

Open

# Audit Committee

## Agenda

6PM  
Wednesday, 22nd January 2020  
Council Chamber  
Wyre Forest House  
Finepoint Way  
Kidderminster



## Audit Committee

### Members of Committee:

**Chairman: Councillor A Totty**  
**Vice-Chairman: Councillor S E N Rook**

**Councillor V Caulfield**

**Councillor B S Dawes**

**Councillor N J Desmond**

**Councillor A L L'Huillier**

**Councillor C Rogers**

**Councillor P W M Young**

**Independant Person: Bodrul Zzaman**

### Information for Members of the Public:

**Part I of the Agenda includes items for discussion in public. You have the right to request to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.**

**Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.**

### Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of this constitution for full details.

### Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

### For further information:

If you have any queries about this Agenda or require any details of background papers, further documents or information you should contact Sian Burford, Assistant Committee Services Officer, Wyre Forest House, Finpoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732766 or email [sian.burford@wyreforestdc.gov.uk](mailto:sian.burford@wyreforestdc.gov.uk)

Wyre Forest District Council

Audit Committee

Wednesday, 22nd January 2020

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

<b>Agenda item</b>	<b>Subject</b>	<b>Page Number</b>
<b>1.</b>	<b>Apologies for Absence</b>	
<b>2.</b>	<b>Appointment of Substitute Members</b>  To receive the name of any Councillor who is to act as a substitute, together with the name of the Councillor for whom he/she is acting.	
<b>3.</b>	<b>Declarations of Interests by Members</b>  In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered.  Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
<b>4.</b>	<b>Minutes</b>  To confirm as a correct record the Minutes of the meeting held on the 27th November 2019.	5
<b>5.</b>	<b>Audit Progress Report and Sector Update</b>  To receive a progress report from Grant Thornton.	8
<b>6.</b>	<b>External Audit Scope and Additional Work 2019-20</b>  To receive a briefing from the Engagement Manager at Grant Thornton on the letter received from Peter Barber Engagement Lead at Grant Thornton setting out the impact of the increased regulatory focus facing all audit suppliers on the scope of the external audit work for 2019-20 and beyond.  This letter is supplemented by an email from the Public Sector Appointment Ltd (PSAA) to the S151 Officer that provides additional context and background information for this item.	20  24

7.	<p><b>Internal Audit Monitoring Report Quarter Ended 31st December 2019</b></p> <p>To receive a report from the Audit Manager / S151 Officer which informs members of the Internal Audit Monitoring Report for the Quarter ended 31<sup>st</sup> December 2019.</p>	27
8.	<p><b>To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</b></p>	
9.	<p><b>Exclusion of the Press and Public</b></p> <p>To consider passing the following resolution:</p> <p>“That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of “exempt information” as defined in the paragraph 1 of Part 1 of Schedule 12A to the Act”.</p>	

Part 2

Not open to the Press and Public

10.	<p><b>To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.</b></p>	
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**WYRE FOREST DISTRICT COUNCIL**

**AUDIT COMMITTEE**

**COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY,  
KIDDERMINSTER**

**27TH NOVEMBER 2019 (6PM)**

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**Present:**

Councillors: A Totty (Chairman), S E N Rook (Vice-Chairman), V Caulfield, B S Dawes, N J Desmond, A L L'Huillier, C Rogers and P W M Young.

**Observers:**

Councillor G W Ballinger.

**AUD.19 Apologies for Absence**

There were no apologies for absence.

**AUD.20 Appointment of Substitutes**

No substitutes were appointed.

**AUD.21 Declarations of Interests by Members**

No declarations of interest were made.

**AUD.22 Minutes**

**Agreed: The minutes of the meeting held on 29th July 2019 be confirmed as a correct record of the meeting and signed by the Chairman.**

**AUD.23 Audit Progress Report**

The Committee received an audit progress report from Grant Thornton (GT) Engagement Lead, for the 2019/20 audit. He asked Members to be aware of an error on page 12 of the report which should have referred to the audit of the Council's 2019/20 financial statements. The Engagement Lead then took Members through each page of the report updating on value for money arrangements and informing Members that the complex area of the Housing Benefit Subsidy claim was on target to be signed well before the deadline. The Audit Fees had been assessed to take into account the areas of increased reporting that needed to be completed to satisfy the regulator and full details of fees were provided in the report. Information was provided on the progress made by Wyre Forest District Council (WFDC) and a sector update was given. There was agreement that the use of public money needed to be transparent and fully accountability evidenced.

**The Audit Progress Report was noted by the Committee.**

**AUD.24 Annual Audit Letter for Wyre Forest District Council – 2018/19 Accounts**

The Committee received the Annual Audit Letter from the Grant Thornton Engagement Lead confirming the findings of the audit of accounts for 2018/19.

**The Annual Audit letter was noted by the Committee.**

**AUD.25 Internal Audit Monitoring Report Quarter Ended 30<sup>th</sup> September 2019**

The Committee received a report from the Audit Manager and the S151 Officer which informed Members of the Internal Monitoring report for the quarter ended 30<sup>th</sup> September 2019. The work of the internal audit team was still ongoing but the report was very positive and included the process review of Members allowances that was currently being undertaken. An update was given on the work in progress status, and the chart explained in more detail; Members were informed that this would be covered in more depth at the March meeting following the completion of the annual plan. The Audit Manager gave an update on the performance against the annual plan for the financial year 2019/20 and was happy to inform Members that they were on track to achieve 95% of the audit plan.

Members asked questions about the number of enquires received over the last 3 years and the Audit Manager explained these figures, and the nature of the enquires, where processes had changed.

Councillor Desmond queried the work in progress reporting and the importance of the Audit Committee focusing on issues that had been outstanding for more than 3 months. The Audit Manager assured him that any major issues would be raised with the Audit Committee or CLT and that any recommendations would get a full audit report, detailing any improvements put into place. The Corporate Director: Resources added further explanation of the process for reporting to the Audit Committee.

