010 spending review, and how it was planning for the medium-term.

Our analysis was based on a national programme of financial health check reviews that we conducted during 2011 and 2012. We have repeated these reviews during 2013 and this report updates our findings and highlights the trends that are emerging in the sector.

The wider picture

The Chancellor of the Exchequer announced the 2010 spending review (SR10) to parliament on 20 October 2010. This formed a central part of the coalition government's response to reducing the national deficit, with the intention to bring public finances into balance during 2014/15.

The savings introduced in the four-year SR10 period – from 2011/12 to 2014/15 – represent the largest reduction in public spending since the 1920s. Revenue funding to local government is to reduce in real terms by 28% by 2014/15, excluding schools, fire and police, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were partially front-loaded, with 8% cash reductions in 2011/12. These reductions followed a period of sustained growth in local government spending, as it increased by 45% between 1997 and 2007.

The Chancellor has subsequently announced that public finances will not be brought back into balance during the lifetime of the current parliament. The next spending round period (2015/16) was announced on 26 June 2013 (SR13). Local government will face a further 10% funding reduction. Financial austerity is expected to continue until at least 2017.

The funding reductions come at a time when demographic changes and recession-based economic pressures are increasing demand for some services. For example, demand for social care, and debt, housing and benefits advice is rising. Meanwhile, demand for some paid-for services, such as planning and car parking, is reducing. At the same time, local authorities continue to manage the implications of the government's policy agendas – such as those relating to localism and open public services – that should see a significant shift in the way public services are provided. This includes partnership working with other public bodies, such as the NHS.

Promoting good practice

To meet these significant challenges, local authorities must improve their efficiency and productivity, reduce their costs, and have sustainable medium-term financial plans (MTFPs) to ensure their financial health remains robust.

This report summarises the important issues, themes and good practice that have emerged from our third national programme of financial health reviews. It provides an up-to-date picture of how local authorities are coping with the service and financial challenges that they face.

This report draws on benchmarking data provided by the Audit Commission and other stakeholders. It uses the Audit Commission's broad thematic approach for assessing the value for money arrangements in place in local authorities.

Our approach: analysing key areas

The focus of our financial health check reviews of individual authorities was on the 2013/14 financial planning period and the delivery of 2012/13 budgets. The research included a desktop review of key documents, interviews with key stakeholders to validate our findings and – new for 2013 – the findings from a survey completed for 120 of the reviewed authorities.

Analysis for our previous two reports was based on reviews of 24, or 7%, of all English local authorities. This year it is based on 138, or 40% of all, English local authorities. This larger sample size increases the validity of our findings and has allowed us to segment our results by local authority type and by region.

We analysed the following thematic areas:

- **Key indicators of financial performance**
  Benchmarked analysis on key indicators of the financial health of authorities, such as reserve balances, long-term borrowing, liquidity, and staff sickness absence levels
- **Strategic financial planning**
  Are local authorities setting their budget in the context of a longer-term financial strategy and an MTFP that includes the SR10 and SR13 periods? Is the MTFP realistic? Are assumptions around inflation, income levels, demographics and future demand for services modeled and based on reasonable predictions?
- **Financial governance**
  High quality financial governance and leadership is critical in meeting the financial management challenges that authorities face, and for securing a sustainable financial position. Good basic systems, processes and controls are important. But do local authorities have the right overall financial culture in place?
- **Financial controls**
  Are local authorities managing within their budgets? Do they have a robust way of challenging budget monitoring and reporting arrangements to ensure they are fit for purpose? Can they respond to the ever greater need to demonstrate value for money and achieve efficiencies?

Within each of these themes, we considered a number of categories (outlined in Table 1) and gave each a risk rating using the criteria provided in Table 2.

Table 1 Themes and categories for analysis

Theme	Category
Key indicators of financial performance	Schools balances* Reserve balances Performance against budget Workforce Borrowing Liquidity
Strategic financial planning	Focus of MTFP Adequacy of planning assumptions Scope of MTFP and links to annual planning Review processes Responsiveness of the plan
Financial governance	Understanding the financial environment Executive and member engagement Overview of key cost categories Performance management of budgets Accuracy of reporting
Financial controls	Performance management of budgets Performance of savings plans Key financial systems Finance department resources Internal audit arrangements External audit arrangements Assurance framework/risk management approach

*For single tier and county councils only

Table 2 Risk rating criteria

Green	**Arrangements meet or exceed adequate standards** Adequate arrangements identified and key characteristics of good practice appear to be in place
Amber	**Potential risks and/or weaknesses** Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened
Red	**High risk** The authority's arrangements are generally inadequate or may have a high risk of not succeeding

* These ratings do not imply excellent, good, weak or poor performance. They are based on whether arrangements appear to be adequate or inadequate.

We have also drawn on our analysis from 2011 and 2012 to identify trends in how the sector is responding to the financial challenges it faces.

2016 tipping point?

The local government sector has continued to deliver and remains financially strong, but funding reductions will start to bite harder and deeper after 2015. County and district councils are faring well, but metropolitan authorities less well.

Our first report in 2011 identified a high level of confidence in the sector that savings targets would be achieved during 2011/12, the first year of SR10. Our 2012 report noted the sector had delivered during 2011/12, but local government's resilience over the medium-term remained far less certain.

Our 2012 report identified a number of important factors leading to uncertainty in local government financial planning. It proposed that a 'tipping point' may be on the horizon for some authorities. We noted that authorities do not share the same level or types of risk, so not all may experience a tipping point.

Since the publication of this report, we have undertaken extensive dialogue across the sector on the concept of tipping point scenarios and found a high degree of resonance and agreement. The scenarios in Table 3 were all seen as possible, some even probable, and include some new scenarios developed during this dialogue. These scenarios therefore represent a broad sector view and are not in all cases shared by individual local authorities, or by Grant Thornton.

Table 3 Tipping point scenarios

Tipping point scenario	Description
Decision paralysis	Local authorities fail to make the challenging but necessary decisions required to manage financial and other challenges. This has been identified as a potentially over-arching tipping point
Statutory	A local authority can no longer meet its statutory responsibilities to deliver a broad range of services with the funding available, leading to legal challenges and protests from impacted stakeholders
Financial	The Section 151 officer is unable to set a balanced budget, leading to an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales); or where the increased uncertainty leads to budget overspends that reduce reserves to unacceptably low levels; or where an authority demonstrates characteristics of an insolvent organisation, such as a failure to pay creditors. Bankruptcy is a potential outcome of this scenario, as has happened for some US local authorities, most recently Detroit
Industrial	In response to pay restraints, changes to terms and conditions and job losses, employees and trade unions enact prolonged strike action, leading to major service disruption and long-term industrial relations disputes
External	A major supplier fails, due to general economic conditions, leading to significant service disruption and reputational damage to the authority. A further banking/financial crisis would increase the risk of this scenario
Incremental	Multiple, smaller failures in individual service areas lead to an eventual critical mass of tipping points
Militancy	A local authority ignores or defies one or more statutory obligations
Civil disturbance	Where service cuts run so deep that the dissatisfaction of users leads to widespread civil disturbance, as was experienced in relation to the Community Charge/Poll Tax. This could impact on business continuity and extreme and prolonged civil disturbance could impact significantly on the overall resilience of an authority
Doomsday	A further banking/financial crisis leads to even greater levels of austerity, over a significantly longer timeframe

The summary position by local authority type

While the overall high proportion of green ratings indicates strong financial health during 2012/13, Figure 1 demonstrates that some local authority types are more financially resilient than others.

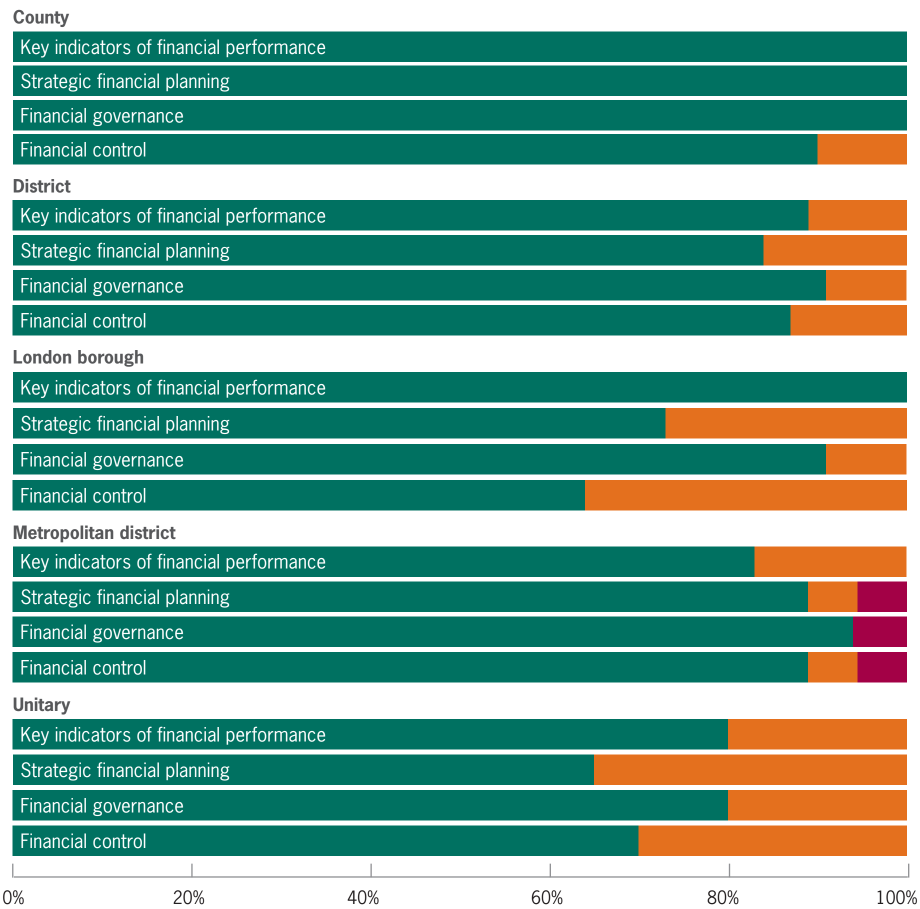
County councils are performing strongly, which perhaps is no surprise given these are typically the largest authorities. They have the resource, capacity and resilience to manage pressures the best. The variation in government funding reductions across different types of authority is also a key factor. The Audit Commission's 'Tough times 2013' report noted that real-term funding reductions since 2010/11 average 19.6% across all local authority types, but county council budgets show the smallest reduction at 16.4%.

District councils are also performing well, but unitary councils have the lowest green ratings for three of the four areas. This was validated by our survey with 40% of unitary councils fearing a tipping point in the short-term, compared to an average of 20% for other local authority types.

Perhaps the most striking feature of this segmented analysis is that metropolitan districts are the only authority type to receive red ratings for overall thematic areas. This supports the fact that the most high profile council leaders to publicise financial difficulties are typically from metropolitan districts. 'Tough times 2013' also notes that metropolitan districts have faced the highest funding reductions from 2010/11 to 2013/14, at 22.5%.

However, the issues at metropolitan districts are limited to a small number of authorities and overall they are performing well.

Figure 1 Summary ratings by local authority type 2012/13



The summary position by region

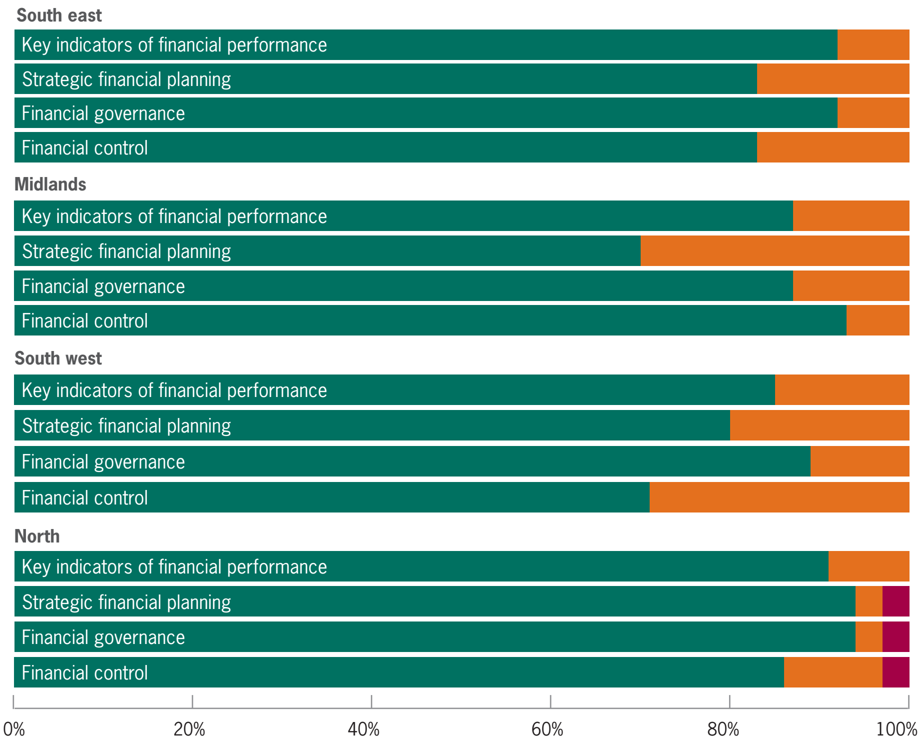
There are regional variations in the financial health of local government (Figure 2).

The north has the highest level of green ratings for strategic financial planning (94%) and financial governance (94%). It also has the second highest green ratings for key indicators of financial performance (91%) and financial control (86%). This makes it the best performing region overall. However, the north is the only region with red ratings. This reflects the ratings received by metropolitan districts, which are predominantly located in this region.

The south west has the lowest level of green ratings in two areas (85% for key indicators of financial performance and 71% for financial control) and has the second lowest level of green ratings for the other two areas (80% for strategic financial planning and 89% for financial governance). This makes it the worst performing region overall.

The picture for the Midlands is mixed. It has the lowest level of green ratings for two areas (70% in strategic financial planning and 87% in financial governance) but the highest level of green ratings (93%) for financial control. The south east has the highest level of green ratings (92%) for key indicators of financial performance and the second highest level of green ratings for two other areas (83% for strategic financial planning and 92% for financial governance) making it the second strongest region overall.

Figure 2 Summary ratings by region 2012/13



The lowest green rating for regions was 70% (the Midlands, for strategic financial planning) and the lowest green rating for local authority types was 64% (London boroughs, for financial control).

Overall summary position

While there are variations across regions and local authority types, the overall picture for 2012/13 is that the majority of councils were rated green.

2016 tipping point?

The sector has shown great resilience and focus and carried on with the delivery of local services. During his announcement of the 2015/16 spending round in June 2013, the Chancellor gave specific credit to local government for the scale of savings it has delivered to date. The Chancellor did not highlight other parts of the public sector in the same way, implying that local government leaders are more capable of meeting the national austerity challenge than other parts of the public sector. The level of additional funding reductions in SR13 also demonstrates that the government is continuing to rely on local government's ability to deliver savings to support the national budget position.

