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Broxtowe Borough COUNCIL

Friday, 1 March 2019

Dear Sir/Madam

A meeting of the Governance, Audit and Standards Committee will be held on Monday, 11 March 2019 in the Old Council Chamber, Town Hall, Foster Avenue, Beeston NG9 1AB, commencing at 7.00 pm.

Should you require advice on declaring an interest in any item on the agenda, please contact the Monitoring Officer at your earliest convenience.

Yours faithfully

Ruth E Hyde

Chief Executive

To Councillors:	E H Atherton (Vice-Chair)	J M Owen
	S A Bagshaw	J C Patrick
	T P Brindley	K E Rigby
	J C Goold	R S Robinson
	J W Handley (Chair)	P J Owen

A G E N D A

1. APOLOGIES

2. DECLARATIONS OF INTEREST

   Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest in any item on the agenda.

3. MINUTES — PAGES 1 - 4

   The Committee is asked to confirm as a correct record the minutes of the meeting held on 3 December 2018.

4. ANNUAL REPORT ON GRANTS AND RETURNS 2017/18 — PAGES 5 - 6

The Council's external auditors, Mazars, have issued an Annual Report on grants and returns work 2017/18.

5. EXTERNAL AUDIT STRATEGY — PAGES 7 - 30

This report provides the Committee with an overview on progress in delivering Mazar's responsibilities as the Council's external auditors.

6. EXTERNAL AUDIT REPORT 2017/18 – MANAGEMENT RESPONSES UPDATE — PAGES 31 - 36

To provide additional details of actions being undertaken in response to the recommendations made by the external auditors in their report on the external audit of the Council's 2017/18 accounts.

7. STATEMENT OF ACCOUNTS 2018/2019 - ACCOUNTING POLICIES — PAGES 37 - 56

To provide Members with any updates made to the Council's accounting policies in relation to the production of the 2018/2019 financial statements.

8. STATEMENT OF ACCOUNTS 2018/2019 - UNDERLYING PENSION ASSUMPTIONS — PAGES 57 - 58

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2018/2019 Statement of Accounts.

9. INTERNAL AUDIT PROGRESS REPORT — PAGES 59 - 72

To inform the Committee of the recent work completed by Internal Audit.

10. INTERNAL AUDIT PLAN 2019/20 — PAGES 73 - 80

To approve the Internal Audit Plan for 2019/20.

11. <u>REVIEW OF STRATEGIC RISK REGISTER</u> PAGES 81 - 92

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

12. <u>WORK PROGRAMME</u> PAGES 93 - 94

To consider items for inclusion in the Work Programme for future meetings.

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GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

3 DECEMBER 2018

Present: Councillor J W Handley, Chair

Councillors: E H Atherton
T P Brindley
J C Goold
G Harvey (substitute)
R I Jackson
J M Owen
J C Patrick
M Radulovic MBE
K E Rigby
R S Robinson

Apologies for absence were received from Councillors S A Bagshaw and P J Owen.

23. DECLARATIONS OF INTEREST

There were no declarations of interest.

24. MINUTES

The minutes of the meeting held on 24 September 2018 were confirmed and signed.

25. INTERNAL AUDIT PROGRESS REPORT

The Committee noted the recent work completed by Internal Audit.

It was stated that the four outstanding actions were all progressing well and would be cleared by the next meeting.

The role of the Energy Officer with regard to billing and metering processes was queried and it was advised that other departments were assisting with meter readings.

Background information was sought on the trigger for the special investigation relating to a right to buy application. It was advised that the legal department had requested auditors to investigate due to a large rent account credit which had raised concerns in respect of potential money laundering risks. A review of the file had revealed reasonable grounds for the rent credit having been accrued. The trigger sum for money laundering investigations was queried and it was noted that managers were tasked with alerting the auditors as to all credit balances on accounts with a view to further investigation, if warranted, and to take the necessary steps to prevent credit balances exceeding a certain amount.

26. INTERNAL AUDIT REPORT AND FOLLOW-UP – SUNDRY DEBTORS

Members noted the progress made in respect of the agreed management action following the audit of Sundry Debtors.

A suitable process had been implemented to address the long-standing issues of reconciliation between sundry debts and the Civica system. Ongoing compliance would be monitored and a report would be brought back to this Committee.

27. PROCUREMENT AND CONTRACT MANAGEMENT UPDATE

The Committee noted the management progress made in respect of procurement and contract management.

It was noted that the Council's Procurement Strategy was due to be considered by the Policy and Performance Committee on 6 February 2019. Ratification of recruitment of a permanent Procurement and Contracts Officer was also likely to take place at the same time.

28. RISK MANAGEMENT STRATEGY

It was queried whether or not other councils had been canvassed as to their risk management strategies. It was confirmed that research had been undertaken with other authorities which had indicated the limitations of the '3x3' risk map threats, hence the amendment of this to '5x5' in the Council's updated Risk Management Strategy.

RESOLVED that the new Risk Management Strategy be approved.

29. STATUTORY REPORT OF THE INTERIM MONITORING OFFICER

Members noted the Interim Monitoring Officer's report on the Local Government Ombudsman's finding of maladministration and injustice in respect of the cancellation of a complainant's trial to trade within a town centre.

The report identified four issues in the findings of the report setting out areas of injustice:

- No comprehensive policy in terms of street trading and whether there was, was not clear.

- Confusion at the outset in respect of the role of members of the Jobs and Economy Committee and which officers had delegated authority or not to deal with issues.
- Poor record keeping.
- Poor communications.

The Council had not contested the findings and its complaints procedure had found fault and offered compensation, although the complainant was not satisfied and had escalated her complaint to the Ombudsman. A comprehensive list of the agreed actions the Council was taking were outlined in the Ombudsman's report.

Members expressed concern that this was the first time a finding of maladministration and injustice had been found against the Council and discussion ensued on the report generally and the need for explanations. Councillor Radulovic requested that the Chief Executive make available her notes of the meeting with the complainant referred to in paragraph 47 of the Ombudsman's findings.

Councillor Jackson stated that the Ombudsman's comprehensive report had not laid blame with members.

Councillor Robinson proposed that the Leader of the Council make a proper apology to the complainant in person and Councillor Radulovic seconded the proposal. A recorded vote was requested and the voting was as follows:

For	Against	Abstention
J C Patrick	E H Atherton	
K E Rigby	T P Brindley	
R S Robinson	J C Goold	
M Radulovic MBE	M Handley	
	G Harvey	
	R I Jackson	
	J M Owen	

The proposal was therefore lost.

It was noted that the actions set out by the Ombudsman for the Council to complete within three months of his decision on the complaint would be reported to the Jobs and Economy Committee for approval.

The Interim Monitoring Officer clarified that the allegation concerning the Kimberley Town councillor was outside the remit of the Local Government Ombudsman to investigate and that, despite the allegations, there were no findings of fact in respect of the Town councillor.

30. MEMBER INDUCTION – MAY 2019 ONWARDS

The Committee considered the arrangements for and content of a member induction programme to be offered following the elections on 2 May 2019.

In response to members' suggestions, the Head of Administrative Services confirmed that a list of key contacts and their extension numbers would be produced. Additionally, it was suggested that members be encouraged to meet officers in their key areas and that Groups should encourage new members to attend committee meetings.

It was also confirmed that the induction programme could be amended to include the Rules of Committee, information on procurement and housing site visits.

RESOLVED that the proposed induction programme for members following the elections in May 2019 be approved, subject to inclusion of the aforementioned matters.

31. REVIEW OF POLLING DISTRICTS AND POLLING PLACES

Members considered the issues arising from the review of polling districts and polling places.

A minor amendment on page 50 of the agenda was noted in relation to the name of a Polling Place.

RESOLVED that:

1. **The proposed changes to the polling district boundaries between GRE2 and GRE3 and KIM4 and KIM5 respectively as set out in appendix 1 be approved.**
2. **That polling places for the Broxtowe Parliamentary Constituency and the part of the Ashfield Constituency within the Broxtowe Borough area be designated as set out in appendix 2.**
3. **That authority be delegated to the (Acting) Returning Officer to make any changes necessary to polling stations at short notice before an election, with any permanent changes being approved by Full Council.**

32. WORK PROGRAMME

The Committee considered the Work Programme for future meetings.

RESOLVED that the Work Programme be approved, subject to the inclusion of the items referred to above.

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Private & confidential
Zulfiqar Darr
Interim Deputy Chief Executive
Broxtowe Borough Council
Foster Avenue
Beeston
Nottingham NG9 1AB

Our ref RC/BBC/Grants/1718

23 January 2019

Dear Zulf,

Broxtowe Borough Council – Certification of claims and returns – annual report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18 for Broxtowe Borough Council (the "Authority").

In 2017/18 we carried out certification work on the Housing Benefit Subsidy claim and the Pooling of Housing Capital Receipts return.