**Agreed: The Audit Committee considered the Internal Audit Monitoring Report for the Quarter ended 30<sup>th</sup> September 2019 as detailed in the Appendix to the report.**

**AUD.26 Risk Management**

The Committee received a report from the S151 Officer which informed them of the current Corporate Risk register and the Budget Risk Matrix. The report centred on the corporate risk register and is brought to Committee twice a year. The Corporate Director: Resources stressed the importance of reporting on the risk register in the current financial climate, particularly given the challenges for achieving long term financial stability.

Members were informed that a new Financial Management Code had been recently launched and more information would become available in the next year's cycle of reporting.

The Corporate Director: Resources then took Members through each of the corporate risks in detail answering questions and clarifying points on each risk.

#### **Agenda Item No. 4**

She informed Members that the due date for demonstrating robust and focussed leadership in all transformation activity should have been 31<sup>st</sup> March 2020 and the status should have shown a green triangle. Discussion took place around the ICT risks and Members were informed that new insurance policies had been sourced that gave more extensive cover for potential cyber attacks on key systems.

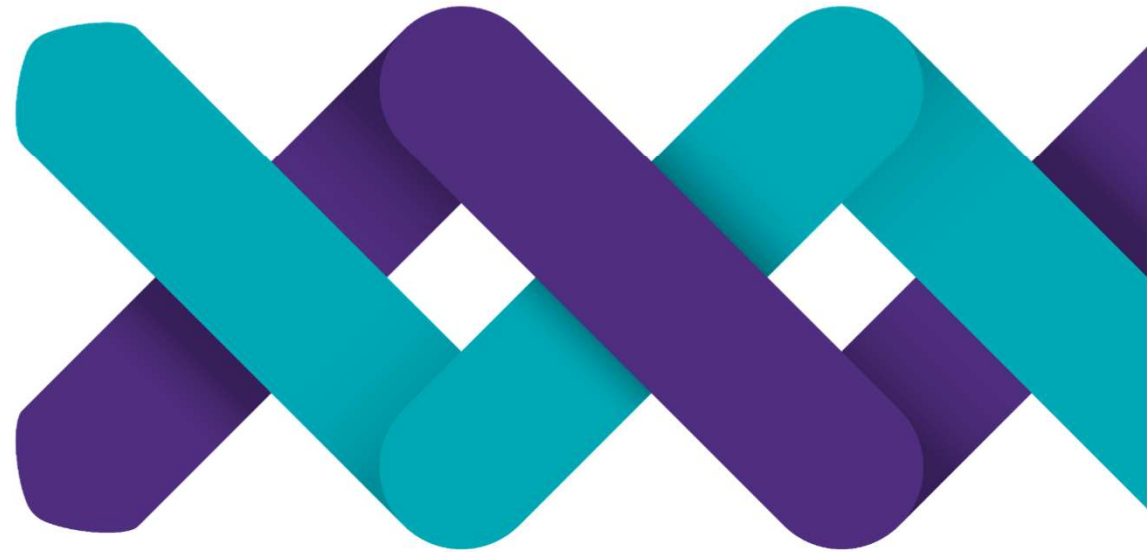
**Agreed: The Audit Committee considered and noted the Corporate Risk Register and the associated mitigating actions as at 30th September 2019 and the 2019-22 Budget Risk Matrix.**

There being no further business the meeting ended at 6:56pm.

# Audit Progress Report and Sector Update

Wyre Forest District Council  
Year ending 31 March 2020

7 January 2020





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# Introduction



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

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

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

# Progress at 7 January 2020

## Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 29 July 2019.

We began our planning for the 2019/20 audit in December and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements to the March Committee.

We will begin our interim audit in February 2020. Our interim fieldwork includes:

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

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

## Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 31 July 2020.

# Progress at 7 January 2020 (Cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 claim was completed by the 30 November 2019 deadline.

### Meetings

We met with Finance Officers in October as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with the Corporate Leadership Team in January to discuss emerging issues and the Council's strategic priorities and plans.

### Events

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

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

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

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

We are currently reviewing the impact of these changes on both the cost and timing of your 2019/20 audit. We will discuss any proposed additional fees in the first instance with your s151 Officer. We will issue a separate letter setting out the basis for any proposed variations to the Scale Fee set by PSAA Limited before communicating this to the Audit Committee as Those Charged with Governance.

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

# Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report was reported to the July Audit Committee.</p>	July 2019	Complete
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2019	Complete
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p>	March 2020	Not yet due
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. We are planning two interim visits, w/c 10 February and w/c 9 March. We issue a list of areas we will be covering and information requests in advance of these visits.</p>	March 2020	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

# Sector Update

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

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

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

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

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

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

Public Sector

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

Local  
government

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

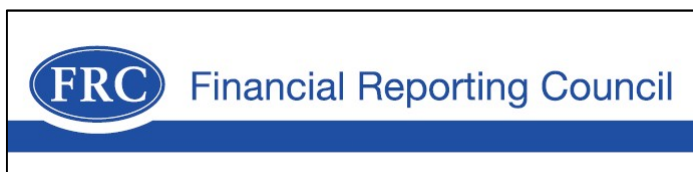
On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

## The reporting environment

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

## Critical judgements and estimates

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



## IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.

## Financial Reporting



### Challenge question:

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

# What is the future for local audit?

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

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

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

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

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

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

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

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

There are a number of possible solutions including:

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

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

The online article is available here:

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



# Grant Thornton's Sustainable Growth Index Report

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

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

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

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

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

Our index is divided into six baskets. These are:

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

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

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

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

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

The online report is available here:

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



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

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

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

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

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

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

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

The IFS report is available on their website below:

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







# Grant Thornton

An instinct for growth™

Tracey Southall  
Chief Financial Officer  
Wyre Forest District Council  
Finepoint Way,  
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10 January 2020

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Dear Tracey

**Audit scope and additional work 2019/20**

In recent conversations, including at Wyre Forest District Council's Audit Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *"significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."*

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do so in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's audit.