By the end of 2015/16, local government will have seen spending reduce by 35% compared with 8% in education and a 4% increase in health. We support the view that local government leaders have shown a continued capacity to adapt and innovate to deliver significant change and realise efficiencies and savings. Our findings also indicate that, while there will be significant future challenges in the medium-term, the sector is likely to ride out the storm until the end of 2014/15 – 80% of authorities in our survey do not anticipate a tipping point during this period.

But the position will vary and this national picture masks regional variations. The majority of councils (97%) in the south east – with the exception of a single London borough – did not feel they were approaching a financial tipping point. The results for councils in the south west and Midlands were 69% for both regions, while for those in the north the figure was 83%. Instead, the majority of councils felt a tipping point would be faced in 2015/16 or 2016/17 (46% and 33% respectively) with the remainder considering it would be in 2017/18 or later.

Most local government leaders are realistic enough to accept that a change of government following the 2015 election would not see a radical change to the funding levels forecast by the coalition government. In this context, some commentators harbour serious doubts about the sustainability of the current model of local government beyond 2014/15.

To respond to this challenge, we consider that:

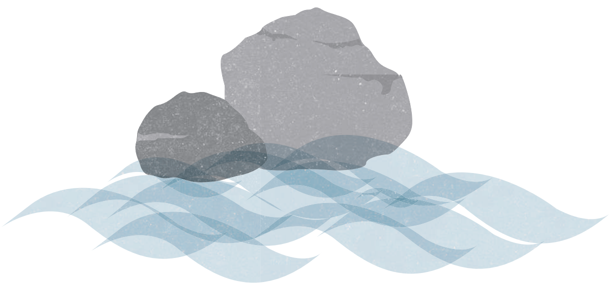
- authorities will need to have a relentless focus on generating additional sources of revenue income as government grant continues to fall. The sector believes it is unrealistic this focus should be on fees and charges to the public. Rather their focus, where market conditions allow, should be on areas such as: investments in the commercial property portfolio; increased commercialisation of services and local authority trading; regeneration and inward investment to boost local economic activity; and generating higher income from business rates. Effective realisation and reinvestment of capital receipts is also a crucial part of the local authority agenda
- the trend towards increased use of alternative delivery models with public, private and third sector partners will also need to accelerate. This should include shared services and strategic partnering arrangements. A move towards full-blown strategic commissioning models will mean a fundamental change for councils. Our 2014 report 'Responding to the challenge: alternative delivery models in local government' examines this trend in more detail
- local authorities will need to keep a sustained focus on health integration and embedding best practice across the country
- some form of re-organisation, statutory or otherwise, will be a necessity for many authorities
- authorities need to continue and, in some cases, sharpen their focus on housing development. They must work closely with local enterprise partnerships (LEPs) to support effective and sustained projects funded by monies earmarked for the New Homes Bonus. This should go hand in hand with the broader framework for supporting wider economic development across districts, sub regions and wider economic areas.

Our survey identifies an increasing trend towards councils seeking to commercialise their services to provide additional revenue streams. But this varies by council type and by region. While it is still a minority of all councils (19%) that are considering this approach, it is more common in county and unitary councils (25% and 33% respectively). The south west has the lowest level (13%) of councils considering this approach, and the south east has the highest level at 23%.

We will continue our dialogue with the sector to monitor the outcomes of key questions, such as:

- will adult social care demands overwhelm those councils responsible for delivering these services?
- can the most socially deprived parts of the country cope with increasing welfare costs?
- will the economy revive outside London and the south east?
- how will councils manage the risks associated with business rates?
- will London and the south east be able to overcome the housing crisis and a rise in homelessness?
- can districts survive with fewer and fewer staff?

Our summary findings from our 2013 reviews, and the trends between our 2011, 2012 and 2013 reviews, are set out in the following chapters. The appendix provides a checklist of good practice evidenced at local authorities. We will be undertaking a fourth year of financial health reviews of local authorities during 2014. This will relate to the 2014/15 financial planning cycle and the delivery of budgets and savings plans during the 2013/14 financial year. We will publish the summary results of our fourth year of reviews during autumn 2014.



Our survey identifies an increasing trend towards councils seeking to commercialise their services to provide additional revenue streams.

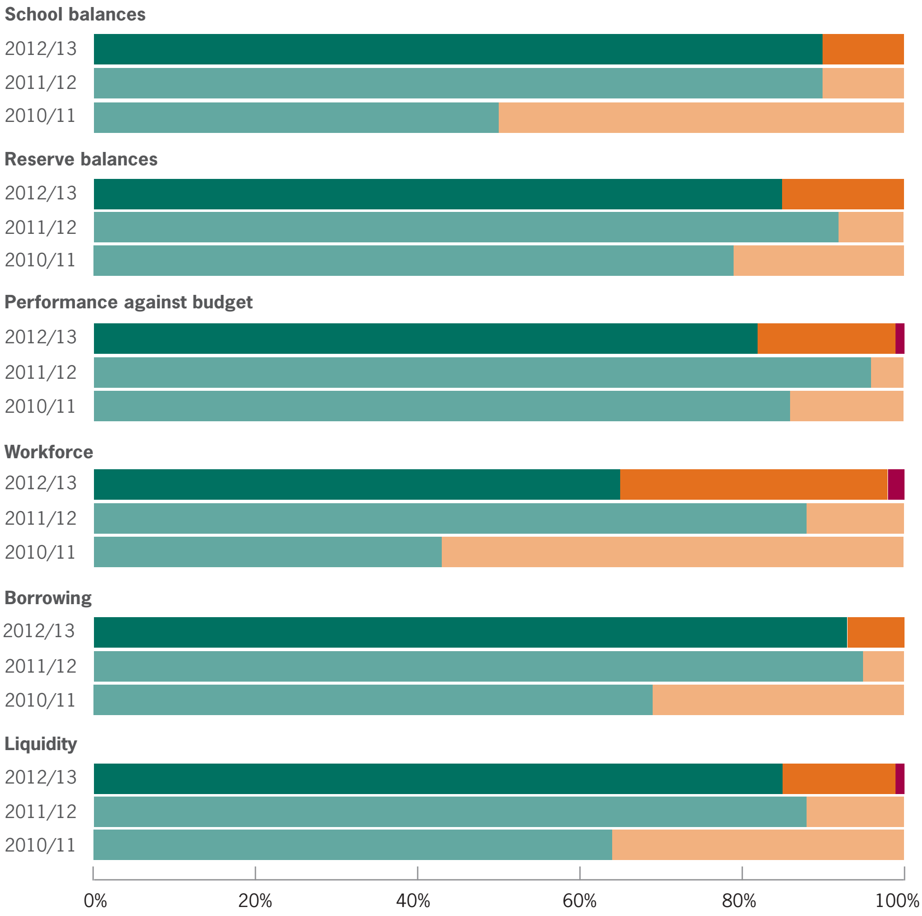
Key indicators of financial performance

Our third year of benchmarking data shows green ratings declining across most key financial criteria. Red ratings appeared in some areas for the first time. The biggest fall in green ratings for 2012/13 was in level of sickness absence which was also the worst performing area overall.

Our previous reports noted that, while local government accountants have an understanding of the use of financial ratios to interpret financial statements, this skill has traditionally only been applied to procurement exercises. Thus the application of financial ratios to local authority financial statements for the purpose of inter-authority benchmarking remains a recent development.

Figure 3 provides a summary of our ratings for selected key indicators of financial performance for the last three years. For each authority, we benchmarked key indicators against their nearest neighbour group. The overall trend was an improving one between 2010/11 and 2011/12 but this trend has been reversed in all but one category in 2012/13.

Figure 3 Key indicators of financial performance



Schools balances

For single tier and county council (STCC) authorities with responsibility for education, we analysed the ratio of schools balances as a proportion of dedicated schools grant (DSG). Green ratings increased from 50% in 2010/11 to 90% in 2011/12, then remained at 90% in 2012/13.

An important factor in this trend is that schools continue to adopt a cautious approach to financial management due to concerns over future funding levels. In many cases, this leads to annual underspends. Where this is not the case, authorities will need to seek to influence good financial management strongly, due to their limited controls over school spending. As schools move to academy status, DSG will reduce, which will impact on this ratio. In addition, authorities face a risk of funding any deficit when a school transfers to academy status.

Reserve balances

We noted in our first report that authorities had generally acted prudently over a long period, but we were starting to see them use general fund reserves to fund revenue expenditure. In 2010/11, 79% of authorities were rated green, increasing to 92% in 2011/12. The level of green ratings fell to 85% in 2012/13, indicating that pressures associated with delivering SR10 are beginning to impact on some authorities. Less than half of the councils in our survey (42%) had set aside reserves to cover shortfalls in savings plan delivery. This indicates that the majority have confidence in the delivery of savings over the lifetime of their MTFP. This approach had regional variations, with the position being much higher (62%) in the south east.

While the sector as a whole increased reserve levels during 2012/13, in cash terms there is a trend of reducing reserve levels in real terms for some in all local authority types, with metropolitan districts being the most likely to reduce reserve levels during 2012/13, according to 'Tough times 2013'. It will be critical for councils to monitor their general and earmarked reserve levels carefully to ensure they maintain financial resilience during SR10 and SR13.

Performance against budget

The track record of local authorities in our sample in managing revenue and capital budgets has been generally good. 86% were rated green for 2010/11 and 96% rated green in 2011/12. We recognised in our second report that, as 2011/12 was the first year of SR10 funding reductions, and these reductions were front-loaded to 2011/12, this represented a significant achievement for the sector.

The level of green ratings remains high, but 2012/13 saw a reduction to 82% and the first level of red rating (1%) indicating increased delivery challenges for some authorities. Ratings were affected by significant unplanned underspends on capital programmes, which have an economic, as well as service delivery, impact.

Workforce

The focus for this indicator was the level of sickness absence. Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or holding a larger workforce complement than is desirable. Absence also damages service levels, either through staff shortage or lack of continuity.

Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. 57% of authorities received amber ratings in 2010/11 and this reduced significantly to 12% in 2011/12. This indicates that authorities were managing absenteeism proactively.

However, absence management will remain a challenge for authorities during SR10, particularly given the context of significant pressures on staff to deliver 'more for less'. This conclusion is supported by an increase in amber ratings to 33% in 2012/13 and the first red rating (2%) for this category. Furthermore, workforce received the lowest level of green ratings (65%) in this theme, and was the lowest across all four themes for 2012/13.

Less than half of the councils in our survey (42%) had set aside reserves to cover shortfalls in savings plan delivery.

We noted in our first report that authorities had generally acted prudently over a long period, but we were starting to see them use general fund reserves to fund revenue expenditure.

Borrowing

We reviewed long-term borrowing as a proportion of long-term assets and as a share of tax revenue. The majority (69%) of authorities in our sample in 2010/11 had an appropriate ratio of long-term borrowing to long-term assets, and long-term borrowing as a share of tax, indicating that the level of borrowing was geared effectively. The trend across our sample improved for 2011/12 with 95% of authorities rated green and long-term borrowing ratios reducing. The number of green ratings fell slightly to 93% in 2012/13.

An important trend is authorities delivering strategies for reducing high interest-bearing, long-term borrowing and moving to internal and short-term, external borrowing. This is to take advantage of improved lower level borrowing rates. It also reflects greater caution with long-term borrowing following the experience of investment in Icelandic banks.

Liquidity

This indicator looks at the working capital ratio and shows whether an authority has enough assets to cover its short-term liabilities. 35% of our sample were rated amber in 2010/11, and 65% scored green. This improved for 2011/12 with 12% rated amber and 88% green. For 2012/13 there was a slight fall in the number of green ratings to 85% and the first red ratings (1%) for this category. The overall trend remains that local authorities' treasury management strategies are focused on reducing long-term borrowing, which is resulting in a planned reduction in liquidity.

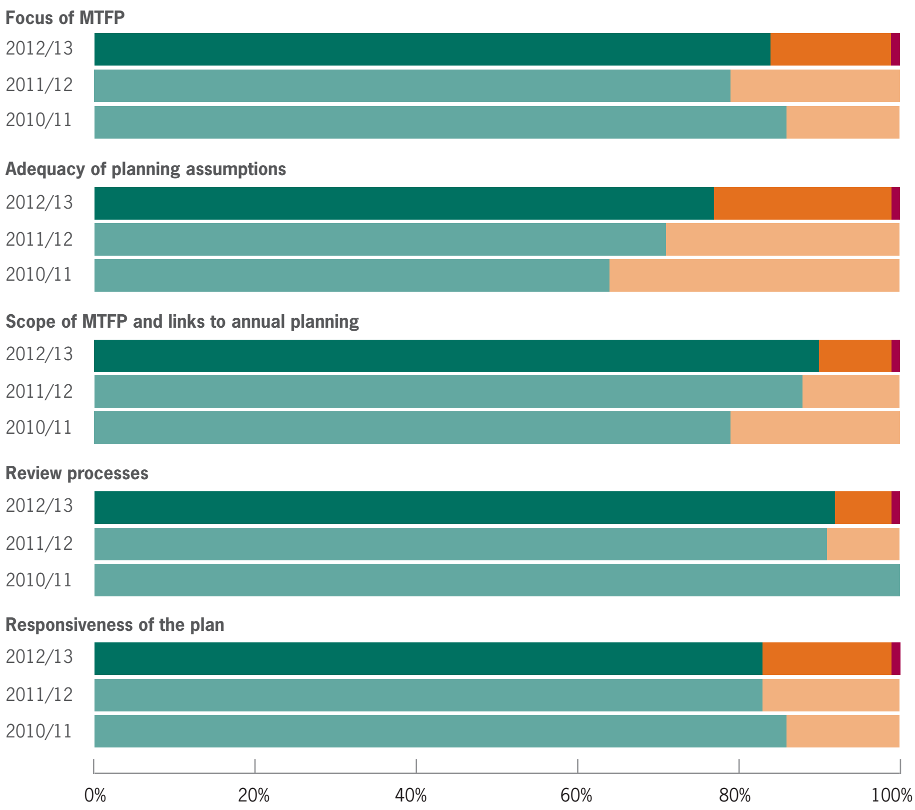
Strategic financial planning

Many areas of strategic financial planning in local government have improved over the last year but some remain behind their 2010/11 levels in terms of green ratings – meanwhile some red ratings have appeared for the first time. Adequacy of planning assumptions is still the weakest area.

Figure 4 provides a summary of our ratings for selected key indicators of strategic financial planning.

Strategic financial planning had the best overall rating across our sample for 2010/11, but saw a reduction in some ratings in 2011/12. The overall trend has been one of improvement in 2012/13. The main findings are set out below.

Figure 4 Strategic financial planning



Focus of MTFP

86% of our sample received a green rating for 2010/11. This reduced to 79% for 2011/12, but increased to 83% in 2012/13. However, 2012/13 received the first red rating (1%) for this category. Authorities with lower ratings typically need to improve scenario planning, develop a robust financial model underpinning the plan, and move away from an annualised approach to financial planning.