Housing Benefit Subsidy claim

The certified value of the claim was £20.7 million, and we completed our work and certified the claim on 23 November 2018. This was completed under the existing Public Sector Audit Appointment certification arrangements.

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work did not identify any issues or errors and we certified the claim unqualified without amendment. Consequently we have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Pooling of Housing Capital Receipts return

The Authority engaged with us separately to provide a report and certify, in our opinion, whether we have obtained sufficient appropriate evidence that the amounts shown in the return relating only to the work specific in the Ministry of Housing, Communities and Local Government ("the MHCLG") Reporting Accountants Guidance are in all material respects, in accordance with the relevant terms and conditions as set by the MHCLG.

We certified the return on 11 January 2019. Our work did not identify any issues or errors and we certified the claim unqualified without amendment. Consequently we have made no recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our Housing Benefits certification work in 2017/18 of £9,670. We are pleased to report that our actual fee was the same as the indicative fee.

Our fee for the Pooling engagement was subject to agreement directly with the Authority and was £4,500.

Yours sincerely

Andrew Cardoza
Engagement Lead

Audit Strategy Memorandum

Broxtowe Borough Council
Year ending 31 March 2019

MAZARS

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This document is to be regarded as confidential to Broxtowe Borough Council. It has been prepared for the sole use of the Governance, Audit and Standards Committee as the appropriate sub-committee charged with governance . No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Governance, Audit and Standards Committee Members
Broxtowe Borough Council,
Town Hall,
Foster Avenue
Beeston
Nottingham
NG9 1AB

11 March 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Broxtowe Borough Council for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Broxtowe Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974291.

Yours faithfully

Mark Surridge
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Broxtowe Borough Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance, Audit and Standards Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Mark Surridge
Director and Engagement Lead

E-Mail: mark surridge@mazars.co.uk
Tel: 07875 974291

Anita Pipes
Manager

E-Mail: anita.pipes@mazars.co.uk
Tel: 07919 395251

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

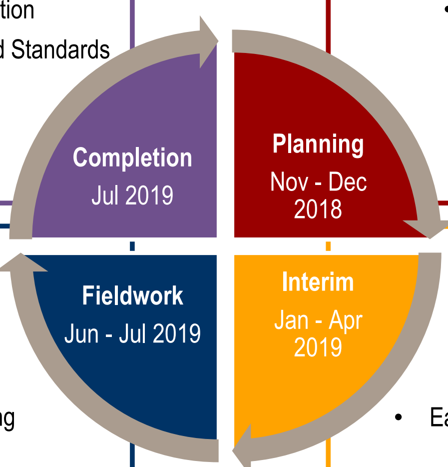
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Governance, Audit and Standards Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
  - Initial opinion and value for money risk assessments
    - Development of our audit strategy
      - Agreement of timetables
        - Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham *Actuary for Nottinghamshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	M Kirk (MRICS) *The Council's internal valuer*	Gerald Eve *Valuations expert appointed by the NAO*
Financial instrument disclosures	Arlingclose *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Nottinghamshire Pension Fund *The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

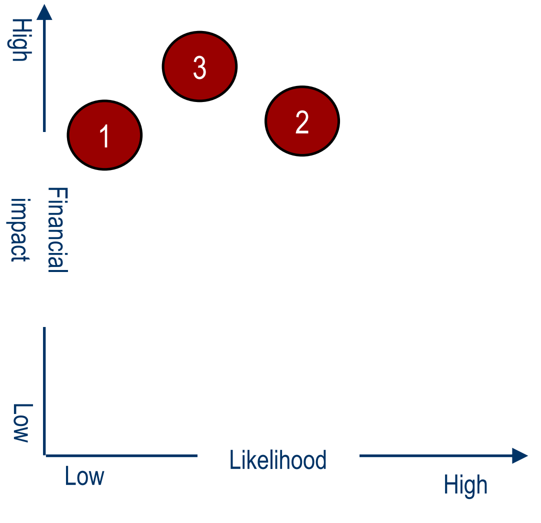
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this work as part of our interim visit in March and will update the Governance, Audit and Standards Committee where we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

MAZARS

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance, Audit and Standards Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	In relation to the management override of controls we will: • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluate the business rationale for any significant unusual transactions; • Understand the oversight given by those charged with governance of management process over fraud; • Sample test accruals and provisions based on established testing thresholds; and • Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Significant risks (continued)

	Description of risk	Planned response
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer; and • Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Valuation of net defined benefit liability** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; • Liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.	We have evaluated the revenue streams of the Council and the implications of Practice Note 10 over expenditure recognition and do not consider this to be a significant risk for Broxtowe Borough Council as: • there is an overall low risk for local authorities; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	**Debt impairment** Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.	We plan to address this judgement by: • Reviewing the level of reported debt as at 31 March 2019 and considering the implications for any material change; • Ensuring that management's methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code; • Testing the collectability of both significant and a sample of other non-significant debtor balances; and • Re-performing the basis of the calculation for the impairment of debtors.
2	**Provision for business rate appeals against the rating list** The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.	We plan to address this judgement by: • Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries; • Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; • Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and • Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement (continued)

	Area of management judgement	Planned response
3	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We plan to address this judgement by: • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

Our approach to Value for Money

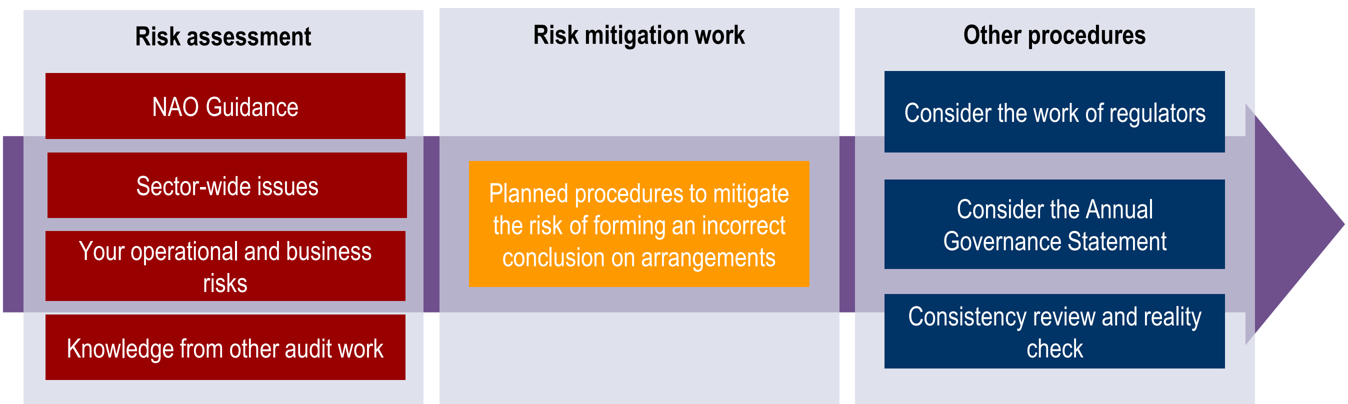
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

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5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2018/19 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
Delivery of Budgets and Financial Resilience The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. A total funding gap of £3.027m was initially identified when the budget was set. After identifying additional savings the Council reduced the withdrawal from the General Fund reserves to £1.172m. On this basis in March 2018, the Council approved a balanced 2018/19 budget. The latest forecast shows that the Authority may deliver an underspend, which reduces the burden on the use of reserves to £975k. Although better than anticipated, moving forward there will be continual pressures on the Councils General Fund reserve in particular to plug the budget deficit. The 2019/20 budget, which identifies additional savings of £280k on the prior year and increased income still requires a potential drawdown of £615k of reserves to achieve a balanced budget. There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). As the funding from 2020 is unclear at this stage , the need for savings (or income generation) will continue to have a significant impact on the Authority's financial resilience and reduce the burden on the need to utilise reserves to balance any deficits in the budget.	We will critically review whether the Council has arrangements in place to ensure financial resilience, specifically that the MTFP has duly taken into consideration the latest available information on factors such as: • funding reductions; • business rate reform; • fair funding; • salary and general inflation; • demand pressures; • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors. We will review the progress against planned savings in 2018/19 and progress to identify savings for 2019/20 -2021/22. We will review the Council's plans to address budget pressures in the future and as part of this evaluate the impact on the Council's revenue reserves.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£46,503 plus VAT	£ 35,807 plus VAT

Fees for non-PSAA work

We are not carrying out any non –PSAA work in 2018-19.

Fees for non-PSAA work

Should the Council or entities within the Council's group wish us to undertake any other additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified in relation to our work on the pooling of housing capital receipts return. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£1,100,000
Performance materiality	£715,000
Trivial threshold for errors to be reported to the Governance, Audit and Standards Committee	£33,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Governance, Audit and Standards Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £1,100,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £715,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£36,000
External audit costs	£5,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance, Audit and Standards Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £33,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Governance, Audit and Standards Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance, Audit and Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to any holdings in property funds which may need to be reclassified from the available for sale category.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council is party to.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.