**Increased challenge and depth of work – raising the quality bar**

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

Score	Description
1 or 2a	Acceptable with Limited Improvements Required
2b	Improvements required
3	Significant Improvements Required

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

#### **Property, plant and equipment (PPE or 'Fixed Assets')**

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.

#### **Pensions (IAS 19)**

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.
- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.

- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

#### **Complex accounting issues and new accounting standards**

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

#### **Impact on the audit and associated costs**

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

Area	Cost £		
	2019/20	2018/19	2017/18
Scale Fee	37,681	37,681	48,936
Increased challenge and depth of work	2,500	0	0
Materiality (reduction of headline materiality from 2.0% of gross spend in 2018/19 to 1.9% in 2019/20)	1,000	0	0
PPE	1,750	1,500	0
Pensions	1,750	1,500	0
New standards/ developments	1,500	0	0
McCloud	0	1,500	0
<b>Total</b>	<b>46,181</b>	<b>42,181</b>	<b>48,936</b>

This would give a scale fee for the statutory accounts audit for 2019/20 of £37,681 plus VAT plus a variation of £8,500 plus VAT, giving a total of £46,181 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit, which at this stage is planned to be delivered by 31 July 2020.

#### **Future changes to audit scope**

As I have previously mentioned in meetings and at the Audit Committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year,

Yours sincerely



#### **Engagement Lead and Key Audit Partner**

For and on behalf of Grant Thornton UK LLP



**From:** PSAA - Public Sector Audit Appointments Limited  
<[generalenquiries@publicsectorauditappointments.gv-c.com](mailto:generalenquiries@publicsectorauditappointments.gv-c.com)>  
**Sent:** 12 December 2019 11:31  
**To:** Tracey Southall <[tracey.southall@wyreforestdc.gov.uk](mailto:tracey.southall@wyreforestdc.gov.uk)>  
**Subject:** External Email : Audit fees consultation for 2020/21 and update on audit planning 2019/20

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**This email originated from outside of the organisation**

**STOP : Were you expecting this email? Does it look genuine?**

**THINK : Before you CLICK on any links or OPEN any attachments.**

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Dear Section 151 Officer

Normally at this time PSAA is consulting on the following year's audit scale fees. However, this year is unusual in that the National Audit Office is itself consulting on the new Code of Audit Practice that will apply to all local government and NHS audits from 2020/2021. The NAO's second and final consultation stage has now completed, and we understand that it is expecting to present the new Code for Parliamentary approval in the near future. PSAA commissions audits that are Code compliant, and so we need to see the final version before we are able to consult on the scale fees for 2020/2021. Our current plan is to consult with bodies from 27 January to 6 March 2020.

Please note that the NAO intends to consult on and then update the Auditor Guidance Notes (AGNs) that support the Code following its approval. Those AGNs will provide more detail on the auditor's responsibilities, which will be an important factor in ultimately determining the impact on any individual body. We will need to take this further consultation into account when constructing our fee proposals. We will notify you when our consultation paper is issued and look forward to your contribution.

We also want to take this opportunity to update you on the current challenges facing audit. You will no doubt be aware, either directly or indirectly, of the significant numbers of delayed 2018/19 audit opinions in local bodies. This is a much more prevalent problem than in previous years and, needless to say, we are very sorry that it has arisen. The causes of delay vary from body to body. However, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government work (including significant recruitment and retention challenges), and/or concerns about the quality of draft accounts and working papers (it is acknowledged by CIPFA that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams), and/or challenges resolving technical issues within increasingly complex accounts.

It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the



Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.

It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

We are aware that there is a wide-ranging debate about the areas of focus for local government audit work, including concerns that there is too much focus on figures that are not necessarily priorities for audited bodies and electors. CIPFA has recently consulted on the strategy for the Accounting Code, including possible ways that it may evolve in the future. MHCLG has also commissioned Sir Tony Redmond to review financial reporting and audit in local government. Until such time as changes are made, however, the position is that auditors are required to ensure that they have sufficient assurance to meet the professional requirements in the current framework before they can issue their opinions.

We have spoken to many finance officers and members about their audits, and have just carried out a survey of all opted-in bodies to gather views more formally. One issue that arises regularly is the timing and clarity of auditors' communication. Too frequently bodies do not receive information about additional work which the auditor may need to undertake (as well as related fee implications) until very near to the end of the audit process. We have stressed that bodies need this information at the earliest possible opportunity (accepting that that unforeseen issues arise during the audit process, and that this may be towards the end – the aim is though that they are highlighted as soon as is practicable). This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. Please note that any proposed variation to the fee remains subject to PSAA approval, and cannot be charged unless we agree to it. There is a description of our process for considering fee variations, and through which we independently review every proposed fee variation, on our website.

The precise impact of professional requirements will vary with the unique circumstances of individual bodies. However, your audit lead will be able to update you on how your audit is evolving including any resource, fee or timetable implications. This local dialogue is a vital part of the audit process, and is there to ensure that at any given stage you are well informed about what is happening and why.

I hope this information is helpful to you. Please do not hesitate to contact PSAA if we can be of assistance in any way.