Our survey highlighted that the majority of councils have MTFPs that end between 2015/16 and 2017/18, providing a three- to five-year planning horizon. This is reasonable practice given the alignment to the SR10 and SR13 spending rounds. However, a minority of councils have a shorter planning horizon, which does not cover the full SR10/SR13 period. Only a small number of councils have an MTFP planning horizon of more than five years. This trend was consistent across all regions.

The majority of councils had at least part of their savings plan still under development for 2014/15 and 2015/16 (73% and 80% respectively). 16% of councils still had savings to identify for the current year of 2013/14. This could be a significant risk for these councils. This pattern was broadly consistent across all council types.

Of those councils with a gap in their savings plans over the period 2013/14 to 2015/16, the average annual gap represented no more than 4% of their 2011/12 gross revenue expenditure (GRE). However, there were a small number of councils with savings gaps

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Good practice case study

Sheffield City Council

Sheffield introduced outcome-based financial planning when developing its 2013/14 budgets. This supported the new strategic outcome plan for the city, which has a 12-year horizon (2013 to 2025).

The plan:

- sets the strategic direction for delivering the outcomes over this period
- provides the framework for decisions about where to allocate resources
- defines the performance measures to help track progress towards delivery.

The council introduced a strategic outcomes board to oversee the development and delivery of the plan and associated governance arrangements, with directors accountable to the board for realising the benefits of the plan.

The business model for delivery against the strategic outcome plan is built around:

- outcome-led investment, to achieve the outcomes for the city and to make a difference to Sheffield and its people
- outcome-led commissioning of projects that will contribute directly to achieving a step change to the outcomes for local people and businesses.

This approach has improved long-term decision making, prioritised the use of resources, and identified where new sources of funding or income need to be pursued.

The council is using a robust and transparent lessons learned process when reviewing the first year of outcome-based financial planning, to ensure this new approach becomes fully embedded across the organisation.

in excess of 5% of 2011/12 GRE in at least one year. This pattern was broadly consistent across all council types. These saving gaps are less than is common in the NHS, where over 5% of GRE is increasingly seen.

Adequacy of planning assumptions

This was the weakest category in relation to financial planning for 2010/11 and 2011/12, with 36% and 29% of the sample, respectively, rated amber. It was again the weakest category for 2012/13 but amber ratings had reduced to 22%. This indicates that, while there is significant uncertainty regarding finances over the medium-term, planning assumptions are improving for the majority of authorities. The position for a minority of authorities is worsening, reflected by the first red rating (1%) for this category.

Many local authorities still need to ensure they have the skills and capacity to develop and maintain an effective financial model that underpins their MTFP. 85% of councils in our survey believe they have appropriate skills in-house to develop savings plans, or plan to develop capacity internally and do not require external support. However, the use of external support and advice varied regionally, with the practice most common for counties (50%) and least common for districts (9%).

For single tier councils, the average annual savings requirement in each year over the period 2013/14 to 2015/16, was between 2% and 4% of 2011/12 GRE. For districts, the average savings requirement was between 1% and 2% for all three years. There were a small number of councils, primarily single tier, with savings plans in excess of 5% of 2011/12 GRE.

Of those councils with a gap in their savings plans over the period 2013/14 to 2015/16, the average annual gap was just over 56% of the average savings plan requirement in 2013/14 and 62% in 2014/15, rising to 80% for 2015/16. This pattern was broadly consistent across all council types. Where councils had identified income generation as an important contributor towards closing the funding gap, or as part of savings plans, the average annual contribution was between 8% and 13% of the total savings requirement for the period 2013/14 to 2015/16.

Good practice case study

Stevenage Borough Council

Stevenage Borough Council has adopted a priority based budgeting (PBB) approach based on a methodology developed by Aberdeen City Council, to meet its need for a three year forecasted funding gap of £3 million. Central to the PBB process is a full citizen engagement programme with local people to establish their service priorities and a determination of their preferences between tax increases, service cuts and raising fees and charges. This informed the development of a range of savings proposals over the three year timeframe. After internal officer challenge, these were put to members in the form of a Leaders Services Priority Group whose membership included majority and opposition councillors, front and backbench members. Over a period of eight weeks, members ranked all savings proposals into a priority order that reflected future challenges and the results of the engagement programme. This has succeeded in producing a detailed savings programme which addresses the council's funding gap, via a permanent shift away from short-term 'salami-slicing' to a well-managed longer-term process.

Scope of MTFP and links to annual planning

78% of our sample was rated green for this category for 2010/11 and this had increased to 88% for 2011/12. This increased again to 90% in 2012/13, but also received its first red rating (1%).

88% of councils surveyed started reviewing savings options during the first quarter of the year prior to which the savings relate, and this was broadly consistent across all regions. This is good practice because authorities must extend planning cycles to ensure they have adequate time to identify and approve savings before the start of the year to which they relate.

Good practice authorities also demonstrate effective integration of the service and financial planning processes. A small minority of authorities are introducing innovative outcome based financial planning approaches.

Review processes

100% of our sample was rated green for this category for 2010/11. This decreased to 91% for 2011/12, and has improved slightly to 92% for 2012/13. This indicates that the majority of authorities have effective processes for the regular review of the MTFP and the associated assumptions, including appropriate scrutiny from elected members and the audit committee.

While amber ratings have reduced from 9% to 7%, this category has received its first red ratings (1%). Authorities received lower ratings because of weaknesses in the presentation of the financial plan to members and other stakeholders. This included: inadequate supporting information, such as the impact of future demographic changes and other corporate risks; and a lack of benchmarking and other analytical techniques to support and explain the rationale for key financial decisions.

Responsiveness of the plan

86% of our sample was rated green for this category for 2010/11. This reduced to 83% for 2011/12, and has remained at 83% for 2012/13. The category received its first red rating (1%) for 2012/13. Reasons for poor ratings include lack of an effective process to ensure regular reviews and updates of the plan and associated medium-term financial strategy (MTFS), and lack of evidence to support how financial and service risks are being mitigated.

Good practice case studies

Eden District Council

Recognising that it faced a significant revenue deficit, the council developed a strategy to increase income, reduce costs and support community service provision.

Key elements were:

- **income** – the council worked with a national supermarket to develop some of its underused land for a major retail development which has generated a major rental income
- **costs** – by re-tendering its long-term contracts for municipal and leisure services substantial savings were made whilst adding some new services
- **community service provision** – some services have been transferred to community groups. A significant grant fund was established to support local communities to develop new and improved services.

Warwick District Council

The MTFS is prepared over a five year period and currently runs to 2018/19. Long range financial forecasting has been very accurate, largely as a result of the projections being regularly updated so as to be responsive to the most up to date information, notably with regard to government funding announcements. This allows long-term planning and decision making to facilitate achieving financial balance. The latest forecast is that recurrent savings of £1.975 million will need to be achieved by 2018/19. This will necessitate the General Fund Budget, currently £16 million, reducing to £14 million by 2018/19.

Sevenoaks District Council

The council implemented a rolling ten year budget which includes the use of short-term surpluses to build up an earmarked reserve, to be drawn down over the remainder of the period to ensure a balanced budget across each of the ten years. This has allowed the council to take a longer-term view on service transformation. The rolling ten year budget is accompanied by a four year savings plan and is underpinned by robust assumptions and efficient, high quality services that reduce the risk of unforeseen challenge or failure.

Manchester City Council

The council has set out a strategic framework and budget setting principles to inform decision making and to take a sustainable approach to achieving budget savings. There is a focus on providing leadership for reform – promoting economic growth, reducing worklessness and dependency and promoting private sector investment. By safely reducing demand for high cost services, the council plans to maintain resources to fund universal services to support the city's economy to grow and enable and places to prosper.

London Borough of Croydon

Croydon Council is challenging existing practices and methodologies to develop strategic and long-term financial plans that consider alternative solutions. The council is fundamentally reviewing all service provision and undertaking a completely different approach to building up the budget for 2015/16 and 2016/17 where significant shortfalls in the medium-term forecasts have been identified. The council brought forward the timeframe for the agreement of the 2014/15 budget to allow greater focus on this longer-term strategy. The council is already engaging with budget holders and members in order to agree some of the key decisions early.

Financial governance

Our sample indicates a growing maturity amongst councils in understanding the financial environment and areas such as managing forecast overspends. But challenges remain, especially in areas of reporting such as transparency of saving plans.

Figure 5 summarises our ratings for selected key indicators of financial governance.

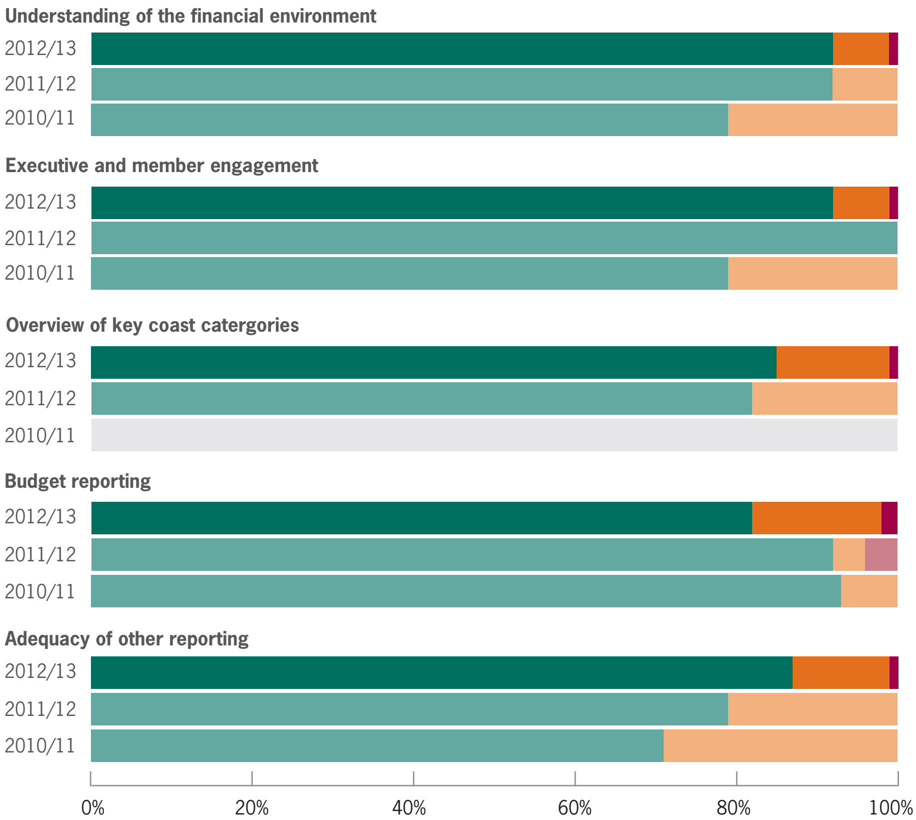
Understanding of the financial environment

79% of our sample was rated green for 2010/11. This increased to 92% for 2011/12, and fell slightly to 90% for 2012/13. 2012/13 also received its first red rating (1%).

Senior leadership continue to recognise the importance of communicating the impact of SR10 and SR13 to all staff and elected members. Many also recognise the need for greater consultation with their local communities on spending and saving priorities.

With the focus on protecting front-line services, back office functions such as finance have seen significant reductions in staff numbers. As noted in our previous reports, an important trend across many authorities in response to these reductions is placing greater financial management responsibilities on service managers and budget holders; and enhancing job descriptions and competencies to reflect this change. In parallel to this, the finance function is providing higher level and more targeted support to services.

Figure 5 Financial governance



Our third year of reviews indicates that the implementation of these changes by both finance and service staff has been mixed, and they are not yet embedded in many councils. Failure to embed these changes represents a risk to future effective financial management.

Executive and member engagement

Our 2010/11 review rated 79% of our sample as green. This increased to 100% for 2011/12, but fell to 92% for 2012/13, which also saw the first red rating (1%).

The role of member engagement in, and scrutiny of, financial planning and financial management is critical. The funding environment is placing ever greater demands on elected members, who must have appropriate and frequent financial information as well as the right skills to fulfil this critical role. While the overall ratings indicate effective engagement, this is not the case in a minority of councils.

Overview of key cost categories

This category was introduced in our second year of reviews, having previously formed part of 'Executive and member engagement'. It rated 82% of our sample green in 2011/12, increasing to 85% in 2012/13, when it also received its first red rating (1%).

Features of those receiving amber or red ratings included an unclear scheme of delegation, lack of consistency in the application of unit cost data, and a lack of tracking information in monitoring internal audit recommendations to audit committee.

Budget reporting

71% of our sample were rated green for 2010/11. This increased to 79% for 2011/12. In 2012/13, it rose again to 82%, but also received its first red rating (2%). This was the lowest score for a category in financial governance for all three years, but the trend is improving and reflects a reasonable position overall.

Local authorities continue to face challenges managing volatile, demand-led, budgets. Our sample indicates a growing maturity amongst councils in managing forecast overspends corporately, rather than within departmental silos, which is good practice. However, the challenges of setting appropriate budgets and then spending within them, or generating forecast levels of income, continues to be one of the main risks and challenges.

Weak financial year-end forecasts, resulting in unexpected revenue underspends or overspends during the final quarter, and significant unplanned underspends on the capital programme, were key reasons for authorities receiving amber or red ratings.

Good practice case study

London Borough of Barnet

The council is at the forefront of the move by local government bodies to a more commissioning-focused model of governance and service provision. From April 2013, the council moved to its new commissioning council structure. This includes an assurance group responsible for providing independent oversight to the strategic commissioning board and to members, so that the council's decision making is effective and appropriate risk management arrangements are in place and being used effectively by the council's lead commissioners and its delivery units. While the effectiveness of the new arrangements will require testing over time, initial indications from officers show they are working well and are helping to focus the council's senior team on how resources can best be used in a joined-up way across all services rather than a silo based approach.

Adequacy of other reporting

We continue to find that most authorities provide comprehensive levels of timely financial reporting to senior management and members. Within the top performing councils, there is a growing trend towards considering financial monitoring reports alongside performance and workforce data, which is good practice. However, the overall trend is falling, with 93% of our sample rated green for 2010/11, reducing to 92% for 2011/12, and falling again to 87% in 2012/13.

This category included the only red rating (5%) in our 2011/12 programme of reviews, and this red rating fell to 1% for 2012/13. Factors leading to red ratings have not changed. They include a lack of consistent timing in the reporting of financial and other performance information, and changes to how information is presented during a financial year. Other factors were: limited frequency of reporting; lack of reporting on savings; failure to use graphics; a propensity to use lengthy narrative; and cabinet reports including only forecast year-end outturn position, not the actual position against a profiled budget.

Most authorities continue to use risk-based exception reports, allowing them to make decisions on corrective action and to allocate responsibilities for these actions. In most cases, year-end forecasts are effective in providing no surprises. However, a minority of authorities do not apply commitment accounting fully, which poses a risk to the provision of accurate outturn forecasts. Given the importance of reporting savings programmes, our survey highlighted the following.