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Report of the Interim Deputy Chief Executive

EXTERNAL AUDIT REPORT 2017/18 – MANAGEMENT RESPONSES UPDATE

1. Purpose of report

To provide additional details of actions being undertaken in response to the recommendations made by the external auditors in their report on the external audit of the Council's 2017/18 accounts.

2. Detail

The External Audit Report 2017/18, presented by the external auditors (KPMG) to the Governance, Audit and Standards Committee on 23 July 2018, followed their work on the Council's 2017/18 accounts. This included five recommendations intended to strengthen the Council's financial reporting processes whilst ensuring the quality and accuracy of the financial statements and that they are produced in a timely manner.

The management responses provided to the external auditors recommendations were included in the External Audit Report 2017/18. However, further detail as to the nature of the recommendations and how they are being addressed is set out in the appendix.

It should be noted that the external auditors regard recommendation 1 as Priority One and recommendations 2 to 5 as Priority Two. Priority One are issues that are fundamental and material to the system of internal control and Priority Two are issues that have an important effect on internal controls but do not need immediate action. However, addressing all the recommendations in a determined and robust manner should enhance the ability to meet the deadlines for the earlier production of the Council's accounts that now apply.

In 2017/18 the Council's external auditors were KPMG. From 2018/19 the Council's external auditors are Mazars. As part of their work on the Council's 2018/19 accounts, Mazars will take into consideration any outstanding recommendations made by KPMG. Mazars are conducting an interim audit of the 2018/19 accounts for two weeks commencing on 4 March 2019 and the final audit is scheduled for three weeks commencing on 17 June 2019.

Recommendation

The committee is asked to NOTE the work being undertaken to respond to the recommendations made in the External Audit Report 2017/18 as set out in the appendix.

Background papers
Nil

APPENDIX

External Audit Report 2017/18 – Management Responses Updates

Recommendation 1 – Embedded Procurement Arrangements

The Authority should ensure that it has robust contract monitoring arrangements in place to retrospectively review contracts that expired in 2017/18 and for those contracts due to expire to be able to proactively fulfil obligations to initiate competitive tenders where applicable.

Management Response Update

The Council appointed an interim Procurement and Contracts Officer who commend on 8 May 2018. He had significant experience of working in procurement roles in a number of public sector organisations and undertook a number of activities including:

- Working with colleagues to review and update (where necessary) the contracts register
- Developing an updated Commissioning and Procurement Strategy, including refreshing associated guidance documents on the intranet and the Council's website
- Updating the purchase order terms and conditions for both the Council and Liberty Leisure
- Revising the 'Guide to Doing Business with the Council' document in line with the Public Contracts Regulations 2015 and other relevant legislation
- Playing a lead role in the appointment of a managed service provider for the procurement of temporary and agency staff at the Council
- Reviewing the contract to supply building, plumbing, heating and electrical materials for the Stores function at Kimberley Depot, including identifying opportunities to use suitable OJEU (Official Journal of the European Union) frameworks where appropriate
- Assisting in the forthcoming introduction of 'hybrid mail' intended to reduce postage costs and administrative time by sending documents electronically to an external provider by liaising with other local authorities to identify best practice
- Providing procurement advice to Housing and Legal Services to enable the contract for technology enabled care services (TECS) to be placed
- Reviewing the contracts for the cleaning and clearance of void properties to identify a suitable provider using a framework agreement
- Assisting the Housing Repairs team in the appointment of a suitable contractor, again using a framework agreement
- Supporting the implementation of a new contract for the supply of plastic bags to Kimberley Depot
- Providing advice and guidance to colleagues on the collection, aggregation and publication of data in accordance with the Local Government Transparency Code

The interim Procurement and Contracts Officer left the Council on 18 January 2019. Consideration has been given to how the Council should proceed with ensuring that its procurement arrangements continue to be effective and robust and steps are being taken to bring in a replacement interim Procurement and Contracts Officer to build upon the work set out above.

Recommendation 2 – Financial Sustainability Challenge

The Authority should continue to track and monitor its progress in delivering the anticipated savings for 2018/19 and identify schemes to ensure that it can deliver the 2018/19 plan and beyond.

Management Response Update

An updated Business Strategy at 1 October 2018 setting out a range of savings initiatives, ideas and proposals was approved by the Finance and Resources Committee on 11 October 2018. Many of the initiatives contained within the document have been incorporated within the 2019/20 General Fund revenue budget. It is presently envisaged that a further update of the Business Strategy will be presented to Finance and Resources Committee on 10 October 2019

The Medium Term Financial Strategy (MTFS) continues to be reviewed regularly to reflect emerging issues in the internal and external environment and updates were presented to the Finance and Resources Committee on 13 December 2018 and 14 February 2019. A further update of the MTFS will be presented to Finance and Resources Committee on 10 October 2019 following the conclusion of the 2018/19 final accounts.

In association with a number of other Nottinghamshire local authorities, the Council is looking to purchase a performance management tool from Grant Thornton to assist with benchmarking a range of activities and assess whether they provide value for money. It is intended that this tool will assist with the development of savings initiatives that will help the Council address any future funding shortfalls.

Recommendation 3 – Senior Officer Management Arrangements

The Authority should evaluate its current arrangements and undertake appropriate steps to ensure a substantive structure is adopted.

Management Response Update

Policy and Performance Committee on 12 December 2018 approved a new senior management structure along with an appointment process for these roles. The appointment of the Deputy Chief Executive was approved at Council on 6 March 2019 and the recruitment of the Strategic Director, Monitoring Officer and Head of Housing is due to commence shortly.

Recommendation 4 – Recoverability of Debtors

The Authority should develop its reporting of aged debt so the levels, age profile and type of debtor are clear and routinely actioned.

Management Response Update

A quarterly meeting is held between all departments involved in the recovery of sundry debts to ensure that effective processes are in place to prevent the level of sundry debts increasing unnecessarily. This includes representatives from Housing, Revenues, Administrative Services, Legal Services and Finance Services. Among the measures that have been introduced are regular reconciliations and more frequent reporting of outstanding debt to senior management.

Whilst debts less than £1,200 can be written off by the Section 151 Officer, debts greater than £1,200 require the approval of the Finance and Resources Committee if they are to be written off. This used to be undertaken on an annual basis but, from July 2018, is being done on a quarterly basis to ensure that the total value of debts appropriately reflects the estimated level of recoverability.

The success of the measures outlined above can be measured by the fact that the level of sundry debts has fallen from £1,457,182 at 1 April 2018 to £830,029 at 31 January 2019.

Recommendation 5 – Availability of Audit Evidence

The Finance team should:

- Enhance the payroll to general ledger reconciliation by maintaining the source reports as part of a robust audit trail at the time of undertaking the reconciliation so this is available to audit;
- Roll out the Intelligent Scanning module to facilitate transparency of non pay expenditure; and
- Plan for compliance with RICS valuation standards for the 2018/19 beacon valuation.

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Management Response Update

(i) Payroll to General Ledger Reconciliations

The source reports required to support the reconciliation between the payroll and the general ledger will be captured at the end of the financial year by the inclusion of this task in the final accounts timetable and responsibility assigned to a Principal Accountant. The reports will then be made available to the external auditors to assist in their work.

(ii) Intelligent Scanning

The Council has purchased Civica's intelligent scanning module which, once implemented, should significantly reduce the administrative burden of processing creditor invoices and unlock significant efficiencies and savings in staff time. It should reduce paper and printing costs, save time in manually entering financial data into the creditors system, improve the accuracy of data, produce timely payments to suppliers and reduce errors in supplier payments such as overpayments and duplicate payments.

In advance of the rollout of intelligent scanning to departments, the Council has updated its financial management software (also provided by Civica) to the latest version (v18.5). Work has also been undertaken to remove a significant number of obsolete orders and to encourage departments to raise orders where appropriate.

Steps will now be taken to compile a project plan for the rollout of intelligent scanning with suitable milestones, allocation of responsibilities and testing procedures before the facility comes into operation. It is presently anticipated that this will be after the 2018/19 final accounts work has been concluded.

(iii) RICS Valuation Standards

The Royal Institution of Chartered Surveyors (RICS) Professional Standards (January 2014) requires that where a full valuation of the Council's housing stock has been undertaken by an internal valuer then that should be subject to a review by an external valuer. This simply requires a representative sample of valuations to express an opinion on the overall accuracy of the valuation. The Council currently utilises an internal valuer but does not take advantage of a review by an external valuer. Instead, the work of the internal valuer is reviewed by the Internal Audit team.

As the next full revaluation of the Council's housing stock of over 4,500 properties that takes place every 5 years is due on 31 March 2019, an external valuer is being taken on to undertake this work for 2018/19.

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Report of the Interim Deputy Chief Executive

STATEMENT OF ACCOUNTS 2018/2019 - ACCOUNTING POLICIES

1 Purpose of report

To provide Members with any updates made to the Council's accounting policies in relation to the production of the 2018/2019 financial statements.