Yours sincerely

Tony Crawley, Chief Executive

**Tony Crawley**

**Chief Executive**

Public Sector Audit Appointments Limited

W: <http://www.psaa.co.uk>

**WYRE FOREST DISTRICT COUNCIL**

**AUDIT COMMITTEE**  
**22<sup>ND</sup> JANUARY 2020**

**INTERNAL AUDIT MONITORING REPORT**  
**QUARTER ENDED 31<sup>ST</sup> DECEMBER 2019**

<b>OPEN</b>	
<b>CABINET MEMBER</b>	Cllr G Ballinger: Strategy & Finance
<b>RESPONSIBLE OFFICER</b>	Tracey Southall, Extension 2100 <a href="mailto:tracey.southall@wyreforestdc.gov.uk">tracey.southall@wyreforestdc.gov.uk</a>
<b>CONTACT OFFICER:</b>	Cheryl Ellerton, Extension 2116 <a href="mailto:cheryl.ellerton@wyreforestdc.gov.uk">cheryl.ellerton@wyreforestdc.gov.uk</a>
<b>APPENDIX</b>	Appendix 1 Internal Audit Monitoring Report for the Quarter ended 31 <sup>st</sup> December 2019

**1. PURPOSE OF REPORT**

- 1.1 To inform members of the Internal Audit Monitoring Report for the Quarter ended 31<sup>st</sup> December 2019, attached as Appendix 1.

**2. RECOMMENDATION**

**The Audit Committee is asked to CONSIDER:**

- 2.1 The Internal Audit Monitoring Report for the Quarter ended 31<sup>st</sup> December 2019.**

**3. BACKGROUND**

- 3.1 The management of the authority are obliged to safeguard public funds and use them in a way which provides value for money and thereby best value. An effective internal audit service is vital in helping management to meet these important duties as it is an independent appraisal function for the review of the entire internal control system.
- 3.2 The Audit Committee approved the operational Annual Audit plan 2019~20 in March 2019. This plan takes into account changes in priorities and risk and provides the overall direction for the Internal Audit service working in partnership with the External Auditors to minimise the overall audit cost to the authority. The approved plan for 2019~20 reflects the reduced staffing resource following a mini restructure of the Internal Audit Team from April 2019. The slight reduction in the number of available audit days within the plan was noted and approved as acceptable by the Audit Committee at its meeting in March 2019.
- 3.3 Actual performance of the Internal Audit service is monitored against the Audit Plan each quarter during the year by way of this quarterly monitoring report to the Audit Committee, Corporate Leadership Team. Reports are also shared with the External Auditors.

3.4 The Report attached as an Appendix contains 5 sections which are:

Section 1	<b>Follow up reviews</b> undertaken in the quarter; incorporating recommendations in progress
Section 2	<b>Final</b> Internal Audit Reports issued
Section 3	<b>Draft</b> Internal Audit Reports issued
Section 4	<b>Work In Progress</b> to include draft reports issued following completion of 2018~19 Annual Audit Plan
Section 5	Performance Statistics & Additional Assurance work undertaken

A number of other reviews are currently in progress. To support the work in progress, a summary of **action plans** issued is detailed within section 4 for Member information. In addition to the managed audits, within the audit plan resources are allocated to **consultancy and advice** for which a summary of the requests dealt with by Internal Audit is included within the performance statistics.

- 3.5 The audit reports referred to in the Appendix are those where testing has been undertaken on an element of the internal control environment. It should be noted that the findings are on an **exception basis** i.e. reported if an internal control was found not to be operating satisfactorily, so giving rise to a control weakness and therefore an area for improvement. The findings of audit reviews in the report do not list those internal controls which were found to be operating satisfactorily. This approach has been adopted to enable the output of the review to focus on those areas considered by Internal Audit to require management's attention. The final audit report will recognise those areas of improvement and recommendations promptly actioned during the course of the audit, in order to raise the overall level of assurance given by Internal Audit at the completion of the full review.
- 3.6 The Internal Audit review process is published on the Council's Intranet. This details the process whereby **Draft** internal audit reports arising from audits are forwarded to the respective Corporate Leadership Team member and their nominated service manager{s} for agreement to recommendations and timescales for implementation prior to the preparation of **Final** internal audit reports.
- 3.7 The Internal Audit Charter requires an annual opinion on the Council's internal control environment. This takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's internal control environment, which is reported to the May meeting of the Audit Committee.
- 3.8 The terminology within the reports presented to members is in line with that used by many other Internal Audit Teams of public authorities, private and public companies and external auditors.
- 3.9 Every organisation operates in the real world and errors/omissions/system weaknesses (manual or computerised) are inevitable. Management have to manage these known risks through the use of internal controls.
- 3.10 It may be that an operational decision has been taken by management to accept the risk of the non operation of an internal control. Where Internal Audit is reviewing the area in such an instance the weakness and any associated recommendation would be reported. Management would record within the service's risk register the processes in place to mitigate the risk.

- 3.11 The Corporate Leadership Team have confirmed that action would be taken immediately should an internal audit review report a significant weakness which could lead to a potentially serious issue.

**4. KEY ISSUES**

- 4.1 Internal Audit make recommendations to management on potential improvements to the internal control environment of the system under review. It is management's responsibility to take the necessary action to implement recommendations as agreed in the final internal audit report.
- 4.2 The Quarterly monitoring report contains details of internal audit reports issued in the quarter together with follow up reviews. The format of internal audit reports has been designed to enable management and members to focus on those areas that Internal Audit wishes to draw to its attention. Following an external review of the Internal Audit Service in April 2018, presentational changes have been made to the format of the audit briefs and formal reports to evidence the associated corporate risk and those risks considered against expected controls. The quarterly monitoring report is presented to the Audit Committee in accordance with the Internal Audit, Quality Assurance & Improvement Programme to ensure on-going monitoring of the performance of the internal audit activity.
- 4.3 The Internal Audit Team operate in accordance with recognised Internal Audit Standards. Procedures are monitored to ensure that the Internal Audit Team procedures remain compliant.
- 4.4 The Internal Audit Charter requires an annual opinion on the Council's internal control environment and governance arrangements. This takes into account the findings of the audit reviews that have been undertaken relating to the financial year in question. These findings are taken together and considered in order to give an overall view of the Council's Internal Control environment and governance arrangements, which is reported to the Audit Committee.