Good practice case study

Solihull Metropolitan Borough Council

Decision making is based on clear business cases for investment and LEAN reviews provide detailed analysis for cost reduction initiatives. The main reporting vehicle is Aligning our Resources to our Priorities (ARTOP). ARTOP meets monthly, is chaired by the director of resources, and its role is to monitor progress against the delivery of all of the savings in the current three year medium-term financial strategy (MTFS) 2013/14 to 2015/16. ARTOP is a sub group of the corporate leadership team (CLT) and reports the outcomes of each of its meetings to CLT as part of a monthly financial report. Savings are identified three years in advance, and for the current financial year 85% of all savings have been delivered, with progress well under way for the two subsequent years.

Frequency of reporting savings plans

It is critical, given the scale of savings required by all councils, that the executive receives progress updates frequently. Our survey identified that the position varies by local authority type. The majority of single tier councils report on the progress of savings plans to cabinet, or equivalent, either monthly or quarterly (35% and 44% respectively). County and district councils tend to favour quarterly reporting (63% and 67% respectively). A significant minority of councils of all types (23%) report savings plan progress to cabinet less frequently.

The most common frequency of reporting savings plan progress to non-cabinet members or equivalent is quarterly (49%). However, most of the remainder (38%) report less frequently than this and only a small number (13%) report to non-cabinet members on a monthly basis in some form.

The majority of councils of all types (63%) report savings plan progress to the corporate management team or equivalent on a monthly basis. A minority report quarterly (19%) and the remainder at other intervals (weekly or fortnightly).

Reporting savings plans separately

It is important that savings programmes are reported transparently, and that savings are not reported within base budget financial monitoring information. Overall, the sector has room for improvement. While more than two thirds of single tier and county councils reported progress against savings plans separately during the year, a significant minority do not take this approach. For district councils, the split is more even with just under half taking this approach to monitor savings delivery.

The south east bucks the national trend with all counties reporting progress against savings plans separately during the year, which is good practice. However, less than half of single tier councils and less than a third of district councils in this region have not taken this approach to monitor savings delivery.

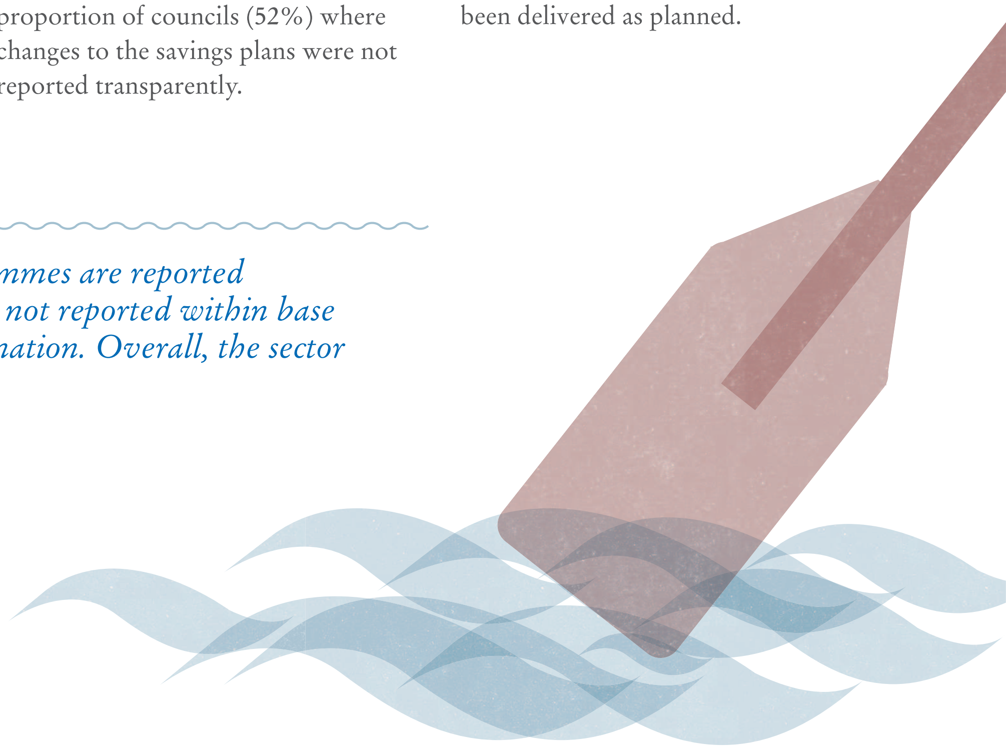
Reporting countervailing savings

Countervailing savings, used in response to slippage or non-delivery, were reported to members in a transparent way at the majority of single tier and county councils (58% and 63% respectively) and just under half of the district councils. This leaves a significant minority of councils where changes to the savings plans were not reported in a transparent way. The south east was the worst performing region, with countervailing savings reported to members transparently in a minority of single tier and county councils (27% and 0% respectively); and in just under two thirds of the district councils. This leaves, for the south east region, a significant proportion of councils (52%) where changes to the savings plans were not reported transparently.

This lack of transparency could mean that, if a reduced budget which incorporates agreed savings does not overspend at year end, it could be considered a success, when the reality may be that other factors have led to the break-even position or underspend. For example, management decisions to hold vacancies that did not form part of the original savings plan may be hidden from management information and the consequent impact on service delivery may not be identified.

This approach is not unique to local government – it is common across the public sector. But given the level of savings being delivered, and still to be delivered, it is critical key stakeholders know whether the savings agreed have been delivered as planned.

It is important that savings programmes are reported transparently, and that savings are not reported within base budget financial monitoring information. Overall, the sector has room for improvement.



Good practice case studies

Shropshire Council
The council is building on the work already undertaken on strategic commissioning to factor in area based and local commissioning, either directly itself or by co-commissioning with its partners. Local commissioning will be led by local members alongside partners in the public, private and voluntary sector to help redesign services based on demand in a locality with a focus on prevention. This will help shape community outcomes and priorities which will inform commissioning activity. The commissioning and governance of place will also be managed and led locally, creating a local approach to commissioning of services.

Copeland Borough Council
Copeland Borough Council consulted on a two year savings programme for 2013-2015. The approach was aimed at delivering a policy led budget where feedback from the consultation informed the council's strategy for the next three years. This was vital as the council felt it had exhausted the sharing and efficiency agenda and financially could not continue to fund all the discretionary services previously provided. This was a fundamental change to the role of the council with views sought on alternatives, priorities and mitigations, all aimed at ensuring the council had a strong evidence base for safe decision making.

Kent County Council
Kent County Council recognised that a strategic focus was required to deliver the significant financial challenge they faced. A project management approach was developed via project initiation documents (PIDs) for all savings over £200,000. The responsible directorate/manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. The budget programme board (BPB) was established to oversee the process. This is a mixed group of members and officers chaired by the cabinet member for finance. Meetings focus on holding budget holders to account for their PIDs which are assessed 'at risk'. This process has been a significant contributory factor to the delivery of the majority of savings plans in the past two years.

While more than two thirds of single tier and county councils reported progress against savings plans separately during the year, a significant minority do not take this approach.

Financial controls

This year green ratings increased across nearly all the key indicators in this area. However, 2012/13 also saw red ratings appear for the first time in all of those indicators. One of the biggest areas of improvement in green ratings has been 'Key financial systems'.

Figure 6 provides a summary of our ratings for selected key indicators of financial controls.

Budget setting and monitoring

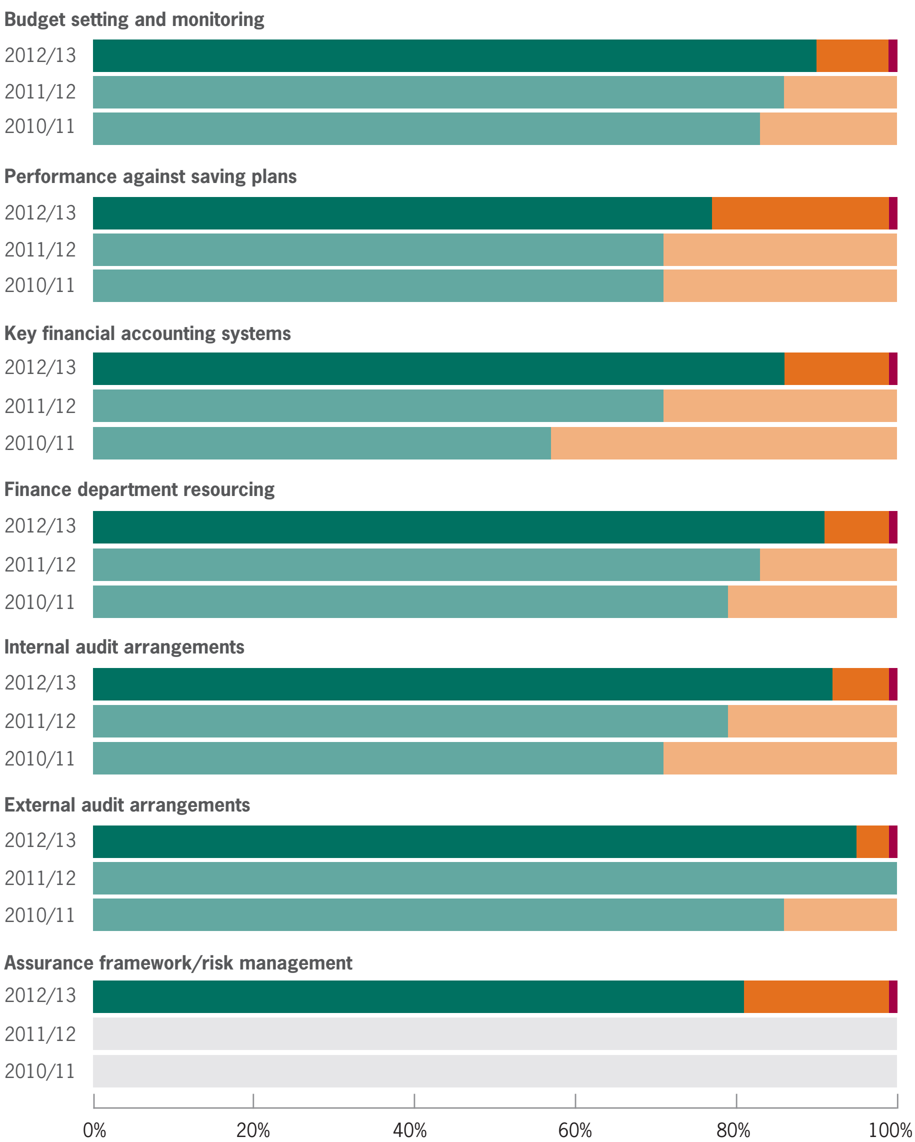
The financial controls in place to ensure effective performance management of budgets were generally good for 2010/11, with 83% of our sample rated green. This improved slightly for 2011/12 with 86% rated green, and improved again in 2012/13 (90%). However, 2012/13 also saw the first red rating for this category (1%).

Those authorities who scored amber or red typically still need to improve the accuracy of financial reporting. They can do this, for example, by: having accurate budget profiles; an improved understanding of cost drivers; and better use of benchmarking, trend analysis and unit costs. They also need a more effective approach to presenting financial information.

Performance against savings plan

Local authorities have traditionally had a good track record of delivering efficiencies and savings. Most authorities were able to manage the 2010/11 in-year funding reductions effectively with 71% of our sample rated green. For 2011/12, that position remained at 71%. Given the context of front-loaded, year one SR10 savings,

Figure 6 Financial controls



this is a considerable achievement. Councils continued to deliver and the level of green ratings increased to 77% for 2012/13. However, a small number of councils are now facing significant risks, with the first red ratings for this category (2%) appearing in 2012/13. For the first time, this category received the lowest green ratings in the financial controls theme.

Approach to monitoring savings

It is good practice to adopt a risk-based approach to monitoring savings, such as the use of red-amber-green (RAG) ratings. The majority of single tier and county councils (60% and 88% respectively) used RAG ratings to help understand the risk associated with delivering individual savings. However, a significant minority of single tier councils (40%) and the majority of district councils did not use this kind of analysis.

There are also regional variations. In the south west, less than half of single tier and county councils (45% and 100% respectively) used a RAG rating approach while the majority of single tier councils (55%) and the majority of districts (78%) did not use this kind of analysis. In the Midlands, the majority of single tier and county councils (57% and 100% respectively) did use RAG ratings. However, a significant minority of single tier councils (43%) and the majority of districts did not use this kind of analysis. This indicates ineffective processes or a potentially weak financial position.

Good practice case study

Surrey County Council

The council has not completed stand-alone annual budgets for a number of years, but produces five year budgets from which annual budgets are set. This means future years' budgets are more detailed, reliable, and allow changes between years to be more readily identified (ie capital projects spanning a number of years. This results in greater transparency, efficiency and more achievable in-year budgets. It allows senior managers to plan longer-term with a greater degree of certainty.

As part of the budget setting process the council considers a number of scenarios and applies the most suitable. It completes a number of draft budgets throughout financial planning cycle, and engages with the business and voluntary sector, communities, trades unions, all members, and residents at each stage. Elected members and senior managers are supported in their strategic financial management by revenue and capital budget monitoring reported in month, a quarterly 'hard close' of the accounts (including all the primary statements) and an early close and publication of the statement of accounts. This provides the base information and confidence in the council's financial systems and financial management arrangements to be able to make long-term decisions.

Approach to managing savings

The majority of single tier and county councils (70% and 75% respectively) took a project management approach to savings projects and programmes, which is good practice. However, a significant minority of single tier and county councils, and just over half of district councils, did not use this kind of process. The region where this approach was most prevalent was the Midlands, with the majority of single tier and county councils (86% and 50% respectively) using project management techniques to manage savings. However, a significant minority of single tier and county councils, and the majority of districts did not use this kind of process.

The majority of single tier councils (60%) and half of the counties had to identify alternative savings during 2012/13 as a result of slippage or non-delivery of savings plans. The majority of district councils (84%) did not have to resort to these measures. We have already noted that, for some councils, there is a lack of transparency in how these savings are reported to members.

Key financial systems

57% of our sample was rated green for 2010/11. This increased to 71% in 2011/12 and 86% in 2012/13. This was the lowest level of green ratings for financial controls in both 2010/11 and 2011/12, but not for 2012/13. However, the first red ratings (1%) were also received in 2012/13.

Councils typically have well-established systems and procedures for producing reliable financial monitoring and forecasting information. They use these alongside related performance information to support decisions. We noted in our previous reports that many authorities are considering enhancing the functionality of their key financial systems to ensure the burden of producing work around financial information does not fall to non-financial managers, given the reduction in finance staff. While they continue to make progress, such changes take time to specify, procure and implement. In the context of reducing finance resource and increasing financial management responsibilities within services, authorities in this position will have to monitor the risks associated with such work around solutions carefully.

Finance department resourcing

78% of our sample was rated green for 2010/11, which increased to 83% for 2011/12. Green ratings increased again to 91% for 2012/13 but this year also received the first red ratings (1%). This improving trend indicates that most authorities have been able to manage the impact of funding reductions to this part of the back office. The potential inability of finance teams to withstand planned and unplanned absences in providing support to services remains a key risk for councils. This is especially the case given the widespread reductions in staff numbers and delivery of major savings at a time when services are taking on enhanced financial management responsibilities.