2 Introduction

Prior to the completion of the Statement of Accounts 2018/2019, it is considered good practice that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2019.

The 2018/2019 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code), based upon International Financial Reporting Standards (IFRS).

3 Updates to the statement

The 2018/2019 Code introduces amendments to:

- the classification and measurement of financial assets and the impairment of financial liabilities
- the recognition of revenue
- the presentation of the cash flow notes

The Council's policies on Accruals of Income and Expenditure (policy ii) and Financial Instruments (policy x) have been reviewed and updated where appropriate.

The policies on Acquisitions and Discontinued Operations and Private Finance Initiatives and Similar Contracts have been removed from the statement as these do not apply to the Council's operations.

The proposed Accounting Policies for 2018/2019 are set out in the appendix.

4 Financial implications

There are no direct financial costs associated with the accounting policy updates.

Recommendation

The Committee is asked to RESOLVE the Accounting Policies for 2018/2019 be approved.

Background papers
Nil

APPENDIX

1. Accounting Policies

(i) General Principles

The Statement of Accounts summarises the authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting 2018/19 supported by International Financial Reporting Standards (IFRS), International Accounting Standards and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a going concern basis. As required by IAS 1, it has been assumed that the Council will continue in operation for the foreseeable future.

(ii) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. A minimum value of £500 is applied to all such debtor and creditor accruals. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

An exception to the above relates to electricity and other similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

As regards private sector housing benefits, payments can relate to periods partly in advance and partly in arrears. The cut-off date applied to such payments is as near to the year end as possible and ensures consistency with the figures used to calculate government subsidy received on such payments.

Council housing rents become chargeable on the Monday of each week for the week ahead. Rent income is accounted for up to and including the last Monday in the financial year. This can therefore include an element relating to the following year for which no adjustment is made.

(iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

(iv) Exceptional Items

When items of income and expense are material, their nature and amounts is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

(v) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. See note 2 for more details.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See note 6 for more details.

(vi) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement, but there were accumulated revaluation gains in the Revaluation Reserve for that particular asset, an amount up to the value of that loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

The Council is not required to raise council tax or council housing rents to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. This is known as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore reversed out of the General Fund (and Housing Revenue Account (HRA)) and replaced by the MRP. This is completed with an adjusting transaction with the Capital Adjustment Account within the Movement in Reserves Statement for the difference between the two. This ensures that depreciation, revaluation and impairment losses and amortisations have no overall effect on council tax or housing rent levels.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require local authorities to approve an MRP policy at the beginning of each financial year on setting aside a sum of money from revenue for the repayment of principal on outstanding debt. From 2012/13 onwards the Council has approved a policy such that, for capital expenditure incurred before 1 April 2008, the MRP is based on 4% of the authority's Capital Financing Requirement for the General Fund. For General Fund capital expenditure incurred after 1 April 2008, the MRP is based upon the estimated life of those assets where the financing was provided by borrowing. The Council has also decided that no voluntary provision for the repayment of debt relating to the HRA should be made in 2018/19.

(vii) Employee Benefits

<u>Benefits Payable During Employment</u>

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and sick leave and are recognised as an expense for service in the year in which employees render service to the Council.

<u>Termination Benefits</u>

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Nottinghamshire County Council. The scheme is a defined benefit scheme in that it provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate that reflects the time value of money and the characteristics of the liability.
- The assets of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year (allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked).
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years (debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Resources).
  - Net interest on the net defined benefit liability or asset (i.e. the net interest expense for the Council) – the change during the period in the net defined liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement). This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period after taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - The return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Nottinghamshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities (not accounted for as an expense).

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

(viii) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

(ix) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument, and are initially assessed at fair value and are carried at amortised cost. Annual charges to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

All borrowings shown in the Balance Sheet consist of the outstanding principal repayable plus accrued interest. Annual interest is charged to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account, regulations allow the impact on the General Fund and Housing Revenue Account Balance respectively to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account to the net charge required against the General Fund or Housing Revenue Account Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Certain reserves are kept to manage the accounting processes for non-current fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss

- fair value through other comprehensive income
- Available for Sale Assets – assets that have a quoted market price and/or do not have any fixed or determinate payments.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

All such assets held on the Balance Sheet consist of the outstanding principal receivable plus accrued interest. Annual interest is credited to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

The Council has provided a number of "soft loans" to employees at less than market rates for the purchase of motor vehicles. These should be correctly shown in the Balance Sheet at fair value. However, the value of these loans is not considered to be material. Accordingly the value as shown in the Balance Sheet represents the value of any loans made less any repayments that have been received.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost wither on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losse4s are assessed on a lifetime basis. Where risk has not increased significantly, or remains low, losses are assessed on the basis of 12 month expected losses.

Financial Assets measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive occur n the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement technique are categorised in accordance with the following:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(x) Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired by using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

(xi) Heritage Assets

The Council's Heritage Assets consist of the DH Lawrence Birthplace Museum building and a painting by Dr Ala Bashir, a respected sculptor and painter, of DH Lawrence which is linked to his most famous novel, Lady Chatterley's Lover. The museum building is held for its historical and artistic significance and to promote knowledge and culture. The DH Lawrence Birthplace Museum is recognised and measured (including the treatment of depreciation and revaluation gains and losses) in accordance with the Authority's accounting rules on property, plant and equipment. The building was revalued at 31 March 2017 in accordance with the Council's 5 year revaluation cycle for such assets. The painting was donated to the Council in 2008.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. For example, this may be where the asset has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

(xii) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

(xiii) Interests in Companies and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. Liberty Leisure Ltd is a wholly owned subsidiary of the authority which manages the provision of leisure and culture services and its accounts are consolidated with the authority's in accordance with IAS 27. See also policy xvi below.

(xiv) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost. Whilst the Code of Practice on Local Authority Accounting 2018/19 requires inventories to be shown at the lower of cost and net realisable value, a departure from this is permitted under IFRS due to:

- the value of inventories not being considered to be material.
- the cost of analysing inventories between cost and net realisable value outweighing the value to the user of the accounts.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

(xv) Investment Property

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

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

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

(xvi) Jointly Controlled Operations and Jointly Controlled Assets

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

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

Whilst the Council does not strictly have any jointly controlled operations and jointly controlled assets in line with the definitions above, the Council has a 50% interest in the Bramcote Bereavement Services Joint Committee with the other 50% relating to Erewash Borough Council. Whilst the Bramcote Bereavement Services Joint Committee is a separate entity in its own right, its decision making and operational arrangements fulfil many of features associated with a jointly controlled operation. Therefore, the Council recognises 50% of the assets and liabilities of the Joint Committee on its Balance Sheet and debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate.

(xvii) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent upon the use of specific assets.

The Council as Lessee

(i) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. All assets acquired through finance leases have been fully written down at the Balance Sheet date.

(ii) Operating Leases

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

The Council as Lessor

(i) Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

(ii) Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

(xviii) Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority’s status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two cost categories are defined in the Service Reporting Code of Practice but are accounted for under Resources in the Comprehensive Income and Expenditure Statement.

(xix) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

The Council operates a de minimis level in valuing assets. Any assets valued at less than £5,000 are excluded from Balance Sheet values.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the

Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both) are involved, depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from a reversal of a loss previously charged to a service).

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

Depreciation is provided on all property, plant and equipment assets held by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight line allocation over the useful life of the property.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset. New specialist vehicles may also have an additional depreciation provision made from the year following acquisition as advised by a suitably qualified officer.
- Infrastructure - straight line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. This applies particularly in respect of council house dwellings.

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

Disposals and Non-current Assets Held for Sale

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

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

If part of an asset is replaced with a similar identifiable component, the carrying amount of the replaced or restored component is derecognised with the carrying amount of the new component being recognised. Any gain or loss arising from this process is credited or debited to the Comprehensive Income and Expenditure Statement as appropriate.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The Council has committed to a government scheme whereby, as from 2012/13, housing capital receipts from right to buy sales can only be used towards new affordable council housing, and within three years of their receipt, otherwise they become payable to the government. The balance of receipts held is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment on council housing or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax or housing rents, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

(xx) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured as the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

A provision exists in relation to outstanding insurance claims, based upon information supplied by the Council's insurers. All insurance claims transactions during the course of the year are passed through the provision with the appropriate charge being made against the service lines within the Comprehensive Income and Expenditure Statement.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. Further details can be found in note 44 to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. Further details can be found in note 45 to the accounts.

(xxi) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund or Housing Revenue Account balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund or Housing Revenue Account balance in the Movement in Reserves Statement so that there is no net charge against council tax or housing rents for the expenditure.

(xxii) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund or Housing Revenue Account balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax or council house rents.