**5. FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications arising from this report. There may however be financial implications if the audit recommendations made within audit reports are not implemented on a timely basis.

**6. LEGAL AND POLICY IMPLICATIONS**

- 6.1 The Accounts and Audit Regulations 2015 section 5(1) require that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

**7. RISK MANAGEMENT**

- 7.1 In order to manage risk, internal controls are used to mitigate and manage the identified risks to an acceptable level. Any weakness in the operation of internal controls therefore impacts directly on the management of risk.

## **Agenda Item No. 7**

- 7.2 Risk management issues could arise when weaknesses in internal controls are identified during the audit review process and management delay or defer implementation of the recommendations made.
- 7.3 The Internal Audit service is one element of the Council's assurance/internal control framework.
- 7.4 A relevant member of the Internal Audit Team will continue to be involved in future Wyre Forest Forward reviews to oversee and advise on proposed system changes to ensure Key Controls are not compromised. This work will be resourced as part of the Consultancy and Advisory role detailed within the Internal Audit Plan.
- 7.5 Key audit risks are evidenced against expected controls for all internal audit briefs. This presentational change as recommended by the external review, helps to increase focus on risk management issues throughout the delivery of each specific audit review.

### **8. CONCLUSION**

- 8.1 The work undertaken by the Internal Audit Team in the quarter ended 31<sup>st</sup> December 2019 is reported within Appendix 1. This information is presented to members in accordance with the Internal Audit Charter for the Internal Audit Team and the Quality Assurance & Improvement Programme as requirements of the UK Public Sector Internal Audit Standards

### **9. CONSULTEES**

- 9.1 Corporate Leadership Team

### **10. BACKGROUND PAPERS**

- 10.1 25<sup>th</sup> March 2019 ~ Audit Committee ~ Internal Audit Annual Plan 2019~20  
28<sup>th</sup> November 2018 ~ Audit Committee ~ Quality Assurance & Improvement Programme  
30<sup>th</sup> July 2018 ~ Audit Committee ~ Internal Audit Charter {Updated}  
Accounts and Audit Regulations 2015 {SI 234}



# **INTERNAL AUDIT**

## **INTERNAL AUDIT MONITORING REPORT**

**QUARTER ENDED  
31<sup>st</sup> DECEMBER 2019**

**INTERNAL AUDIT**  
**QUARTERLY AUDIT REPORT**  
**QUARTER ENDED 31<sup>st</sup> December 2019**

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 <b><i>Cheryl Ellerton</i></b> <b>AUDIT MANAGER</b>	
 <b><i>Tracey Southall</i></b> <b>SECTION 151 OFFICER</b>	

3<sup>rd</sup> January 2020



SECTION 1

Quarter Report to the 31<sup>st</sup> December 2019

**Summaries of Follow up Reviews undertaken in the Quarter**

KEY	
Assurance Levels	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.
Some	Sufficient framework of controls but some weakness identified – provides adequate assurance.
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.

THERE ARE NO REVIEWS TO REPORT FOR THIS QUARTER. THIS SECTION HAS BEEN INCLUDED FOR CONTINUITY.

SECTION 2

SECTION 1 FINAL AUDIT REPORTS ISSUED FOR THE QUARTER ENDED 31 <sup>st</sup> DECEMBER 2019		
	ASSURANCE	PAGE
<b>CORE FINANCIAL SYSTEM REVIEWS</b>		
<b>Key Systems (Annual Assurance Reviews)</b>		
2019~20 Accounts Receivable {Corporate Debtors} ~ Reconciliations	F	-
2019~20 Income To Bank ~ Bewdley Tourist Information Centre & Museum	F	-
2019~20 Income To Bank ~ HUB {Depot}	F	-
2019~20 Income To Bank ~ Wyre Forest House	F	-
2019~20 Housing Benefits {Entitlement Payments/Recovery of Overpayments}	S	35

KEY		
Assurance Level	Description of Assurance Level	What is reported in the Quarterly Audit Report
<b>F = Full</b>	Robust framework of controls, any recommendations are advisory ~ provides substantial assurance.	The title of the review undertaken is reported.
<b>S = Some</b>	Sufficient framework of controls but some weaknesses identified ~ provides adequate assurance.	Summary page of Audit Report together with any significant findings and associated recommendations where appropriate.
<b>L = Limited</b>	Significant lapses/breakdown in individual controls ~ at least on significant weakness ~ provides partial assurance.	Summary page of Audit Report and significant findings and associated recommendations.
<b>U = Unsound</b>	Significant breakdown in the overall framework of controls with a number of significant recommendations ~ provides little or no assurance.  A significant internal control is one which is key to the overall framework of controls.	Summary page of Audit Report and significant findings and associated recommendations.

<b>AUDIT REPORT TITLE:</b> Housing Benefit Compliance Testing 2019-20 {Entitlement & Overpayments}  <b>BUDGET: £28,722,950 Est. 2019~20</b>  <b>CORP RISK:FAILURE OF THE INTERNAL CONTROL ENVIRONMENT</b>	<b>Verbal Updates:</b> Overpayments 25.07.19 & 20.11.19 Entitlement ~ Pensioner Age 31.07.19/Working Age 31.07.19 & Students 12.09.19~22.10.19  <b>DRAFT REPORT DATE ISSUED: NA</b>  <b>FINAL REPORT DATE ISSUED: 3<sup>rd</sup> January 2020</b> {Q3~31.12.19}	<b>SERVICE:</b> Director: Resources (Revenues & Benefits)  <b>RESPONSE RECEIVED DATE: N/A</b>
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Assurance Levels	Definition	Recommendation Rankings	Definition
Full	Robust framework of controls, any recommendations are advisory – provides substantial assurance.	<b>Advisory</b>	<b>Low risk – recommendation for consideration</b>
<b>Some</b>	<b>Sufficient framework of controls but some weakness identified – provides adequate assurance.</b>	<b>Other</b>	<b>Medium risk - action required but not urgent</b>
Limited	Significant lapses/breakdown in individual controls – at least one significant recommendation – provides partial assurance.	<b>Significant</b>	<b>High risk – urgent action needed</b>
Unsound	Significant breakdown in the overall framework of controls with a number of significant recommendations – provides little or no assurance.		