Internal audit arrangements

The majority of authorities in our sample (71%) were rated green for 2010/11 and this increased to 79% for 2011/12. This increased again to 92% for 2012/13, but this year also saw the first red ratings (1%).

Most councils continue to: apply a risk-based approach to audit planning and involve services in the planning process; have a robust process for preparing and reporting the annual governance statement, and an engaged audit committee. Amber or red-rated authorities had weaknesses such as audit plans that were too focused on reviewing traditional back office processes (such as low level financial controls) at the expense of more risk-focused work (such as assurance on delivery of key projects and programmes, including savings). Other areas of weakness included significant reduction to internal audit resource – impacting on effective delivery of the annual audit plan – and a lack of effective follow up on internal audit recommendations.

External audit arrangements

We rated 86% of our sample green for 2010/11 and this increased to 100% for 2011/12. The level of green ratings fell to 96% in 2012/13 and this year saw the first red ratings (2%). The reason for amber and red ratings varied, but included: the council receiving a qualified value for money conclusion; ineffective responsiveness of accountants to queries raised by external auditors; and weaknesses with benchmarking and understanding unit cost information.

Good practice case study

Gloucestershire County Council

The council uses Verto, a project management package, to record and monitor the delivery of individual savings plans that make up the total 'Meeting the Challenge' savings programme for the council. This system facilitates accountability, ownership and supports delivery through input from a wide cross section of the council. Specifically, each savings programme goes through a number of gateways that ensure plans are robust and deliverable. To facilitate deliverability, each savings plan uses Verto to identify and secure the support services it needs to succeed. The support services include finance, needs analysis, HR, risk and asset management colleagues ensuring corporate ownership.

Assurance framework/risk management approach

This is a new category for 2012/13, for which 81% of authorities received a green rating, and 2% a red rating. While the majority of councils have adopted effective approaches to risk management, a minority have not. Reasons for non-green ratings included: infrequent reporting of risks to members; out of date risk management documentation; failure of the corporate management team to quality assure risk registers effectively; lack of alignment of risk registers to corporate priorities; poor risk ownership; and a lack of effective risk escalation procedures.

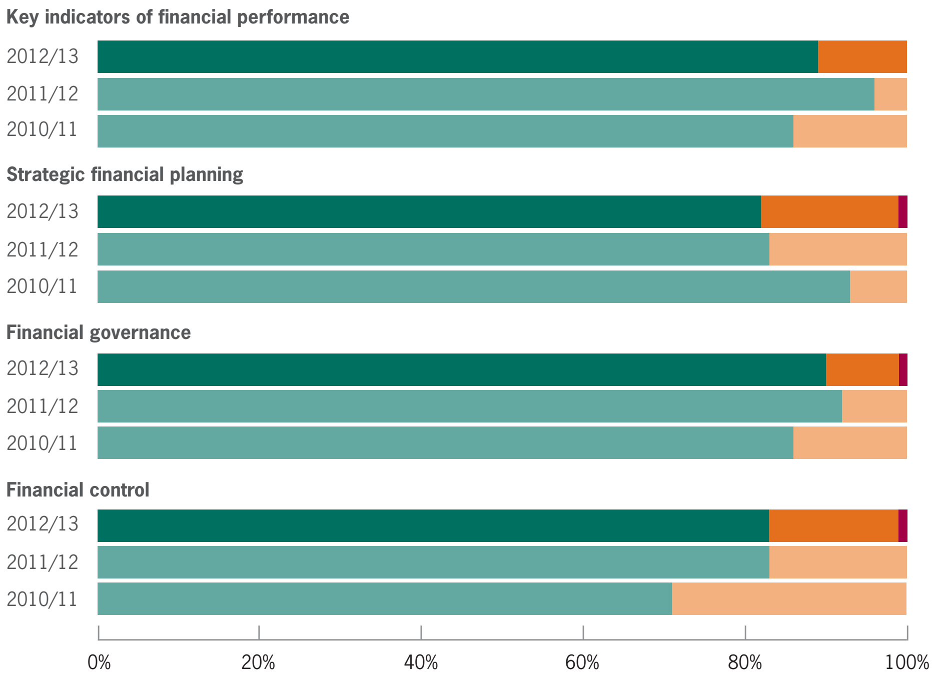
Summary and conclusions

Overall, local authorities are delivering against their financial plans. However, the challenges are increasing; some improvements in the last survey have reversed this year; and a small number of authorities now have insufficient arrangements to ensure financial resilience. Authorities will need to work hard in all these key areas to stay in robust financial health.

Figure 7 provides a summary of the overall ratings for each of the four themes. The overall trend for many of the categories we rated was an improving position between 2010/11 and 2011/12. This was demonstrated by three of the four overall themes, apart from strategic financial planning, showing improved ratings. This trend has reversed in our third year of reviews, with three of the four thematic areas receiving lower overall levels of green ratings than for 2011/12, albeit, in most cases, small reductions.

17 of the 22 categories received red ratings in 2012/13, when there were no red ratings at all during 2010/11 and only one category – adequacy of reporting in the financial governance – received a red rating during 2011/12. As a consequence, three of the four overall themes received red ratings in 2012/13. While these represent a small proportion of authorities in our sample (1% to 2%), it indicates that a minority of authorities do not have adequate arrangements in place to ensure they will remain financially resilient. A summary for each theme follows.

Figure 7 Summary ratings over time – all councils



The overall trend for many of the categories we rated was an improving position between 2010/11 and 2011/12. This was demonstrated by three of the four overall themes, apart from strategic financial planning, showing improved ratings. This trend has reversed in our third year of reviews, with three of the four thematic areas receiving lower overall levels of green ratings than for 2011/12.

Local authorities demonstrated strong **strategic financial planning**, during our 2010/11 review, with 93% in our sample receiving a green rating. This declined to 83% for 2011/12, the only thematic area that saw a fall in the overall green rating. This trend continued with a small reduction to 82% for 2012/13, and the theme received its first red rating (1%). For the first time, this theme received the lowest overall green rating.

Local authorities continue to face increased difficulty planning for the medium-term in what remains a greatly challenging and uncertain period. It remains critical that authorities improve their scenario planning and their use of sensitivity analysis on key assumptions in their financial models. As we noted in our 2012 report, we believe councils can learn directly from the financial modelling analysis required by foundation trust applicants in the NHS.

Our 2010/11 reviews indicated that the weakest thematic area was **financial control**, with 71% of authorities receiving a green rating. Our 2011/12 reviews highlighted an improvement, with 83% of our sample receiving a green rating. The rating stabilised at 83% for 2012/13, but received its first red rating (1%).

An important risk that local authorities need to continue managing in this area is embedding the changes resulting from reductions in finance staff and the associated increase in financial responsibilities of service managers and budget holders. A significant minority of authorities also need to improve the way they manage savings programmes, either by introducing project management rigour, or in the way that they report and monitor delivery risks.

Authorities demonstrated good **financial governance** during our 2010/11 reviews, with 86% receiving green ratings. This increased to 92% for 2011/12 but fell slightly to 90% in 2012/13. This theme received its first red rating (1%) during 2012/13.

Local authorities will need to ensure that financial governance arrangements remain robust. An important area of improvement for many in the sector is ensuring the appropriate frequency of reporting savings programmes to members, including greater transparency on the use of countervailing savings. This is so stakeholders can better understand the impact on service delivery and policy decisions, where such alternative savings are being applied to pre-agreed targets.

86% of authorities were rated green for **key indicators of financial performance** for 2010/11 and this increased to 96% for 2011/12. Green ratings fell to 89% for 2012/13, but this was the only theme not to receive any red ratings during 2012/13.

For all bar one category in this thematic area, the trend has been an increasing level of green ratings and reducing levels of amber ratings between 2011/12 and 2012/13. The overall position indicates that local authorities are treating the financial challenges they face seriously, and delivering against their financial plans. However, three categories received red ratings for the first time – liquidity, performance against budgets and workforce – highlighting significant financial pressures for a minority of authorities.

Workforce received the lowest rating in this theme, and was the lowest rating (65% green) across all four themes. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. The pressures on staff to deliver “more for less” will be a key challenge for the sector over the medium-term.

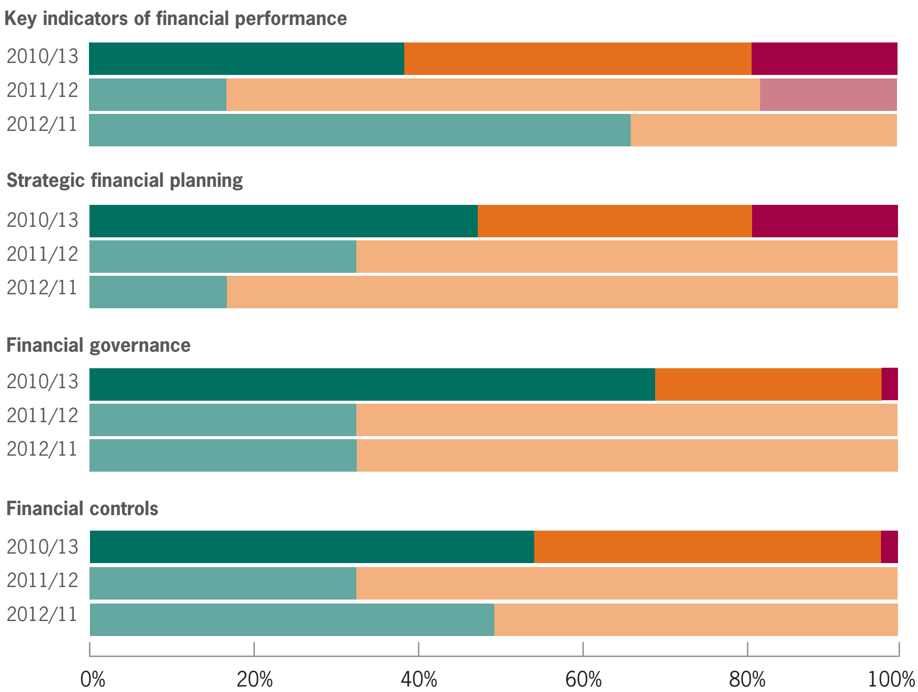
Comparison to the health sector

We undertook similar reviews of all our NHS trust clients for 2010/11, 2011/12 and 2012/13, and of a sample of our foundation trust (FT) clients for 2012/13. In the two prior years, we undertook reviews of all our primary care trust (PCT) clients and for 2012/13 we consulted with our clinical commissioning group (CCG) clients about their initial experiences.

The methodology used for our reviews of health bodies was the same as that used for local authorities, and the summary results for our sample of health bodies are set out in Figure 8.

Despite the government maintaining NHS funding levels, health bodies again received lower ratings than local authorities for 2012/13, with significantly lower levels of green ratings across themes, though there has been improvement in all themes since 2011/12. This appears to be one beneficial effect of NHS trusts going through the FT application process, which requires high levels of rigour over processes for planning, governance and control.

Figure 8 Summary ratings – Health sector



Despite the government maintaining NHS funding levels, health bodies again received lower ratings than local authorities for 2012/13, with significantly lower levels of green ratings across themes, though there has been improvement in all themes since 2011/12.

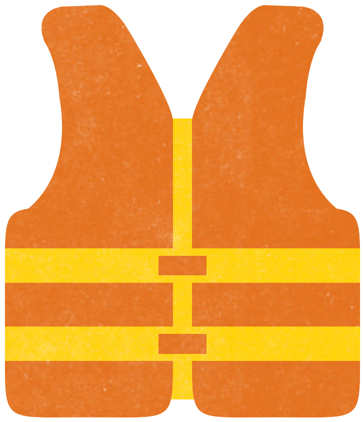
These reviews revealed that:

- cost improvement programmes (CIPs) are not delivering effectively. 44% of trusts and 31% of FTs did not achieve their planned savings in 2012/13; half of trusts and a quarter of FTs relied on non-recurrent savings; and half of trusts and FTs had future savings programmes where we had concerns about achievability. The level of savings required is also the main factor putting CCGs at financial risk.
- non-recurrent support obscures the picture on resilience: 32% of NHS trusts and 23% of FTs either relied on non-recurrent external revenue support to break even in 2012/13, or were expecting to receive such support during 2013/14. This is also reflected in a National Audit Office report '2012/13 update on indicators of financial sustainability in the NHS' which suggests that, without this sort of support, nearly a quarter of NHS trusts would have been in deficit in 2012/13.
- workforce issues are increasing. We observed high levels of turnover at board level at a quarter of clients, rising levels of temporary staff at two thirds of clients, and higher than targeted levels of sickness absence at 90% of NHS trusts. The trend being upward at most clients.

Partners working together in health economies need to aspire to delivering the best quality of patient care within available resources. This will not always be achieved through existing pathways, in existing settings. Local leaders will need to challenge the notion of "What is best for my organisation?" and replace it with "What is best for the patient?". Healthcare providers and commissioners will need to work together with local authorities in the field of health and social care if all the parties are to benefit from the recently-announced Integration Transformation Fund.

Our findings indicate that local authorities are performing significantly better than NHS bodies. To avoid a deterioration in their ratings, local authorities should consider whether any lessons can be learned from the NHS, to help manage their own financial sustainability, and mitigate the chances of a declining position.

Our full analysis of the financial health of the NHS is available in our report 'Alternative therapy – strengthening NHS financial resilience' which was published in November 2013.



Our findings indicate that local authorities are performing significantly better than NHS bodies. To avoid a deterioration in their ratings, local authorities should consider whether any lessons can be learned from the NHS, to help manage their own financial sustainability, and mitigate the chances of a declining position.

About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 200 partners and employing over 4,400 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

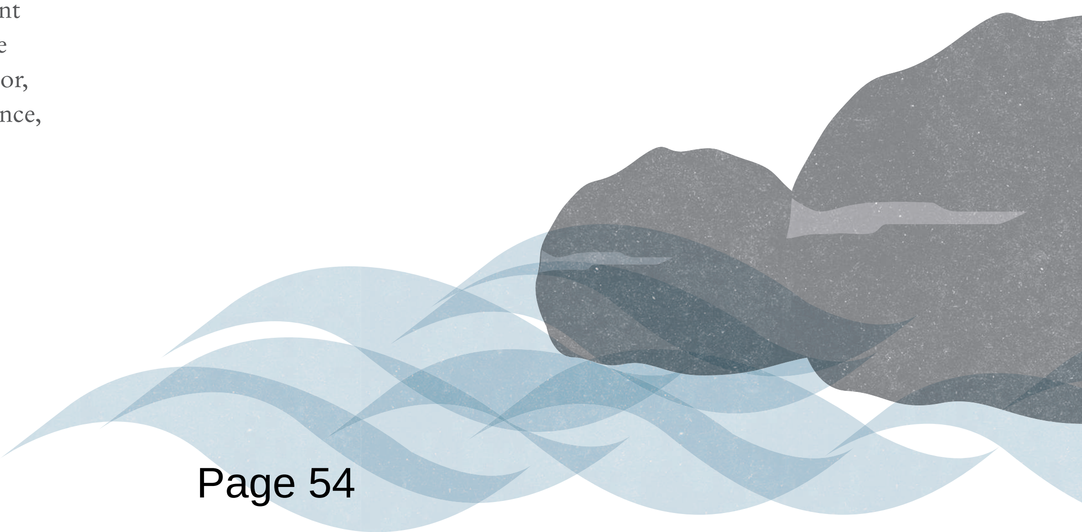
We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.