(xxiii) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

(xxiv) Collection Fund

Billing authorities are required to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates. The Council acts as an agent, collecting and distributing council tax and business rates income on behalf of the major precepting authorities and central government as well as itself.

Non Domestic Rates

From April 2013 the business rates included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. Any difference between the income in the Comprehensive Income and Expenditure Statement and the estimated share of income is taken to the Collection Fund Adjustment Account and included as an adjusting item in the Movement in Reserves Statement. As the collection of business rates is conducted on an agency basis, there is a debtor or creditor position between the Council and the major precepting authorities and central government.

Council Tax

The Local Council Tax Support Scheme is reviewed by the Finance and Resources Committee prior to the commencement of the financial year and any amendments are approved by full Council.

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Report of the Interim Deputy Chief Executive

STATEMENT OF ACCOUNTS 2018/2019 – UNDERLYING PENSION ASSUMPTIONS

1. Purpose of report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2018/2019 Statement of Accounts.

2. Introduction

IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date. The proposed assumptions for 2018/19 are shown in the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2016. The Actuary's final report for 2018/2019 is due to be received on 5 April 2019. All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

Recommendation

The Committee is asked to CONSIDER the assumptions to be used in the calculation of pension figures for 2018/2019

Background papers
Nil

APPENDIX

Proposed Financial Assumptions for 2018/2019

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used and this year's proposed assumptions are listed below:

- **Corporate bond yields.** This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- **Expected Return on Assets.** The actuaries anticipate that a typical local Government Pension Fund might achieve a neutral return of 0% in the year to 31 March 2019 although this may vary depending on the individual funds investment strategy.
- **Inflation Expectations.** The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 1.0%.
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, and then they increase in line with CPI plus 1.5%.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Broxtowe may be different from the assessment below.

Changes in Actuary's Assumptions upon Employer's Liability from 2017/2018

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10	10 to 15	15 to 20	Greater than 20
Effect of change in discount rate on employer's liability	Decrease of 1%	Decrease of 2%	Decrease of 3%	Decrease of 4%
Change in inflation on employer's liability	No significant change	Increase of 1%	Increase of 1%	No significant change
Overall impact	No significant change	Decrease of 1%	Decrease of 2%	Decrease of 4%

Brexit Effect

In addition to the usual difficulties in predicting market changes, the UK is scheduled to leave the European Union on 29 March 2019. The effect this will have on the asset and liability values will be dependent on how market participants react on the date of exit. Market reaction will depend heavily on the final withdrawal deal (or no deal) and the market's perception of this deal. It is therefore highly likely that market conditions will be different at 31 March 2019 and the fund valuation will be affected accordingly.

Report of the Chief Audit and Control Officer

INTERNAL AUDIT PROGRESS REPORT

1. Purpose of report

To inform the Committee of the recent work completed by Internal Audit.

2. Detail

Under the Council's Constitution and as part of the overall corporate governance arrangements, this Committee is responsible for monitoring the performance of Internal Audit.

A summary of the reports issued and progress against the agreed Internal Audit Plan for 2018/19 is included at appendix 1. A brief narrative of the work completed by Internal Audit since the previous meeting of this Committee is also included.

Following a recent establishment change in the Internal Audit team, a revision to the Internal Audit Plan 2018/19 is required to ensure that an appropriate level of performance and coverage can be achieved with the reduced resources available. There is flexibility within audit planning arrangements to allow for audit areas to be deferred, subject to approval by this Committee. The proposed revision for the Internal Audit Plan is considered in appendix 2.

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the respective audits. Details of follow-up work are included at appendix 3. Where agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

Further progress reports will be submitted to each future meeting of this Committee. A final report will be prepared for Members' consideration after the end of the financial year detailing the overall performance and productivity of Internal Audit for 2018/19.

Recommendation

The Committee is asked to CONSIDER the report and to RESOLVE that the revisions to the Internal Audit Plan for 2018/19 as set out in appendix 2 be approved.

Background Papers
Nil

APPENDIX 1

INTERNAL AUDIT REPORTS ISSUED SINCE APRIL 2018

No	Audit Title	Report Issued	Assurance Opinion	Actions Significant	Actions Merits Attention
29	Gas Safety Servicing and Maintenance	20/04/18	Substantial	0	1
01	Erewash BC – Risk Management	24/04/18	-	-	-
02	Erewash BC – Crematorium	04/05/18	-	-	-
30	Financial Resilience 2017/18	14/05/18	Substantial	0	0
31	CDM Regulations 2017/18	18/05/18	Reasonable	1	0
32	Human Resources 2017/18	22/05/18	Substantial	1	1
03	Procurement	07/06/18	LIMITED	1	1
33	Benefits 2017/18	12/06/18	Reasonable	1	0
34	Risk Management 2017/18	25/06/18	Substantial	0	3
04	Cemeteries	25/06/18	Substantial	0	1
4a	Erewash BC – Cemeteries	25/06/18	n/a	-	-
35	Parks and Grounds Maintenance 2017/18	28/06/18	Substantial	0	1
36	Choice Based Lettings 2017/18	30/06/18	Substantial	0	1
05	LAHS Return	31/08/18	n/a	-	-
37	Serious and Organised Crime 2017/18	05/09/18	Reasonable	0	6
06	Right to Buy	06/09/18	Substantial	0	3
07	Asset Register	06/09/18	Substantial	0	0
08	Legionella Prevention and Testing	11/09/18	Reasonable	0	5
09	Sundry Debtors	14/09/18	Reasonable	1	0
10	Creditors and Purchasing	18/09/18	Reasonable	0	2
11	Commercial Props/Industrial Units	04/10/18	Substantial	0	1
12	Special – Right to Buy Application	05/10/18	n/a	-	-
13	Transport (Fleet Management)	16/11/18	Substantial	0	2
14	Energy (including Procurement)	16/11/18	LIMITED	1	1
15	Cash Receipting	21/11/18	Reasonable	0	4
16	Bramcote Leisure Centre	23/11/18	Reasonable	0	4
17	Garden Waste Collection	30/11/18	Substantial	0	1
18	**Financial Appraisal**	**03/12/18**	**n/a**	**-**	**-**
19	**Events**	**12/12/18**	**Substantial**	**0**	**1**
20	**Licensing (including Taxi Licences)**	**21/12/18**	**Substantial**	**0**	**0**
21	**Financial Appraisal**	**03/01/19**	**n/a**	**-**	**-**
22	**Section 106 Agreements**	**30/01/19**	**Substantial**	**0**	**0**
23	**NNDR**	**14/02/19**	**Substantial**	**0**	**1**
24	**Homelessness**	**15/02/19**	**Substantial**	**0**	**0**
25	**Information Governance**	**28/02/19**	**Substantial**	**0**	**1**
26	**Treasury Management**	**28/02/19**	**Substantial**	**0**	**1**
27	**Rents**	**28/02/19**	**Substantial**	**1**	**1**
27a	**Housing Evictions**	**28/02/19**	**Substantial**	**0**	**0**

REMAINING INTERNAL AUDIT PLAN 2018/19

No	Audit Title	Progress
	Safeguarding	Draft report issued
	Council Tax	Draft report issued
	Payroll (including Officers Allowances)	File to be reviewed
	Tenancy Management (incl. ASB)	Ongoing (Nearing completion)
	Corporate Governance (incl. Ethics)	Ongoing (Nearing completion)
	Bank Reconciliation	Ongoing
	Key Reconciliations	Ongoing
	Lifeline (Aids and Adaptations)	Ongoing
	Electrical Testing	Ongoing
	Commercialisation/Business Strategy	Ongoing
	Risk Management (Risk Assessment)	Ongoing
	Beeston Town Centre Redevelopment	Expected to commence in Q4
	Computer/ICT	Expected to commence in Q4
	Choice Based Lettings	To be deferred to 2019/20 (see appendix 2)
	Benefits	To be deferred to 2019/20 (see appendix 2)
	Human Resources	To be deferred to 2019/20 (see appendix 2)

COMPLETED AUDITS

A report is prepared for each audit assignment and issued to the relevant senior managers at the conclusion of a review that will:

- include an overall opinion on the adequacy of controls within the system to provide assurance that risks material to the achievement of objectives are adequately managed – the opinion being ranked as either ‘Substantial’, ‘Reasonable’, ‘Limited’ or ‘Little’ assurance;
- identify inadequately addressed risks and non-effective control processes;
- detail the actions agreed with management and the timescales for completing those actions, and;
- identify issues of good practice.

The recommendations made by Internal Audit are risk assessed, with the agreed actions being categorised accordingly as follows:

- Fundamental – urgent action considered imperative to ensure that the Council is not exposed to high risks (breaches of legislation, policies or procedures)
- Significant – action considered necessary to avoid exposure to significant risk.
- Merits Attention (Necessary Control) – action considered necessary and should result in enhanced control or better value for money.
- Merits Attention – action considered desirable to achieve enhanced control or better value for money.