**Overview:**  
 This Audit forms part of the annual assurance reviews undertaken as part of the annual Internal Audit plan 2019-20. The review was carried out to ensure that there are adequate controls over a key financial system to support an effective control environment by ensuring that benefits payments for rent allowance claims are assessed appropriately and calculated accurately. Overpayment accounts were also reviewed to ensure that calculations were accurate and recorded correctly in the Subsidy Report.

**Housing Allowances**  
 A sample of 25 accounts with housing benefit entitlements was selected and examined to ensure that the individuals were receiving the correct entitlement. The testing included claimants of working age and pension age, and claimants who were full-time students. Proof of income was validated from documentation in the workflow of the account and proof of capital to include income from capital was examined to ensure it had been applied correctly. Any allowances or disregards were verified to ensure the claimant was receiving the correct amount of housing allowance. Verification of the rent payable was also sought via documentation in workflow or from the Community Housing rent charges list provided to the Senior Benefit Assessor. Detailed compliance testing was completed to cover the period April – December 2019.  
 → Following the testing of housing allowances for full-time students, in respect of two claims it was found that the Adult Dependant Grant had been disregarded from the calculation in respect of the student loan income figure. Following clarification, the two claims were reassessed. The reassessments resulted in two recoverable overpayments of £181.80 and £244.32. Both were reviewed as part of the overpayment phase of testing to ensure that weekly adjustments to cover the overpayments were evidenced in the entitlement payments made to claimants.

**Overpayments**  
 A sample of 20 accounts with a housing benefit overpayment was selected from a system generated report of identified overpayments and examined in detail to ensure the overpayment was appropriately assessed. The detailed testing included verifying the original benefit assessment to ensure the overpayment was correctly stated in the subsidy and overpayment reports produced by the Civica Benefits software system. From the detailed compliance testing, overpayments had occurred due to claimant’s late notification of increases in income, changes of living circumstances where dependants had become non-dependants and as stated previously, Adult Dependant Grants being omitted from student income calculations. There were no matters arising from this element of the testing requiring further action.

**Conclusion**  
 On the basis of the work undertaken, the review has concluded that within the procedures in operation for assessing entitlement to and payment of Housing Benefit along with the recovery of overpayments, the system is well managed. Where required, detailed clarification was provided by the Principal Benefits Officer, the Senior Benefits Assessor and the Benefits Assessor to support the review. In view of the prompt action taken, the overall conclusion therefore, is that **SOME** assurance can be given in that the internal controls in place for the assessment of Housing Benefit are operating effectively within this key system.

**SECTION 3**

**Quarter Report to the 31<sup>st</sup> December 2019**

<b>DRAFT AUDIT REPORTS ISSUED FOR THE QUARTER ENDED 31<sup>st</sup> December 2019</b>		
<b>TITLE</b>	<b>DATE OF ISSUE</b>	<b>REPORT STATUS</b>
-	-	-

THERE ARE NO DRAFT REPORTS ISSUED FOR THIS QUARTER. THIS SECTION HAS BEEN INCLUDED FOR CONTINUITY.

**SECTION 4**

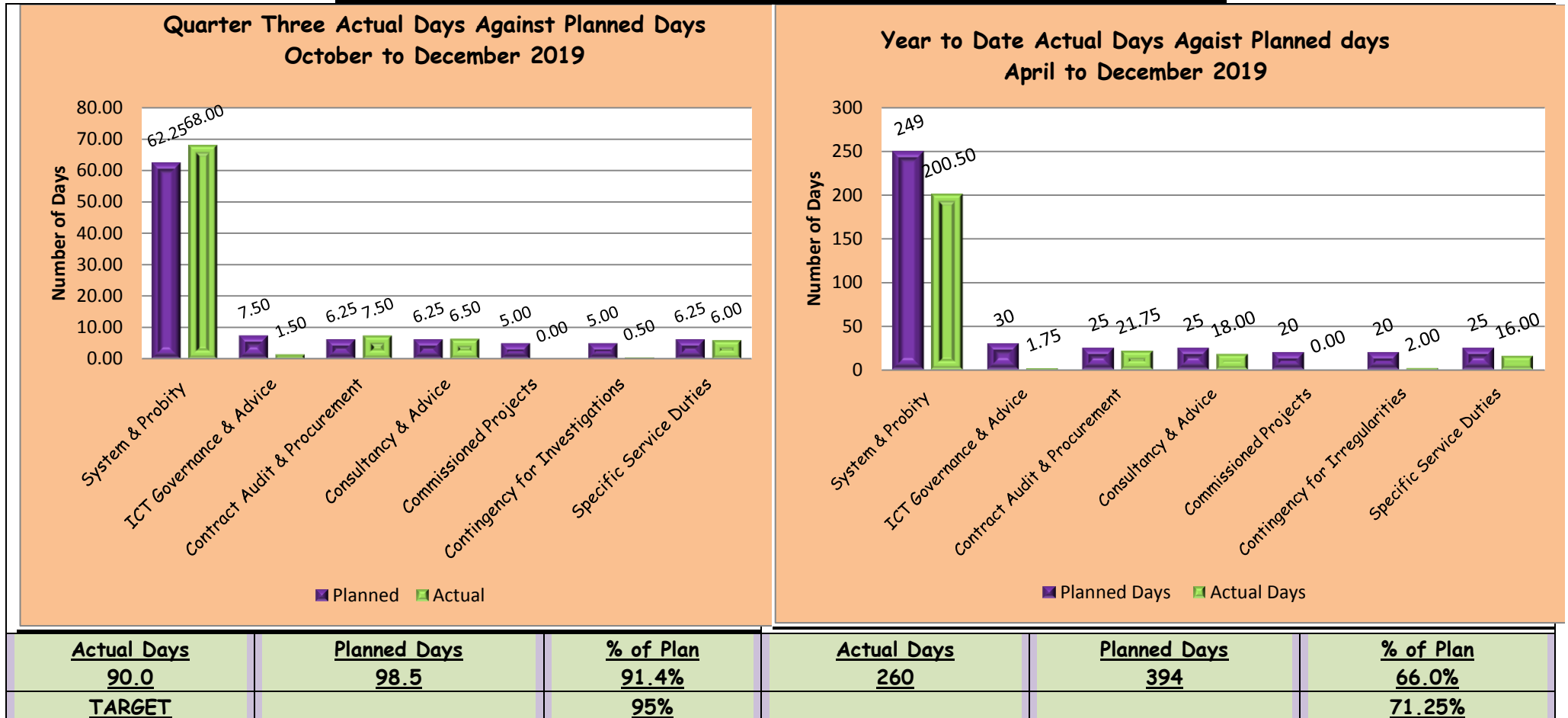
The following Action Plans/Progress Reports have been issued to Managers. In addition, the table below shows the status of reviews currently in progress to cover the current on ~ going testing within the 2019~20 Annual Audit Plan for which formal reports will be presented to the Audit Committee in due course.