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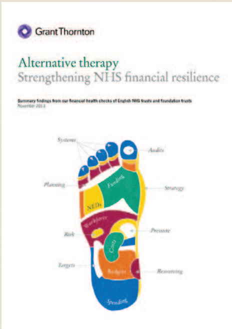
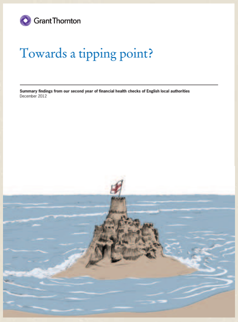
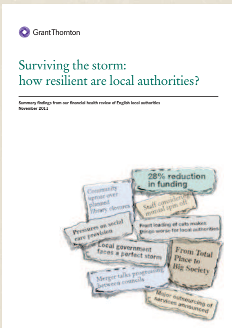


Alternative therapy: Strengthening NHS financial resilience 2013



Towards a tipping point? Financial heath checks of English local authorities 2012



Surviving the storm: how resilient are local authorities? 2011

Agenda Item 5

Appendix

Good practice checklist

Key indicators of financial performance	✓	X	Comments
Regular monitoring of key indicators of financial performance			
The authority operates within a locally determined appropriate level of reserves and balances			
The general fund balance is maintained at or above the locally agreed minimum level			
Working capital is at, or above, a ratio of current set by the Section 151 officer			
Manageable levels of long-term borrowing within prudential borrowing limits			
Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators			
The authority has a track record of spending to budget and proactively managing forecast overspends in-year			
A robust organisational approach and focus on absence management to improve productivity, reduce costs and enhance customer service			

Strategic financial planning	✓	X	Comments
Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities			
Service and financial planning processes are integrated			
The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working			
Annual financial plans follow the longer-term financial strategy of the authority			
There is regular review of the MTFP and the assumptions made within it. The authority responds to changing circumstances and manages its financial risks			
The authority has performed sensitivity analysis on its financial model using a range of economic assumptions including the impact of SR10 and SR13			
The MTFP is linked to and is consistent with other key strategies, including workforce			
KPIs can be derived for future periods from the information included within the MTFP			
Zero based budgeting on priority based budgeting is used to improve strategic prioritisation during the financial planning cycle			
Effective treasury management arrangements are in place			

Financial governance	✓	X	Comments
There is a clear understanding of the financial environment the council is operating within			
Regular and transparent reporting to members. Reports include detail of action planning and variance analysis			
Actions have been taken to address key risk areas			
The chief finance officer is a key member of the leadership team			
Officers and managers across the authority understand the financial implications of current and alternative policies, programmes and activities			
The leadership ensures appropriate financial skills are in place across all levels of the organisation – for example, a good understanding of unit costs and cost drivers			
The leadership fosters an open environment of open challenge to financial assumptions and performance			
There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities			
There is engagement with stakeholders, including budget consultations			
There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities			
Internal and external audit recommendations are not overdue for implementation			
Committees and cabinet regularly review performance and it is subject to appropriate levels of scrutiny			
There are effective recovery plans in place (if required)			

Financial control	✓	X	Comments
Budgets are robust and prepared in a timely fashion and the authority has a good track record of operating within its budget			
Budgets are monitored at an officer, member and cabinet level and officers are held accountable for budgetary performance			
Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis			
Budget profiles are accurate and regularly monitored			
There is particular focus on monitoring income related budgets			
Savings programme reporting includes effective management information on countervailing savings and the use of RAG ratings			
The capacity and capability of the finance department and service departments are fit for purpose for effective financial planning and financial management			
Key financial systems have received satisfactory reports from internal and external audit			
Financial systems are adequate for future needs, for example commitment accounting functionality is available			
There is an effective internal audit which has the proper profile within the organisation and agreed internal audit recommendations are routinely implemented in a timely manner			
There is an assurance framework in place which is used effectively by the authority and is how business risks are managed and controlled			
The annual governance statement gives a true reflection of the organisation			

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EXTERNAL AUDIT – HOUSING AND COUNCIL TAX BENEFIT GRANT 2012/13

Audit Committee – 14 January 2014

Report of	Chief Finance Officer
Status:	For Information
Key Decision:	No

Executive Summary: Housing and Council Tax Benefit Grant remains a highly complex area and the audit of the 2012/13 grant has been amended and qualified but with significantly fewer errors than in 2011/12. This improvement has been reflected in the reduced audit fee.

This report supports the Key Aim of providing value for money.

Portfolio Holder	Cllr. Ramsay
Contact Officer(s)	Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the report be noted.

Introduction

1 Grant Thornton, as the Council's external auditor, is required to certify certain grant claims submitted by the Council. This certification typically takes place 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

2 The following two grants were audited as they were above the £125,000 limit where certification is required:

- Housing and council tax benefit scheme (value £35m).
- National non-domestic rates return (value £35m).

Audit Outcome

3 The National non-domestic rates return was certified with a £46 amendment but was not qualified.

4 By far the most complex claim is the Housing and Council Tax Benefits claim which was amended and qualified.

5 Errors were identified in the 2012/13 return; however the number has greatly reduced from 2011/12. This reflects the measures taken to implement a new

system, increase training and the quality assurance process. Although the impact of these errors on the value of the overall claim was relatively minimal, it is important to claimants that there benefit is calculated correctly. The DWP stipulates high standards of accuracy resulting in any claims being incorrect by as little as 1p are classified as errors and additional testing is then required on a larger sample.

6 The audit fee for grant claims in 2012/13 is £20,650 (subject to confirmation by the Audit Commission). This is significantly less than the £51,662 charged in 2011/12.

Actions being taken

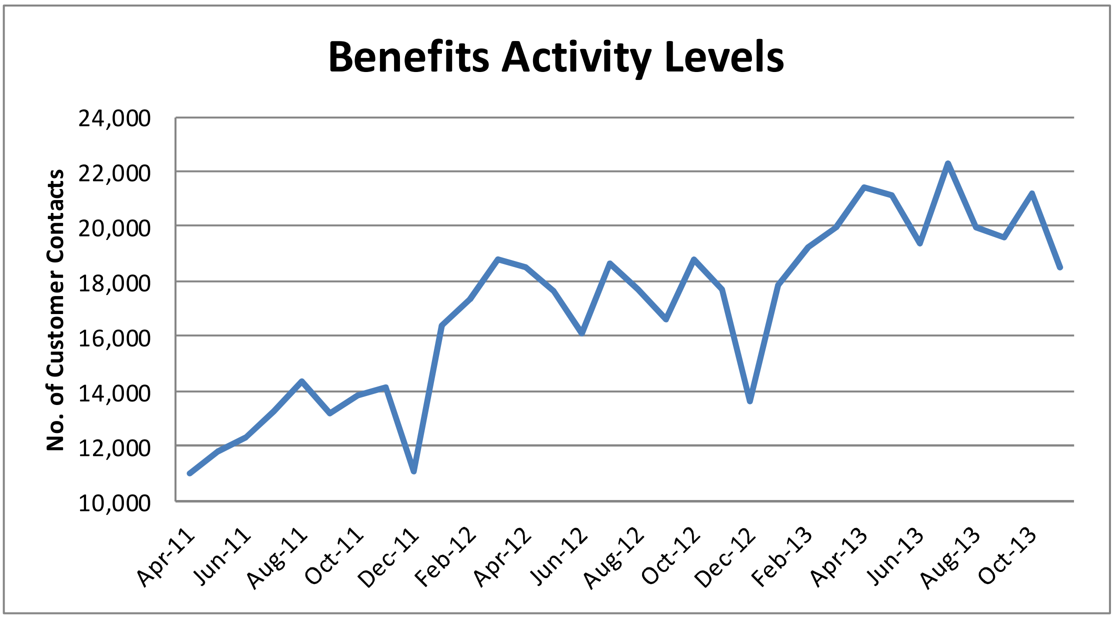
7 There is one recommendation included in the Action Plan at Appendix A. Actions are already being taken to address this issue.

8 Benefits staff will work with Grant Thornton to ensure that the benefits grant claim continues to improve each year.

Benefits Performance

9 The Benefits Service is one of the services provided by the partnership between Sevenoaks District Council and Dartford Borough Council which commenced on 13 December 2010.

10 As reported to the Audit Committee on 11 June 2013, demands on the Benefits Service have significantly increased due to the economic climate. The graph below shows that the number of customer contacts for the Benefits Partnership continues to be high.



11 The main performance indicator for the Benefits Service is the 'Average number of days to process new claims'. This peaked at 58 days in June 2012 but has now been brought down to 26 days in November 2013 (the target is 30 days).

12 Activity levels were the major reason why activity levels originally worsened but there were also several other factors including the following:

- The difficulty in recruiting assessors in an environment where people are changing careers due to the uncertainty caused by Universal credit for Benefits professionals.
- Staff spending time preparing for the welfare reform changes.
- The uncertainties and complexities of other benefits are causing staff to spend more time with people who are contacting the service.

13 We have taken a number of actions to address these issues which has resulted in the significant improvement in performance. These actions include:

- Recruited additional temporary staff in a competitive market.
- The development of the apprentices who started with the service in 2010.
- Using an external agency to process some claims on a unit cost basis.
- Redirected some calls to the Dartford BC Contact Centre.
- Re-engineered some processes.

14 Both authorities have allocated extra resources to fund this approach.

15 These actions have resulted in claims being dealt with much faster and also reduced the number of errors.

Key Implications

Financial

The financial implications are included elsewhere in the report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

The work carried out by the external auditors provides a thorough examination of the grant claim processes of the Council. Any significant issues found are reported to Members.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
against different groups in the community?		
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Appendices Appendix A – Grant Thornton – Certification Work Report 2012/13 – Action Plan

Background Papers: None

Adrian Rowbotham
Chief Finance Officer

Grant Thornton – Certification Work Report 2012/13

Action plan

Priority
High – Significant effect on arrangements
Medium – Some effect on arrangements
Low – Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Housing and council tax benefit –** Further training on the calculation of earnings to be provided to reduce the number of errors in relation to this area.	High	Training for Benefits staff remains an on-going process which is now focusing on specific examples of errors relating to this area.	Started in October 2013. Benefits Manager

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INTERNAL AUDIT PROGRESS REPORT

Audit Committee – 14 January 2014

Report of	Chief Finance Officer
Status:	For Consideration
Key Decision:	No

This report supports the Key Aim of Effective Delivery of the Corporate Plan

Portfolio Holder	Cllr. Ramsay
Contact Officer(s)	Bami Cole, ext.7236

Recommendation to Audit Committee: That Members:

Note the contents of the report and the progress made by the audit team in delivering the 2013/14 Annual Internal Audit Plan

Reason for recommendation: The Audit Committee is required to review the progress of the Internal Audit Plan in compliance with its terms of reference.

Introduction

1 This report provides details of the progress of the Internal Audit Team in delivering the Annual Internal Audit Plan 2013/14 and outcomes of final internal audit reports issued since the meeting of the committee in September 2013.This is the second progress report sent to the Audit Committee since its formation in May 2013.

2 The internal audit function is a key process of the Council's overall governance arrangements. Its key purpose is to conduct independent reviews of the Council's system of internal controls and to provide an assurance to both senior Management and Members regarding the effectiveness of such systems. In fulfilling his duty and responsibilities, the Audit Manager, is required to report to the Audit Committee on the progress made in delivering the internal audit plan in meeting the Council's assurance requirements, in accordance with relevant professional standards.

Summary of Issues Raised Within the Report:

3 A summary of progress made towards delivering the assurance requirements for 2013/14 is attached as Appendix A to this report, which sets out details of the reviews agreed initially by the Performance and Governance Committee, in April 2013; and subsequently endorsed by the Audit Committee in June 2013. Members may note that nine planned reviews have been completed, two of which are at draft stage. Eight reviews are work in progress and a further four planned to

commence in quarter four. Thus to date, a total of seventeen reviews have either been completed, or have commenced from this year's annual plan. This is equivalent to 77% of the annual internal audit plan for 2013/14.

4 Members are advised that one review, item 22 on Appendix A is proposed to be taken forward to 2014//15 for operational reasons, In particular, the management information system and data management processes are currently being overhauled and upgraded within the relevant service, the faculties section. Hence it would be difficult to carry out a meaningful review at whilst the process is in transition and would be disruptive. It is therefore propose to undertake the review in the first quarter of 2014/15.

5 Appendix B sets out details of the reports which were issued since the last meeting of this committee and provides a brief summary of the findings and recommendations agreed with service management, to address any areas for further improvements, required to strengthen internal control. Further details on any of the issues raised on the report summaries would be provided to members of this committee on request.

Internal Audit Resources

6 Internal audit resources have been under capacity during the quarter due to sickness levels. This has consequently put some strain on delivery of the plan. Thus management is reviewing the plan and available resources to year end, to determine whether it would be appropriate to obtain agency staffing resources, or to carry forward some reviews. Senior management will be consulted on this and the Audit Committee will be advised at the next meeting of the Board on the outcome of this process.

Key Implications

Financial

7. Not Applicable.

Legal Implications and Risk Assessment Statement.

8. No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2011.

The Council is required to comply with the requirements of the Accounts and Audit Regulations 2011, regarding its "arrangements to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". The report indicates that the Council has effective arrangements in place as required by regulatory requirements and professional standards.

Equality Impacts

9.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

<u>Sustainability Checklist</u>

10. Not Applicable.

Conclusions

11. This report sets out progress of the Internal Audit Team in delivering the Council's assurance requirements for 2013/14 and provides a summary of final reports issued since the meeting of the Audit Committee in June 2013. No significant concerns have been identified in audit reviews to date. Where issues for further improvements have been identified, internal audit have agreed appropriate and timely actions to address such issues.