The following audit reports have been issued with key findings as follows:

1. Financial Appraisal

Internal Audit produced a financial appraisal of companies expressing an interest to lease the 'incubator units' on The Square, Beeston. The request was received from the Senior Economic Development Officer, with management wanting consideration of the financial viability of the respective companies in order to assess the level of risk to the Council.

The specific findings and suitable recommendations were reported to senior management including the Head of Neighbourhoods and Prosperity, Planning Regeneration and Development Manager, Senior Economic Development Officer, Head of Property Services, and the Estates Manager.

2. Liberty Leisure Limited – Events Assurance Opinion – **Substantial**

Internal Audit reviewed the systems and procedures operating for Events. The terms of reference were agreed with the Liberty Leisure Limited Managing Director and the Cultural Services Manager prior to the commencement of the audit. The cost of this work will be recharged to Liberty Leisure Limited.

Internal Audit sought to confirm whether adequate management control exists to provide assurance that events are managed and planned in an appropriate and efficient manner; adequate insurance arrangements are in place with particular regard to public liability; and compliance is achieved with the Construction (Design and Management) Regulations.

It was pleasing to report that Liberty Leisure Limited continues to maintain an appropriate framework for the administration of operations for Events Management. One value for money recommendation was made regarding the procurement of a blanket all-risks policy for hired equipment used at events if such an annual policy is financially advantageous.

The proposed action was discussed and agreed by the Liberty Leisure Limited Managing Director and the Cultural Services Manager.

3. Licensing Assurance Opinion – **Substantial**

Internal Audit reported that there continues to be an appropriate framework in place for the administration of operations in respect of Licensing.

It was noted that that reconciliations were being sporadically carried out between the Licensing system and the general ledger. Officers were in the process of completing the outstanding reconciliations and bringing these up to date. Internal Audit reminded management that reconciliations are considered a key control that should be undertaken regularly.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

4. Financial Appraisal – Property Developer

Internal Audit produced a financial appraisal of the two companies involved in a request to vary the terms of a s106 agreement that was due to be considered by Planning Committee on 9 January 2019. The request was received from the Senior Legal Executive on behalf of the Head of Legal Services, with management wanting consideration of the financial stability and viability of the respective companies in order to assess the level of risk to the Council.

The specific findings and suitable recommendations were reported to senior management including the Head of Legal Services, Senior Legal Executive, Head of Neighbourhoods and Prosperity, and the Planning Regeneration and Development Manager.

5. Section 106 Agreements — Assurance Opinion – **Substantial**

Internal Audit was pleased to report that the Council has an appropriate framework in place for its arrangements in respect of S106 agreements.

It was pleasing to note that the previously agreed action to establish a suitable central management system to monitor the collection of amounts due under S106 agreements had been completed and maintained.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

6. NNDR — Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of Business Rates.

One merits attention action was proposed after Internal Audit recommended that the need to retain hard copies of write-off reports (and potentially other documentation containing personal data) should be reviewed with a view to reducing the risk of a personal data breach. The arrangements for maintaining the necessary evidence to demonstrate an authorised write-off was reviewed by the Head of Revenues and Benefits Managed Service and these records will now be scanned and retained electronically rather than keeping a paper file.

7. Homelessness — Assurance Opinion – **Substantial**

Internal Audit reports that the Council has an appropriate framework in place for the administration of operations in respect of Homelessness. It was pleasing to report that the service has adapted well to recent legislative changes that has brought about new duties to prevent and relieve homelessness. A matter raised regarding advices given to an applicant was discussed with the Homeless Manager who provided the necessary assurances.

Overall, the review did not indicate any significant weaknesses or areas for improvement and, accordingly, a clearance report was duly issued.

8. Information Governance — Assurance Opinion – **Substantial**

The Council maintains an appropriate framework for Information Governance. Internal Audit was pleased to report that previously agreed actions relating to the Senior Information Risk Owner (SIRO) audit had been completed. It was apparent from the latest review of the material produced and disseminated by ICT Services and from discussions with management and employees across the Council that awareness of the GDPR is generally high.

Internal Audit recommended that as part of the ongoing implementation of the 'New Ways of Working' project, attention is given to ensuring that departments are aware of the need to maintain and develop responsibility for managing information.

A small number of issues were noted and suitable actions agreed with Chief Information Officer and the Information Governance Officer to ensure that matters remain up-to-date. The findings of the Internal Audit report will be considered by the Corporate Information Governance Group. The next SIRO audit is due to commence in March 2019.

9. Treasury Management — Assurance Opinion – **Substantial**

The Council has an established framework in place for the administration of treasury management operations. The short and medium term cash flow forecasting processes were examined and found to be working sufficiently well on a day-to-day basis.

The review did indicate an area for improvement, with one 'Merits Attention – Necessary Control' action proposed to improve cash flow forecasting to take into account the best available data of known and estimated future income and expenditure, with the planning horizon extended to a rolling twelve months.

An action plan was agreed by the Head of Finance Services and the Chief Accountant.

10. Rents — Assurance Opinion – **Substantial**

Internal Audit reported that the Council has an appropriate framework in place for the administration of operations in respect of Rents.

The audit did indicate areas for improvement and further recommendations were proposed to ensure that the processes and controls in place are effective. There was one 'Significant' action relating to the need to mitigate the risk and impact of the introduction of Universal Credit, as follows:

Objective

Internal Audit sought to ensure that billed amounts are efficiently collected and accounted for correctly.

Findings – Impact of Universal Credit Universal Credit (UC) was introduced at Beeston Job Centre in November 2018. The financial implications for the Council are potentially significant with increased rent arrears and decreased collection rates anticipated. The situation is being adequately addressed and managed with a number of mitigation measures in place, including an increase in the capacity of the Rents team and the creation of the Financial Inclusion Officer post to improve tenant engagement. However, as the impact of UC remains a significant risk to the Council, the monitoring and mitigation measures will continue to be required.
Agreed Actions (Significant) The risk and impact of UC on the Council remains a matter for continual and high priority monitoring and mitigation. The risk mitigation measures include working in partnership with the DWP, Citizens Advice and Job Centre Plus; the Welfare Reform Working Group; employing a Financial Inclusion Officer and a Tenancy Sustainment Officer; the move of the Rents team into the Housing department and reviewing internal processes; introductory and fixed term tenancies; changing the terms of the tenancy agreement regarding payment of rent; Discretionary Housing Payment allocations; introducing Direct Debits for Rents; and working to reduce arrears (including an increase in the bad debt provision for rents in 2019/20). Recent reports (including the budget reports) that have been submitted to Policy and Performance Committee and Housing Committee in the last few months contain further details. Managers Responsible Interim Senior Housing Manager Interim Rents Manager Target Date: 31 May 2019

The review also indicated a further area for improvement, with a 'Merits Attention – Necessary Control' action being proposed regarding the need to establish new authorising officers for rent refund payments once the Rents team's move into the Housing Department is completed. This action was duly agreed by the Interim Senior Housing Manager and the Interim Rents Manager.

11. Rent Evictions Assurance Opinion – **Substantial**

The annual review of the Pre-Eviction Protocol for Rent Arrears was also completed. It was pleasing to report that the Council has an appropriate framework in place for evictions, with the Protocol being compliant with legislation. A sample of five cases where eviction was considered on the grounds of rent arrears was reviewed. The findings were considered to be satisfactory, with the action taken being reasonable and compliant with the steps outlined in the Protocol.

Further reviews in respect of Bank Reconciliation; Commercialisation/Business Strategy; Corporate Governance and Ethics; Council Tax; Electrical Testing; Key Reconciliations; Lifeline (incl. Assisted Living/Aids and Adaptations); Payroll (including Officers Allowances); Risk Management; Safeguarding; and Tenancy Management (including Housing ASB) are ongoing and the reports have yet to be finalised. These will be included in the next progress report to Committee.

Current Audit Performance

Overall 78% of planned audits for 2018/19 are near to completion as at 1 March 2019. This level of performance is similar to what was achieved at this stage in the previous year and the target of 90% is expected to be achieved, subject to revisions to the plan considered in appendix 2 below.

APPENDIX 2

REVISION TO THE INTERNAL AUDIT PLAN 2018/19

An experienced Senior Internal Auditor has recently left the Council after being successfully recruited to a similar role at another local authority. This move had not been anticipated and the vacancy is not reflected in the Internal Audit Plan 2018/19. Whilst performance levels for the year to date are currently at expected levels, it is unlikely that the 90% target would be achieved without revising the Internal Audit Plan. The net audit days lost is around 35 days.

The Chief Audit and Control Officer has reviewed the remaining audits and identified the following planned work as being potential audits to defer. This would reduce the pressure on the current audit work programme:

- Benefits
- Choice Based Lettings
- Human Resources.