WORK IN PROGRES AS AT 31 <sup>st</sup> DECEMBER 2019		Status	Action Plans/Progress Report			DATE OF COMPLETION OF FIELD WORK
RISK ASSESSMENT	AUDIT REVIEW	As At 31.12.19	DATE OF ISSUE Action Plan No 1	DATE OF ISSUE Action Plan No 2	DATE OF ISSUE Action Plan No 3	
	<b><u>Core Financial Systems (Annual Assurance Reviews)~</u></b>					
	<b><u>Accounting Cash To Bank</u></b>					
RA40	Bank Reconciliation	Stage 3	21.06.19	-	-	
	Income To Bank {TIC/Museum}	Stage 6	-	-	20.12.19 {FR}	
	Income To Bank {Hub}	Stage 6	-	-	10.12.19 {FR}	
	Income To Bank {Wyre Forest House}	Stage 6	-	-	17.12.19 {FR}	
	<b><u>Benefits {Inc Council Tax Discounts (Local Scheme)}</u></b>					
RA50	Council Tax Reduction {Local Scheme} ~ Compliance	Stage 4	-	02.10.19	-	
	Housing Benefit {Allowances}	Stage 6	-	-	03.01.20 {FR}	
	Housing Benefit ~ Overpayment Debtor Accounts ~ Reconciliations	Stage 4	-	-	-	
	<b><u>Council Tax</u></b>					
RA16	Ctax Reconciliations ~ {To include Gross Debit 2019/20}	Stage 6	18.06.19{FR}	-	-	
	Ctax Reconciliations ~ {Valuation Office/Monthly Finance Control}	Stage 1	-	-	-	
	Ctax Compliance/Recovery	Stage 3	18.06.19	27.09.19	-	
	<b><u>Creditors (Accounts Payable)</u></b>					
RA44	Creditors {Accounts Payable } ~ Compliance	Stage 2	-	18.08.19	-	
	Creditors {Accounts Payable} ~ Reconciliation	Stage 4	-	-	-	
	<b><u>Debtors (Accounts Receivable)</u></b>					
RA51	Debtors {Accounts Receivable} ~ Compliance	Stage 3	-	03.09.19	23.12.19	
	Debtors {Accounts Receivable} ~Reconciliations	Stage 6	-	-	05.12.19 {FR}	
	<b><u>Establishment</u></b>					
RA82	Establishment Reconciliation	Stage 2	-	-	-	
	Establishment {Staff Record Forms}	Stage 2	-	-	-	
	<b><u>National Non Domestic Rates</u></b>					
RA21	NNDR ~ Reconciliations ~ {To include Gross Debit 2019/20}	Stage 6	12.06.19{FR}	-	-	
	NNDR ~ Reconciliations ~ {Valuation Office/Monthly Finance Control}	Stage 1	-	-	-	
	NNDR ~ Compliance	Stage 3	28.06.19	-	-	
	<b><u>Payroll (Including Mileage &amp; Subsistence Claims)</u></b>					
RA51	Payroll ~ Compliance (WFDC Accountancy Team & RBC Payroll Team) ^	Stage 3	-	10.07/29.07/03.09.19	-	
	Payroll ~ Reconciliations {WFDC Accountancy Team}~Parameter	Stage 6	28.06.19{FR}	-	-	
	Payroll ~ Reconciliations {WFDC Accountancy Team}	Stage 3	-	13.08.19	-	
<b>KEY</b>	<b>Stage 1 ~ Field Work In Progress ~ {With Individual Auditor}</b>	<b>Stage 4 ~ Audit Complete ~ Under Review {Audit Manager}</b>				
	<b>Stage 2 ~ Phases 1 &amp; 2 &amp; 3 Field Work Complete for Peer Review</b>	<b>Stage 5 ~ Draft Report Issued</b>				
	<b>Stage 3 ~ Phases ! &amp; 2 &amp; 3 Field work Complete with Action Plans/Progress Report to Service Manager</b>	<b>Stage 6 ~ Final Report Issued {FR}</b>				