Appendices

Appendix A – Progress Against 2013/14 Plan

Appendix B - Summary of Final Reports Issued

Appendix C - Audit Opinions - Definitions

Background Papers:

Internal Audit Annual Plan for 2013/14

New Public Sector Internal Audit Standards 2013

Audit Committee Report 11 June 2013

Accounts and Audit Regulations 2011
[http://www.legislation.gov.uk/uksi/2011/817/contents/made]

Adrian Rowbotham

Chief Finance Officer

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PROGRESS AGAINST 2013/14 INTERNAL AUDIT PLAN Status at 20/12/13							
		Final report issued	Draft report issued	Feedback process in progress	Fieldwork in progress	Brief issued	Possibly defer or cancel
1	Main Accounting System						
2	Budgetary Control						
3	Bank Reconciliations						
4	Treasury Management					X	
5	Payroll		X				
6	Purchasing & Creditors				X		
7	Debtors					X	
8	Council Tax/NNDR			X			
9	Council Tax/Housing Benefits		X				
10	Housing	X					
11	Car Parking Income	X					
12	Contract Management Arrangements				X		
13	Shared Services Recharges			X			
14	Section 106 Agreement	X					
15	Annual Governance Statement	X					
16	Information Management			X			
17	IT Review						
18	Dunbrik	X					
19	Corporate Health & Safety Arrangements	X					
20	Safeguarding Arrangements	X					
21	Planning & Development Control				X		
22	Repair & Maintenance Arrangements						X
	Total	7	2	3	3	2	1

Notes: 41% (9) of planned reviews completed to either final or draft report stage
27% (6) of planned reviews are at feedback or field work stage
27% (6) of planned reviews are booked to commence in quarter 4
5% (1) review taken forward to 2014/15

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FINAL AUDIT REPORTS ISSUED SINCE LAST MEETING

Audit title	Date Issued	Opinion Framework/Control
Car Parking Income 2013/14	10.10.13	Good/Good
Section 106 Agreement 2013/14	9.12.13	Satisfactory/Good
Review of Housing 2013/14	17.12.13	Good/Good
Review of Dunbrik 2013/14	20.12.13	Good/Good

Review of Car Parking Income 2013/14 Issued: 10 September 2013

Opinion: Control Framework – Good
Compliance with Framework – Good

The purpose of this review was to provide an assurance regarding the effectiveness of the Council's parking service, including the arrangements for security and banking of income; and recovery of unpaid fines

To this effect the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, policies or good practice.
2. A policy and procedure for setting car park fees and charges may not be in place or followed.
3. Cash collection machines are not adequately maintained and insured.
4. Parking machines may not be tamper proof.
5. Parking ticket income may not be collected and recorded correctly.
6. Parking income may not be banked promptly.
7. Fees from car park season tickets and on-street parking permits may not be accounted for correctly.
8. Parking fines may not be collected promptly and recovery action may be ineffective and in accordance with legislation.
9. Parking fines may be written off without proper authority.
10. Fraud and corruption may be undetected.
11. Opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
12. Operational or Service risk assessments may not be undertaken and risks not adequately managed for the service area.

Audit testing indicated that controls were fully met in elven of the twelve aspects examined. Controls in respect of risk 10 were partially met.
The audit opinions for both framework and compliance were "Good". This meant that a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.

The following recommendation was agreed with management to enhance existing controls within the service.

A secure area should be arranged to store all parking machine master keys. A responsible officer(s) should monitor access to the keys.

Members would be advised of the progress in implementing these recommendations in due course.

Review of Section 106 Agreement 2013/14 Issued: 9 December 2013

Opinion: Control Framework – Satisfactory
Compliance with Framework – Satisfactory
CIL Framework – Good

The purpose of the review was to provide an assurance regarding the effectiveness of the arrangements in place to administrate Section 106 Agreements, and to prepare for the introduction of the Community Infrastructure Levy (CIL).

To this effect, the following key risks and controls were examined;

1. Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
2. Risk that the Council may not have an appropriate or adequate framework in place for delivering Sec 106 agreements or the CIL.
3. Risk that agreements may not be in place for all relevant Sec 106 developments and supporting documentation may not be on file.
4. Risk that contributions relating to S106 agreements may not be being used appropriately or within the agreed timeframe.
5. Risk that the contributions relating to S106 agreements may not be appropriately documented in order to provide information on the amounts raised and targets met.
6. Risk that plans for the implementation of a CIL framework may not be documented or agreed.
7. Risk that the planned charging schedule for the CIL may not have undergone consultation, be appropriate and transparent, or been independently examined.
8. Risk that resource arrangements may not be correctly funded from the agreed levy chargeable costs.
9. Risk that fraud and corruption may be undetected.
10. Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
11. Risk that risk assessments may not be adequately undertaken and risks not adequately managed.

Risks 3, 4 and 5 were relevant only to S106. Risks 6, 7, and 8 were relevant only to CIL. The remaining risks were relevant to both sec 106 and CIL. Audit testing results indicated that:

- In relation to the draft CIL control framework, controls were fully met in seven of the eight relevant risks examined, whilst one (Risk 8) could not be assessed due to the timing of the review and the fact that the CIL process was still in development.
- In relation to the S106 control framework, controls were fully met in six of the eight relevant risks examined, while two (risks 3 and 10) were partially met.
- In relation to the effectiveness of the S106 framework, controls were fully met in four of the eight relevant risks examined, while four (risks 2, 4, 5 and 10) were partially met.

The effectiveness of the CIL framework could not be tested, as CIL is still within the preparation stage, and the draft framework has yet to be formally adopted by Council as policy. Therefore it has not yet been implemented operationally. However, the draft framework has passed external inspection by the Planning Inspectorate.

The opinion of the auditor was that the draft CIL framework was “good”. This meant that a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.

The opinion for the S106 control framework was “satisfactory”. Additionally the opinion for effectiveness of the current S106 framework was also “satisfactory”. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

Five recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 2, 4, 5, 8 and 10.

- The Council should have a clearly communicated policy regarding whether the Open Market Value used for affordable housing contribution calculations should be the value of the net additional properties being developed, or the gross number of properties being developed. Further, if net value is chosen, the basis on which the net value should be calculated if the value of the newly developed properties is not the same should be considered. Management should also determine and advise applicants whether overpayments caused by applicant error will be corrected by the Council or not.
- The Acting Development Control Manager and the Service Accountant for Development Services should work in collaboration to develop proposals to enhance the process for financial monitoring of Section 106 funds, to be approved by the Chief Officers of the relevant departments. The process should ensure that Finance is provided with accurate information on the sums agreed with developers, and can in return supply accurate information on the revenue which has been collected. The process should further ensure that Finance should also have accurate information on the projects which S106 funds are to be spent on, and the amounts which have been budgeted. This process should be developed in time for implementation from 1st April 2014. Internal Audit has produced a suggested process as an addendum to the Management Action Plan; or the departments could develop their own process.
- The Development Control team should ensure that all relevant information is retained on Idox. If information relevant to an application is discussed at the pre-application stage but not submitted by the developer with the application, it should be requested during the assessment to ensure the Council has a full audit trail available.
- The Acting Development Control Manager should consult with IT Services to ensure that appropriate steps are taken as necessary to rectify the prevailing technical issue with Obligations Tracker.
- The Chief Planning Officer should ensure that a review of the effectiveness of the eventual governance arrangements and assessment controls for the Community Infrastructure Levy (CIL) should be undertaken within 6-12 months of the first CIL payment being collected.

Members would be advised of the progress in implementing these recommendations in due course.

Review of Housing 2013/14 Issued: 9 December 2013

Opinion: Control Framework: Good
Effectiveness of Framework: Good

The purpose of the review was to provide an assurance regarding the effectiveness of the new structure within Housing in order to assess its fitness for purpose in delivering Council policy and statutory requirements.

To this effect, the following key risks and controls were examined;

1. Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
2. Risk that Housing advice and proactive schemes may be inaccurate or inefficient due to lack of knowledge, particularly on welfare reform.
3. Risk that the Council may not have effective measures in place to address statutory duties under the Housing Act.
4. Risk that recent changes within the structure of the service may not meet the requirements for an effective delivery of service.
5. Risk that the implications of the single room allowance may not be adequately identified or addressed.
6. Risk that the HERO scheme, and other relevant proactive initiatives, may not be effective or efficient in preventing homelessness and contributing towards the Council's statutory duties.
7. Risk that fraud and corruption may be undetected.
8. Risk that opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
9. Risk that risk assessments may not be adequately undertaken and risks not adequately managed.

Audit testing results indicated that:

- In relation to the Control Framework, controls were fully met for all nine of the risks examined.
- In relation to the effectiveness of the framework, controls were fully met in six of the risks examined, while the remaining three (risks 5, 6 and 9) were partially met.

The opinion of the auditor for both control framework and effectiveness of the implementation of the framework were "good". This meant that a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.
Three recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 4, 5 and 9.

- To facilitate an effective assessment of the advice provided on the single room allowance and compliance with the Welfare Reforms, it is recommended that relevant data is retained for a period of 12 months and make available to internal audit for testing.

- The process for maintaining manual records regarding the HERO scheme would benefit from closer management supervision, in addition to the level of support already provided, in order to ensure that documentation is maintained in an appropriate format, which would provide clearer and more accessible concise records which would facilitate easier access by other officers when necessary.
- In order to ensure compliance with the Council's risk management framework, management should ensure that risk assessments are completed for all key service/operational objectives and demonstrate that risks are being managed within the Council's risk appetite. If necessary, management should contact the Audit, Risk and Anti-Fraud Manager for advice and guidance.

Members would be advised of the progress in implementing these recommendations in due course.

Review of Dunbrik 2013/14 Issued: 20 December 2013

Opinion: Control Framework: Good
Effectiveness of Framework: Good

The purpose of this audit was to provide an assurance regarding the effectiveness of systems within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies.

To this effect the following key risks and controls were examined;

1. The Council may not comply with relevant legislation, policies or good practice.
2. Financial reporting may not be accurate, up to date or complete.
3. Reconciliations between Task and Agresso may not be accurate, up to date or complete.
4. Transactions may not be supported by documentary evidence.
5. Budget reporting and monitoring may not be timely, accurate or effective.
6. Transactions may not be calculated/valued and allocated correctly.
7. Financial data may not be clearly presented or understandable for non-financial managers.
8. Information and data may not be protected from loss, damage or unauthorised disclosure.
9. Miscoding and variations in budgets may not be identified or reported.
10. Fraud and corruption may be undetected.
11. Opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
12. Operational or Service risk assessments may not be undertaken and risks not adequately managed for the service area.

Audit testing indicated that controls were fully met in ten of the twelve aspects examined. Controls in respect of risks one and four were partially met.

The audit opinions for both framework and compliance were “Good”. This meant that a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.

The following recommendations were agreed with management to enhance existing controls within the service.

- Arrangements should be made for the current Financial Procedure Rules to be added to the staff intranet.
- Good practice requires that key procedure notes should be reviewed annually. The procedure notes should be signed and dated once reviewed. A program should be put in place to ensure procedure notes are reviewed on a regular basis (Annually). The existence of current procedure notes is fundamental for the smooth operation of a number of TASK functions, particularly in the absence of the Finance & Admin Manager who carries out the majority of the functions.

Members would be advised of the progress in implementing these recommendations in due course.

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DEFINITIONS OF AUDIT OPINIONS

Opinion	Framework	Effectiveness(Implementation)
Excellent	… innovative frameworks are in place, which demonstrate efficiencies and excellent value for money, whilst ensuring the achievement of service objectives, good corporate governance and high level of protection for the council against foreseeable risks.	… there is full compliance with the framework of controls and the risk management process is considered to be fully effective. There is evidence of notable practice and no areas of concern were identified.
Minimum requirement	All controls are in place	All controls are fully implemented
Good	… a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.	… the framework of controls is substantially being complied with and risk management process is considered to be good. Only minor errors or omissions identified
Minimum requirement	All controls are in place	51% or above of risks examined are low and the remainder are medium. Limited room for further development
Satisfactory	… controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks.	… occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.
Minimum requirement	Control requirements are substantially met	Up to 50% of risks examined are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration
Un-satisfactory	… limited controls are in place but there are gaps in the process, which leave the service exposed to foreseeable risks. Hence further development in framework is needed to make the system effective.	… there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.
Minimum requirement	Control requirements are patchy and unreliable	Testing results identified one or more high risk

Un-acceptable	… controls are considered to be inadequate or non-existent with the absence of at least one critical control mechanism. An urgent need exists to introduce appropriate level of controls without delay.	… failure to urgently improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives. Note: compliance testing in this circumstance may not add value. However, there would be some value in conducting weakness testing in some circumstances to determine the level of "threat" or "loss" to the Council. Hence an opinion for compliance may not be given where the framework is "unacceptable"
Minimum requirement	No evidence of controls exit	Testing results identified one or more very high risk

REVISED INTERNAL AUDIT CHARTER

Audit Committee - 14 January 2014

Report of the:	Chief Finance Officer
Status:	For Consideration
Key Decision:	No

This report supports the Key Aim of Effective Delivery of the Corporate Plan

Portfolio Holder Cllr. Ramsay

Contact Officer(s) Bami Cole, ext.7236

Recommendation to Audit Committee: That Members consider the contents of the report and approve the revised Internal Audit Charter

Reason for recommendation: the Audit Charter sets out the purpose, authority and responsibility of the Council's internal audit service. It is therefore a key document affecting the effectiveness of internal audit. The audit committee is required to approve amendments to the Charter, as part of its terms of reference remit, to oversee the effectiveness of the Council's internal audit service.

Introduction

1 Members were advised at their meeting in June of the new mandatory Public Sector Internal Audit Standards which came into effect on 1 April 2014 and the steps being taken by management to meet the requirements of the new standards, which included updating the Council's internal audit Charter. The Charter has now been updated to reflect the requirement of the standards and recent organisational changes.

2 Appendix A sets out the new Charter. The changes have been discussed with the Chair of the Audit Committee, the Portfolio Holder for Finance and Resources and senior management. Members are requested to consider and approve the revised Charter.

3 The Charter is essentially generic for the shared service internal audit service between Sevenoaks District and Dartford Borough Councils. However where appropriate, adjustments have been made to account for local customs and traditions.

4 The remaining key requirements of the new Public Sector Internal Audit Standards are currently under discussion by senior management, in order to determine the

most effective way of implementing the new standards. The Committee would be advised of further development in due course.

Key Implications

Financial

5. Not Applicable.

Community Impact and Outcomes

6. Not Applicable

Legal Implications and Risk Assessment Statement.

7. No additional legal implication beyond the Council's duty to comply with the new Accounts and Audit Regulations 2011 and relevant aspects of the Public Sector Internal Audit Standards.

The Council is required to have adequate and effective internal audit arrangements. The revised internal audit Charter sets the basis of the arrangement and reflects relevant regulatory and professional standards.

Resource (non-financial)

8. None

Value For Money

9. Not Applicable.

Equality

10.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	Yes	Effective governance of the Council constitutes engagement with all sections of the community and therefore will promote fairness and the potential to promote equality and community wellbeing.
c. What steps can be taken to mitigate, reduce, avoid or		Impact assessment of community engagement will establish the degree of

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
minimise the impacts identified above?		success and areas for further improvement of current arrangements

Sustainability Checklist

11. Not Applicable.

Conclusions

This report presents the revised Internal Audit Charter which sets out the purpose, authority and responsibility of the Council's internal audit service and reflects recent organisational changes, regulatory requirements and relevant professional standards. Members are requested to approve the Charter.