Whilst these service areas do present considerable risks, these audits are proposed for inclusion within the Internal Audit Plan 2019/20 (considered elsewhere on this agenda) and, if approved, these could be considered for an early review. The timing of this work for completion by 30 June 2019 should enable any relevant findings to be incorporated into the Chief Audit and Control Officer's Annual Internal Audit Review Report. **It is therefore recommended that the Internal Audit Plan 2018/19 is revised accordingly.**

The process to recruit a replacement internal auditor has already begun with an external advertisement placed at the existing salary grade. If this recruitment process should prove to be unsuccessful, the Chief Audit and Control Officer will reconsider the team's structure and profile, in conjunction with the Deputy Chief Executive (Section 151 Officer) and the Chair of the Governance, Audit and Standards Committee, in order to come up with a suitable approach for covering the vacancy in the short, medium and long term.

APPENDIX 3

INTERNAL AUDIT FOLLOW-UP

Internal Audit has undertaken a review of progress made by management in implementing agreed actions within six months of the completion of the audit.

The table below provides a summary of the progress made with agreed actions for internal audit reports issued between January and July 2018 (i.e. within six months of completion), excluding clearance reports. Those audits where all actions have previously been reported as completed have also been excluded from this list.

No	Audit Title	Report Issued	Opinion	Number of Actions (Significant in brackets)	Progress
18	Housing Repairs 2017/18	22/01/18	Reasonable	3 (1)	Completed
20	HiMO Licences 2017/18	23/01/18	Substantial	4	Completed
21	Stores 2017/18	31/01/18	LIMITED	3 (2)	1 Outstanding
03	Procurement 2018/19	07/06/18	LIMITED	2 (1)	2 Outstanding
33	Benefits 2017/18	12/06/18	Reasonable	1 (1)	Completed
34	Risk Management 2017/18	25/06/18	Substantial	3	Next audit
04	Cemeteries 2018/19	25/06/18	Substantial	1	1 Outstanding
35	Parks and Grounds Maintenance 2017/18	28/06/18	Substantial	1	Completed
36	Choice Based Lettings 2017/18	13/07/18	Substantial	1	Completed

Further details of progress being made with agreed actions that have not yet been fully implemented are included below along with comments from management reflecting any updates on progress. Evidence of implementation will not be routinely sought for all actions as part of this monitoring process. Instead, a risk-based approach will be applied to conducting further follow-up work.

Where the agreed actions to address significant internal control weaknesses have not been implemented this may have implications for the Council. A key role of the Committee is to review the outcome of audit work and oversee the prompt implementation of agreed actions to help ensure that risks are adequately managed.

OUTSTANDING ACTIONS

1. STORES	January 2018, Limited Assurance, Agreed Actions – 3 (including 2 ‘Significant’)
1.1 Procurement of Stores Items	**Progressing**
Agreed Action (**Significant**) Management will review all procurement and purchasing activity relating to Stores with a view to establishing a programme of retendering work to ensure that requirements are met in full. The use of established procurement frameworks will be considered for these contracts. The support of the Procurement and Contracts Officer will be important for the priority and high-complexity tenders. A suitable timetable for completing the review and renewal of these contracts will be agreed with the Procurement team. Managers Responsible Head of Environment Transport and Stores Manager Target Date: 30 June 2018	Management Progress Report of the Transport and Stores Manager Work continues to review all stores related procurement activity and to re-tender contract opportunities where appropriate to ensure compliance with the Council’s Standing Orders and procurement regulations. A benchmarking exercise has been carried out and all current pricing is in-line with established procurement framework pricing except for Personal Protective Equipment (PPE). A review is being undertaken with alternative suppliers for PPE to be concluded by April 2019.

2. PROCUREMENT	June 2018, Limited Assurance, Agreed Actions – 2 (including 1 ‘Significant’)
2.1 Procurement e-Learning Package	**Outstanding**
Agreed Action (Merits Attention) A procurement e-Learning package will be developed to raise awareness of the legislation, regulations and other matters surrounding procurement and the systems and procedures in place at the Council. This will complement the existing support and guidance that is available on the intranet and website. Manager Responsible Chief Audit and Control Officer Procurement and Contracts Officer Target Date: 31 March 2019	Management Progress Report of the Chief Audit and Control Officer This action has been delayed to focus upon high priority outstanding actions relating to procurement. A revised target date is set for 30 September 2019. The risk is largely mitigated by the existing support and guidance that is available on the intranet and website.

2. PROCUREMENT (Continued)

2.2 Comprehensive Review and Update of Procurement Activity — **Progressing**

Agreed Action (Significant)	Management Progress Report of the Head of Finance Services
An Interim Procurement and Contracts Officer was appointed with significant experience in public sector procurement and contract management. The key priorities and tasks in the medium term are: • Refreshing the Commissioning and Procurement Strategy to ensure compliance with regulations and corporate requirements and refreshing associated procurement guidance documents on the intranet and website. • Reviewing the Contracts Register to ensure that it is transparent and that there is a robust tendering work schedule covering all significant value transactions (and strategically important) for all activities – initial focus will be on expired/soon to expire contracts. • Ensuring the Contracts Register is comprehensive; with analysis of management data to evaluate potential efficiencies and identify areas which should be awarded under contract following tender. • Supporting the review of the Council's Constitution, in particular relating to Financial Regulations and Contract Standings Orders. • Establishing a suitable framework for contract management, including liaising with senior management to identify key contracts over £25,000 and advice how the monitoring of these and operational performance management could be improved. • Promoting the most efficient means of procurement activity, including development of e-procurement systems and processes. Managers Responsible Head of Finance Services Chief Audit and Control Officer Procurement and Contracts Officer Target Date: 31 October 2018	A progress report was presented to this Committee in December 2018 for consideration. The Interim Procurement and Contracts Officer has been working to bring the Council back up-to-date in terms of its compliance with procurement legislation and the Council's Financial Regulations (Contract Standing Orders) across the whole business. Progress continues to be made to bring the Council back towards a fully compliant position. Management are monitoring this progress through regular updates reports on procurement activity to GMT. Going forward, the Council will be reviewing its needs and considering the most effective way of providing suitable procurement expertise. This work will include benchmarking procurement arrangements with other authorities across the region and considering the adequacy of the current established Procurement and Contracts Officer post in terms of its job description, person specification and salary grade.

3. CEMETERIES	**June 2018, Substantial Assurance, Agreed Actions – 1**
3.1 Digitisation of Cemetery Records	**Progressing**
Agreed Action (Merits Attention – Necessary Control) A timetable for developing an efficient solution for maintaining a 'one-stop' effective and accurate electronic cemetery records will be produced. The progress made against this plan will then be monitored as appropriate by management (and Bereavement Services Committee). The replacement of the current software solution is considered to be a key part in this medium-term project. Manager Responsible Head of Property Services Target Date: 31 October 2018	Management Progress Report of the Head of Property Services This action is behind schedule. The revised target date is set for 30 September 2019

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Report of the Chief Audit and Control Officer

INTERNAL AUDIT PLAN 2019/20

1. Purpose of report

To approve the Internal Audit Plan for 2019/20.

2. Detail

The Public Sector Internal Audit Standards requires the Chief Audit and Control Officer, as the designated 'chief audit executive', to prepare an annual risk based audit plan.

The Internal Audit Plan governs the activity for the year. A management report is produced at the completion of each audit assignment with recommendations for improvement. Regular progress reports covering all Internal Audit activities are submitted to this Committee for scrutiny. The Committee can request further audit reviews to be undertaken and can request other Committees to investigate matters arising from any activities within their remit.

The proposed Internal Audit Plan for 2019/20 is included in the appendix for consideration. The plan has been prepared in accordance with the principles of the Internal Audit Charter. The plan has recognised the Council's priorities as outlined in the Corporate Plan and links closely to the corporate risk management and business planning processes having been prepared with due consideration to the identified strategic risks. The Chief Audit and Control Officer has also considered the valuable comments received regarding key risks and sources of assurance from individual members of the General Management Team and Heads of Service.

Recommendation

The Committee is asked to RESOLVE that the Internal Audit Plan for 2019/20 be approved.

Background papers
Nil

APPENDIX

INTERNAL AUDIT PLAN 2019/20

1. INTRODUCTION

1.1 Background

This Internal Audit Plan sets out the proposed coverage for Internal Audit work in 2019/20. The mandate for the plan is derived from the Public Sector Internal Audit Standards ('the Standards') produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA).

The Standards require the periodic preparation of a risk-based plan, which must be linked to a strategic high-level statement of how the service will be delivered and developed in accordance with the Internal Audit Charter and how this links to the Council's objectives and priorities.

The core work of Internal Audit is derived from the statutory responsibility under the Accounts and Audit Regulations 2015 which requires the Council to "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'. The Standards and the Local Government Application Note constitute proper practices so as to satisfy the requirements for larger relevant bodies as set out in the Regulations.

The Governance, Audit and Standards Committee (the designated audit 'board') should review and assess the annual internal audit work plan, although the development of the risk-based plan remains the responsibility of the Chief Audit and Control Officer after consultation with senior management and the Committee.