SECTION 5

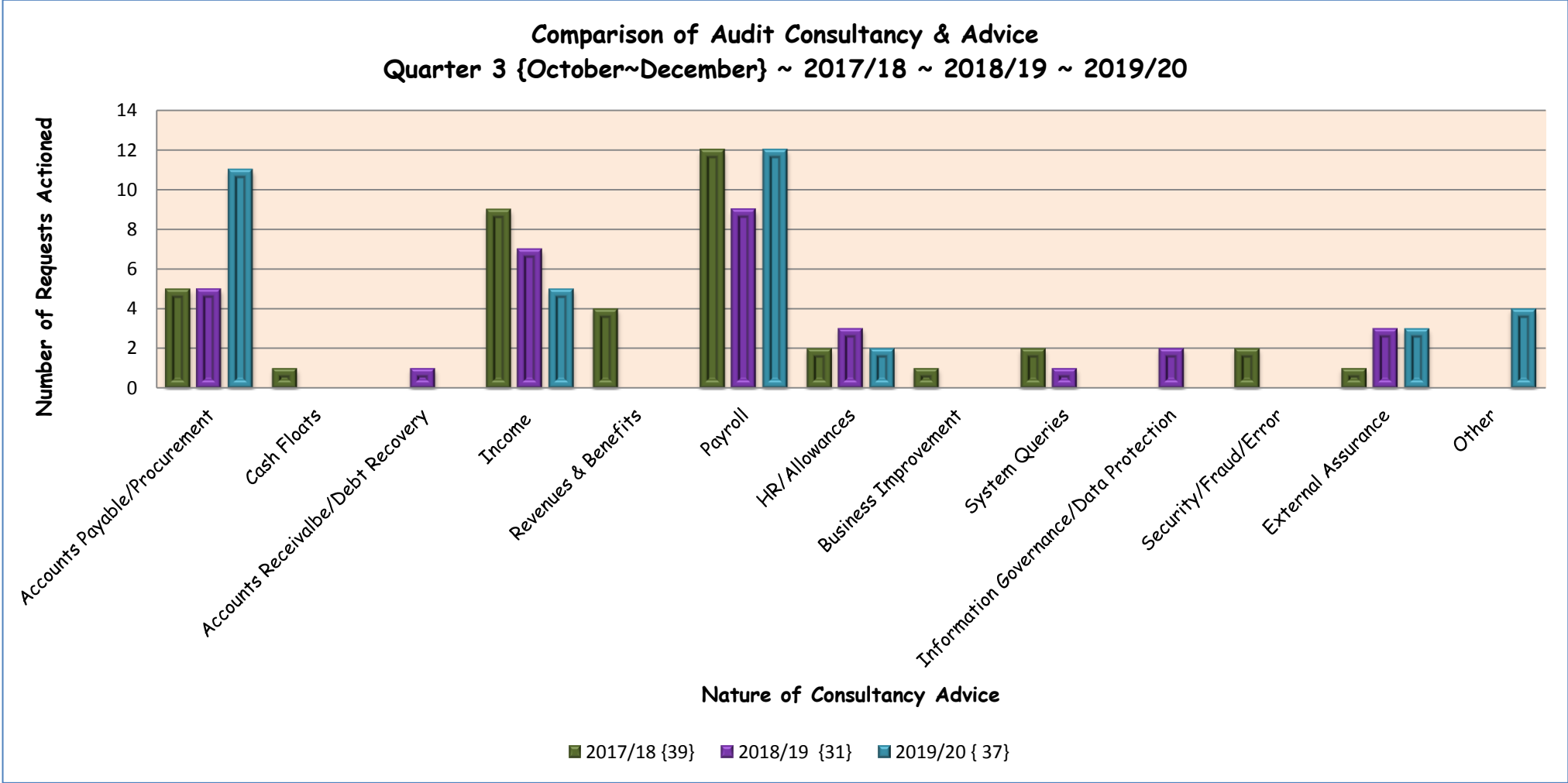
**Audit Resource Statistics**

**Performance Against Annual Plan For The Financial Year 2019~20**



- For the quarter to 31<sup>st</sup> December 2019 actual against plan is 91.4 % compared to a target of 95% {77% against 95% for quarter 31<sup>st</sup> December 2018}
- The slight fall in percentage of approved internal audit plan completed up to 31<sup>st</sup> December 2019 against the target approved by the Audit Committee is attributed to annual leave, bank holiday entitlements for the team, and a period of sickness arising in the third quarter.

Within the time allocated in the above table, during this third quarter of 2019~20 the Internal Audit Team have responded to 37 requests for advice and consultancy as categorised in the graph overleaf, in comparison to the 31 requests received and actioned for the same period for 2018~19 and the 39 requests received and actioned for the same period in 2017~18.



**Additional Assurance Work Undertaken by Internal Audit**

In addition to the planned work detailed above, the Internal Audit Team have also undertaken work in other areas for which a formal report is not issued, however time has been allocated within the 2019~20 Internal Audit Annual Plan approved by the Audit Committee in March 2019 as summarised below:-.

**Information Communications Technology (ICT) Governance, Advice & Assistance**

- Attend the ICT Strategy Board Meetings.
- Attend the Information Governance Working Group

**Contracts & Procurement**

- Monitoring of the contract payments for the development of the Depot site at Green Street.
- Monitoring of the contract payments for development of the Frecco {Unity Park} site at Silverwoods.

**Wyre Forest Forward ~ Continuous Improvement Work**

Members of the Internal Audit Team continue to be involved in Wyre Forest Forward continuous improvement reviews; overseeing and advising on proposed system changes to ensure key controls are not compromised. The role of the Audit Team is to ensure that risk is mitigated in the event of proposed changes to current systems and maintain good governance and financial systems resilience.

**Corporate Issues**

- Internal Audit continue to undertake work in connection with the mandatory National Fraud Initiative hosted by the Cabinet Office to support the continuous programme of work an exercise that matches electronic data within and between the Council and other public and private sector bodies to prevent and detect fraud.