Appendices	Appendix A – Revised Internal Audit Charter
Background Papers:	a) The Accounts and Audit Regulations 2011 [http://www.legislation.gov.uk/uksi/2011/817/contents/made] b) The Public Sector Internal Audit Standards 2013 [https://www.gov.uk/publications/public-sector-internal-audit-standards] c) Sevenoaks District Council's Constitution

Contact Officer(s): Bami Cole, Audit, Risk & Anti-Fraud Manager.
Phone: 01732 227236

Adrian Rowbotham

Chief Finance Officer

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Internal Audit

Internal Audit Charter

Revised to Reflect the Requirements of the Public Sector Internal Audit Standards 2013

DARTFORD BOROUGH COUNCIL

Sevenoaks DISTRICT COUNCIL

Internal Audit

INTERNAL AUDIT CHARTER

Page

1. Introduction

1.1 This charter establishes the purpose, authority and responsibility of the shared service internal audit function for Sevenoaks District and Dartford Borough Councils. The charter is prepared in compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.

1.2 Definition of Internal Audit – The new PSIAS defined internal audit as: "an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council's risk management, control, and governance processes".

2. Purpose

2.1 Internal Audit provides assurance to management on the effectiveness of the controls in place to mitigate the risks of organisational objectives not being achieved. The assurance will be based on independent and objective opinion that involves an impartial examination, evaluation, and reporting on the adequacy and effectiveness of the control environment. Internal Audit will give an assessment of how controls contribute to the economic, efficient and effective use of resources. In addition to its statutory role, internal audit may engage in consulting activity on behalf of management, in pursuant of the objectives of the Council. The engagement of consulting activities would be separate and distinct from its statutory assurance responsibilities.

3. Professionalism

3.1 The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards); as set out in the sector specific requirements of the Public Sector Internal Audit Standards (PSIAS). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

3.2 The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to, including the CIPFA Statement on the Role of the Head of Internal Audit 2010 as applicable to guide operations. In addition, the internal audit activity will adhere to the Policies, Procedures, Practices and customs of the Council and the Council's internal audit standard operating procedures manual.

4. Authority

4.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972 (S151), which requires that authorities "make arrangements for the proper administration of their financial affairs." Regulation Six of the Accounts and Audit (Amendment) Regulations 2011 specifically requires relevant bodies to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."

4.2 Each Council has a nominated S151 Officer, who is responsible for making arrangements for the proper administration of the Council's financial affairs. This responsibility is partially discharged by Internal Audit on behalf of the Section 151 Officer.

- Sevenoaks District Council S151 Officer Chief Executive
- Dartford Borough Council S151 Officer Managing Director

4.3 This audit charter also recognises the mandatory nature of the PSIAS and has sought to comply with its requirements.

5. Organisation

5.1 For the purposes of this Charter, references to the Chief Audit Executive will mean the Audit, Risk and Anti-Fraud Manager. The Chief Audit Executive will report functionally to the Audit Committee/Board and administratively to the Chief Finance Officer/Head of Finance/Sec151 officer

5.2 The Chief Audit Executive will communicate and interact directly with the Audit Committee/Board, including in executive sessions and between meetings as appropriate; and will also have direct access to the Head of Paid Service within the scope of his professional responsibilities.

6. Independence and objectivity

6.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

6.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

6.4 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has direct access and freedom to report in its own name to management and members and particularly to those charged with governance.

6.5 Internal Audit will, if deemed appropriate, review systems under development without prejudicing its ability to subsequently independently audit such systems.

6.6 Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it where they can put forward a more effective alternative or acceptance of any identified risks.

6.7 The conduct of an audit, or the provision of advice by an internal auditor, does not in any way diminish the responsibility of line management for the proper execution and control of their activities; including the management of the business risks associated with the service (s) under their remit.

6.8 The Chief Audit Executive will confirm to the Audit Committee/Board, at least annually, the organisational independence of the internal audit activity.

7. Responsibility

7.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and deployment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

7.2 Internal Audit is responsible for evaluating all processes ('audit universe') of the Council including governance processes, management information and risk management processes. It also assists the Audit Committee/Board in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

7.3 Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee/Board or management, as appropriate.

7.4 Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Board and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Board.

8. Internal audit plan

8.1 At least annually, the Chief Audit Executive will submit to the Audit Committee/Board an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee/Board.

8.2 The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee/Board. Prior to submission to the Audit Committee/Board for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to the Audit Committee/Board.

9. Reporting and monitoring

9.1 A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee/Board.

9.2 The internal audit report will include management's response and corrective action taken, or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within??? days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

9.3 The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

10. Periodic assessment

10.1 The Chief Audit Executive is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

10.2 In addition, the Chief Audit Executive will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement program (QAIP), including results of ongoing annual internal assessments and external assessments conducted at least every five years.

11. Organisational Relationships

11.1 Relationship with the Management

11.1.1 The Chief Audit Executive is responsible for directing the work of the audit function and the reporting of the outcome of internal audit engagement activities to relevant operational management

11.2 Relationship with those charged with governance

11.2.1 The Chief Audit Executive has direct access to the Section 151 Officer; Head of Paid Service; Chair of the Audit Committee/Board or equivalent and is able to report directly on any relevant internal control issues.

11.3 Management Team

11.3.1 The Chief Audit Executive is also able to report to Management Team and individual Directors as considered appropriate.

11.4 Elected Members

11.4.1 The role of Members with regard to Internal Audit is addressed by the appropriate Committee or Board and is defined in the relevant terms of reference.

- Sevenoaks District Council: Audit Committee
- Dartford Borough Council: Audit Board

11.4.2 Although the Annual Internal Audit Plan and Annual Internal Audit Report are approved by the relevant Sec 151 officer, both documents are required to be endorsed by the relevant Audit Committee or equivalent, prior to implementation, or adoption by the Council.

11.4.3 Internal Audit will report to each Committee or Board on the work of Internal Audit periodically through the year. These reports include a summary of each final report relevant to that Council.

11.4.4 Internal Audit will also report to each Committee or Board on the implementation by management of agreed recommendations.

11.5 Relationship with External Audit

11.5.1 The Chief Audit Executive will liaise with External Audit to:

- foster a co-operative and professional working relationship;
- reduce the incidence of duplication of effort;
- ensure appropriate sharing of information;

- co-ordinate the overall audit and assurance effort.

11.5.2 In particular the Chief Audit Executive will:

- discuss the Annual Internal Audit plan with External Audit to facilitate external audit planning;
- make all Internal Audit working papers and reports available to External Audit;
- receive copies of relevant External Audit communications with management;
- gain a knowledge of the External Audit work programme and methodology;
- provide liaison, where appropriate, between External Audit and management for the purpose of resolution of differences.

11.6 Amendments to Charter

11.6.1 Amendments of this charter are subject to the approval of the relevant Management Team and Committee or Board. Where differences exists in relation to custom and practices at a local level, these will be reflected within the amendments.

RISK MANAGEMENT UPDATE REPORT

Audit Committee – 14 January 2014

Report of	Chief Finance Officer
Status:	For Consideration
Key Decision:	No

This report supports the Key Aim of Effective delivery of the Corporate Plan

Portfolio Holder	Cllr. Ramsay
Contact Officer(s)	Bami Cole, ext.7236

Recommendation to Audit Committee: That Members consider the contents of the report and approve the Council's revised risk policy statement.

Reason for recommendation: Risk management is a key indicator of effective management. The Audit Committee is required to consider and approve the Council's approach to the management of business risks, in compliance with its terms of reference.

Introduction

1 Risk management is a key element of the Council's overall governance and internal control processes. The Council seeks to ensure that its arrangements for the management of business risks across the organisation are robust and fit for purpose. Following the recent review of the Council's risk management framework, Members were previously advised at the meeting in June 2013, of progress made in implementing the Council's operational risk management framework and the steps being taken to implement the Council's strategic risk framework. This report informs Members of further progress made to date and timescales for completion of the process.

2 Appendix A sets out the Council's revised Risk Management Policy Statement for Members approval. The revised policy reflects recent developments within the Council's new governance arrangements and new senior management structure. The policy has been discussed and agreed by the Portfolio Holder for Finance and Resources and the Council's Strategic Management Team (SMT). Members are requested to consider and approve the policy as the next phase in the implementation of the new framework.

3 Members were also advised at the meeting in June that the Council's risk management strategy and strategic risk register are under review, in order to reflect the changes within governance arrangements and the new senior

management structure. The review has been extended to include the new Corporate Plan and the Leader's Vision and Promises. The Council's officers risk group is currently updating both the strategic risk register and risk management strategy to reflect these developments. Both the revised risk management strategy and the updated strategic risk register will be considered and approved by SMT in the New Year prior to seeking the Audit Committee's approval at the next meeting in March 2014.

4 In addition to the above, the Council's officers risk group oversees and coordinates the entire process. It also facilitates the dissemination of best practice across the Council.

5 Members of the Audit Committee are requested to consider and approve the risk management policy statement.

Key Implications

Financial

6 None

Community Impact and Outcomes

7 A robust risk management process enhances the Council's ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community.

Legal Implications and Risk Assessment Statement.

8. No additional legal implication beyond the Council's duty to comply with the Accounts and Audit Regulations 2011.

A robust risk management framework enhances the Council's ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community. The revised risk policy statement sets out the Council's position on risk management and the importance the Council attached to effective overall governance and sound internal control.

Resource (non-financial)

9 None

Value For Money

10 A robust risk management process will enhance the Council's ability to minimise waste and inefficiencies whilst maximising value for money.

Equality

11

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Sustainability Checklist

12 Not applicable.

Conclusions

13 The report sets out the Council's revised risk management policy statement which takes account of recent developments within the Council and requests Members approval of the revised policy.

Appendices	Appendix A – Revised Risk Policy Statement
Background Papers:	None.
Contact Officer(s):	Bami Cole, Audit, Risk & Anti-Fraud Manager. Phone: 01732-227236

Adrian Rowbotham

Chief Finance Officer

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Risk Management Policy Statement

Sevenoaks District recognises that it has a responsibility to manage risks to achieving its objectives, both in terms of minimising threats and maximising opportunities. The Council supports a focused and empowered corporate approach to managing risks. In this way the Council will better achieve its corporate objectives and enhance the value of services it provides to the local community.

Sevenoaks District Council is aware that some risks will always exist and could not be eliminated. Hence the main focus is on "managing risks" rather than eliminating risks.

The Council's objectives regarding the management of risks are to:

- Conform to the highest standards of corporate governance, in order to protect the interests of our community.
- Use risk management to help ensure high quality and effective service delivery.
- Ensure that risk management is integral to the decision-making processes within the council.
- Manage risk in accordance with best practice, considering legal compliance to be a minimum standard.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Prevent injury, damage and losses and reduce the cost of implementing risk actions.
- Heighten awareness of the need for effective risk management by all those connected with designing, delivering and management of Council services.

These objectives will be achieved by:

- Establishing clear roles and responsibilities within the Council for risk management.
- Empowering managers and officers to use the risk management framework in order to achieve improved and innovative service delivery.
- Communicating risk management information across the Council on a need to know basis and sharing best practice.
- Monitoring the effectiveness of risk management arrangements on an on-going basis through the use of performance measures.
- Using the Strategic Management Team to champion and direct the Council's risk management framework.
- Preparing contingency plans where required.
- Focusing risk assessments on the threats and opportunities which may prevent or enhance the achievement of the Council's ability to achieve its objectives and deliver on its promises.

The Portfolio Holder for Finance and Resources will be the Member Champion for risk management. Reports on risk management reports will be considered by the Council's Audit Committee.

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AUDIT COMMITTEE – MEMBER TRAINING

Audit Committee – 14 January 2014

Report of:	Chief Finance Officer
Status:	For Consideration
Key Decision:	No

This report supports the Key Aim of providing value for money.

Portfolio Holder	Cllr. Ramsay
Contact Officer(s)	Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That the training needs of Members of the Committee be considered.

Introduction

1 At the first meeting of the Audit Committee on 11 June 2013, it was mentioned that Members of the Committee might require training in certain areas to improve their understanding.

2 As the Committee has now met twice, the Chairman requested that a questionnaire be sent to all Committee Members to obtain their views so that training needs can be discussed at this meeting.

Questionnaire

3 The questionnaire listed the subject areas covered by this Committee and asked Members if they felt if they had adequate skills and if they would like to receive training.

4 Seven responses to the questionnaire were received and the results together with comments can be found in Appendix A.

Key Implications

<u>Financial</u>

There are no financial implications.

<u>Legal Implications and Risk Assessment Statement.</u>

There are no legal implications.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Appendices Appendix A – Audit Committee: Member Training Questionnaire results

Background Papers: None.

Adrian Rowbotham
Chief Finance Officer

Audit Committee: Member–Training Questionnaire

At the first meeting of the Audit Committee in June, it was mentioned that Members of the Committee might require training in certain areas to improve their understanding.

As the Committee has now met twice, the Chairman has requested that a questionnaire be sent to all Committee Members to obtain their views so that training needs can be discussed at the meeting on 14 January 2014.

A summary of responses is shown below:

Subject Area	Do you feel you have adequate skills? (Y/N)	Would you like to receive training? (Y/N)
Internal Audit:		
Role of Internal Audit	Y 4 N 2	Y 2 N 3
Internal Audit Standards	Y 3 N 2	Y 4 N 3
Annual Governance Statement	Y 3 N 3	Y 3 N 2
Role of the Audit Committee	Y 4 N 2	Y 2 N 3
Anti–Fraud and Corruption		
Anti-Fraud and Corruption Arrangements (Including Bribery Act and Whistleblowing)	Y 2 N 3	Y 5 N 1
Role of the Fraud Team	Y 3 N 2	Y 4 N 2
Risk Management:		
Risk Management understanding	Y 3 N 2	Y 4 N 1
Accounts and External Audit:		
Statement of Accounts	Y 2 N 4	Y 4 N 2
Role of External Audit (Grant Thornton)	Y 4 N 2	Y 2 N 3
Introduction to Financial Procedures and Contract Standing Orders	Y 1 N 4	Y 4 N 3

Comments:

The role of audit and external audit is usually provided as a preview to any audit reports.

I believe that I have a fairly good understanding, but training is always valuable and enhances practice. So I would be happy to attend if courses are put on for members. However, only if there is enough take up, as I know that resources are limited.

Understanding the changes that take place in the way accounts are presented is an essential requirement each year.

All subjects need updating as and when there are changes in governance arrangements, which seems very frequently.

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Audit Committee 2013/14 –Work Plan

	14 January 2014	18 March 2014	June 2014	September 2014
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Internal Audit 2013/14 – 2nd Progress Report. New Audit Standards - Charter	Internal Audit 2013/14 – 3rd Progress Report Internal Audit Plan New Audit Standards – Full Report	Internal Audit 2013/14 - Annual Report Review of effectiveness of Internal Audit	Internal Audit 2014/15 – 1st Progress Report Annual Governance Statement
Risk Management	Update	Risk Management Strategy	Risk Management Plan	
Accounts and External Audit	External Audit – Update (including Annual Audit Letter) External Audit – Housing and Council Tax Benefit Grant 2012/13		External Audit - Annual Audit Plan	Statement of Accounts 2012/13
Other	Member Training		Annual Fraud report	

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