1.2 Internal Audit Charter

The Standards require the purpose, authority and responsibility of internal audit activity to be formally documented in a charter document. The Governance, Audit and Standards Committee approved the current Internal Audit Charter on 29 November 2017.

Internal Audit will govern itself by adhering to the Standards, which are based upon 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*. Supplementary guidance issued and endorsed by the relevant internal audit standard setters as applicable to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual. Non-conformance with the Standards shall be reported to the Deputy Chief Executive and the Governance, Audit and Standards Committee.

1.3 Aims of the Plan

Internal Audit activity is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The Internal Audit Plan will support an opinion based on an assessment of the design and operation of the internal control environment and the adequacy and effectiveness of controls noted from risk-based audit assignments carried out during the year. The aim of the plan is to:

- Deliver a risk-based audit programme through a detailed risk assessment of systems and services across the Council
- Be proactive in looking at what risks the Council is facing and trying to minimise the impact of these risks through audit work
- Add value by providing practical, value-added recommendations in areas of significant risk and by working with senior management in attempting to save resources and enhance controls wherever possible
- Provide assurance to senior management and the Governance, Audit and Standards Committee.

1.4 Developing the Plan

The Internal Audit Plan is designed to support the Chief Audit and Control Officer's annual opinion on the overall adequacy and effectiveness of the control environment. The required basis for forming this opinion is:

- An assessment of the design and operation of the overall internal control environment, governance and risk management arrangements
- An assessment of the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments that are reported during the course of year.

It follows that an effective risk-based audit plan should focus resources into areas of principal risk. The plan has been prepared in accordance with the requirements of the Internal Audit Charter and has been informed by:

- A review of the risks contained within the Strategic Risk Register, Business Plans
- Consideration of progress made with the action generated by the Annual Governance Statement process
- Consultation with Chief Officers and other senior management to identify key auditable areas based on an assessment of corporate priorities and current and future issues and risks
- An understanding of the challenges to the Council to deliver its objectives within legislation and the current environment.

The allocations set out in the plan for each review will include time spent on researching and preparing the audit programme, terms of reference, completing site work, testing and the drafting and reviewing of the audit report. The timings assume that the expected key controls are in place and working effectively. Further substantive testing may be required should an assessment of key controls provide limited assurance and additional time may be required to carry out such testing.

The Internal Audit Plan will be regularly reviewed. If additional risks are identified and/or there are changes to priorities during the year, the plan will be reconsidered in conjunction with the Deputy Chief Executive. Any significant changes to the plan will be reported back to the Governance, Audit and Standards Committee for approval.

1.5 Resourcing the Plan

The net resources available in 2019/20 are 351 audit days.

The amount of assurance work proposed is set at 276 days. This equates to a reduction of 8% when compared to planned assurance work delivered in the current year. This is due to a vacancy within the establishment that is anticipated to be filled by June 2019. The coverage in terms of the number of high risk assurance audits proposed to be delivered will be similar.

A further 10 days will be provided to support the Council and its wholly owned leisure company, Liberty Leisure Limited, with assurance work relating to its leisure centre operations and the new online ticket portal. The plan includes provision for 25 days to be completed as part of the ongoing Internal Audit collaboration with Erewash Borough Council.

In addition, the plan includes 40 days for corporate fraud and corruption prevention activity. The Governance, Audit and Standards Committee approved an updated Fraud and Corruption Policy in March 2017. The Council's approach to fraud and corruption proposes that Internal Audit will take a prominent role in leading and co-ordinating anti-fraud and corruption activities. Internal Audit will be supported in this by engaging specialist fraud investigation services as necessary from local authority partners.

Finally, 25 days are allocated towards audit follow-up work and 'contingency' for special investigations, projects, value for money work and consultancy.

1.6 Reporting and Relationships

The Internal Audit Charter establishes the reporting and relationships. This includes the reporting arrangements for individual assignments and for the periodic reporting of activities to the Governance, Audit and Standards Committee. The relationships with Members, Chief Officers and Heads of Service, the external auditors and other assurance providers are also determined in the Charter.

In accordance with the Standards, the Chief Audit and Control Officer will deliver a formal assessment of the design and operation of the overall internal control environment, governance and risk management arrangements and an opinion on the adequacy and effectiveness of controls, based upon the results of the risk-based audit assignments reported during the year. This opinion will be formally recorded in the Internal Audit Annual Review Report to be presented to the Governance, Audit and Standards Committee.

Internal Audit will bring to the attention of the Deputy Chief Executive and the Committee any significant internal control issues that it feels should be declared in the Council's Annual Governance Statement.

1.7 Performance Monitoring

The work of Internal Audit is regularly reviewed to provide assurance that it complies with the Standards, conforms to other relevant professional standards and meets the requirements of the Internal Audit Charter.

Service delivery will be monitored as part of a quality assurance and improvement programme. This will include the regular reporting of progress to the Governance, Audit and Standards Committee, self-assessment and external quality assessment against the Standards, assessment of client feedback and production of performance indicators.

2. SUMMARY OF AUDIT DAY ALLOCATIONS

The following table summarises the allocation of days to each department.

	Audit Days
Deputy Chief Executive's Department	
- Corporate	28
- Revenues, Benefits and Customer Services	43
- Finance Services	26
- Other Department	38
Chief Executive's Department	
- Corporate	13
- Housing	44
- Other Department	13
Strategic Director's Department	
- Corporate	8
- Other Department	63
Assurance Work	**276**
Trading Companies – Liberty Leisure Limited	10
Corporate Counter Fraud Activities	40
Contingency (including Internal Audit Follow-up Work, Special Investigations, Projects, Value for Money and Consultancy)	25
Net Audit Days	**351**

3. DETAILED INTERNAL AUDIT PLAN

The following tables provide a detailed breakdown of the audits planned for 2019/20. These reviews have been categorised as follows:

- Category A, being the review of key financial systems, such as Council Tax, Rents and Benefits that are the Section 151 Officer's audit priority areas and which are reviewed annually.

- Category B, being high risk/profile areas that should be reviewed and followed-up on a yearly basis.

- Category C, being the audit of operational activities that have been identified as medium to high risk that should be reviewed on at least a cyclical basis.

DEPUTY CHIEF EXECUTIVE'S DEPARTMENT	Category	Days
Corporate		
Financial Resilience (incl. Business Strategy; MTFS; Capital)	B	10
Local Authority Trading Company – Governance	B	8
Procurement and Contract Management	B	10
Revenues, Benefits and Customers Services		
Benefits (incl. Welfare Reform)	A	15
Business Rates	A	8
Council Tax	A	10
Sundry Debtors	A	10
Finance Services		
Asset Register	A	5
Bank Reconciliation	A	3
Creditors and Purchasing	A	10
Key Reconciliations	A	2
Treasury Management	A	6
Property Services		
Asset Management (incl. Strategy; Leisure Facilities; Disposals)	B	8
Beeston Town Centre Redevelopment	B	6
Health and Safety (Premises Safety; Fire Risk; Lone Workers etc.)	B	8
Bramcote Crematorium	C	8
CCTV	C	8
Total Deputy Chief Executive's Department		**135**

CHIEF EXECUTIVE'S DEPARTMENT	Category	Days
Corporate		
Governance (incl. Culture and Ethics, Declarations of Interest etc.)	B	10
Whistleblowing Policy and Complaints	B	3
Housing		
Rents (including Welfare Reform; Evictions Protocol)	A	12
Choice Based Lettings	B	10
Housing Repairs	B	12
Independent Living Service	B	10
Neighbourhoods and Prosperity		
Planning Applications Process (Consultancy)	C	5
Public Protection		
Enforcement	C	8
Total Chief Executive's Department		**70**

STRATEGIC DIRECTOR'S DEPARTMENT	Category	Days
Corporate		
Information Governance	B	8
Human Resources		
Payroll (including Officers Allowances)	A	10
Human Resources (incl. Policy; Skills/Resilience; Absences etc.)	B	10
ICT and Corporate Communications		
Computer/Cyber Risk	B	12
Administration and Electoral Services		
Cash Receipting	A	8
Elections	C	5
Environment		
Depot Security	C	5
Operational Risk Management (incl. Risk Assessment)	C	5
Recycling	C	8
Total Strategic Director's Department		**71**

LIBERTY LEISURE LIMITED	Category	Days
Leisure Centre Operations (Chilwell Olympia)	LLL	8
Online Ticket Portal	LLL	2
Total Liberty Leisure Limited		**10**

Report of the Interim Deputy Chief Executive

REVIEW OF STRATEGIC RISK REGISTER

1. Purpose of report

To recommend approval of amendments to the Strategic Risk Register and the action plans identified to mitigate risks.

2. Detail

Further to earlier reports to this Committee and in accordance with the timescales set out in the new Risk Management Strategy approved by this Committee on 3 December 2018, the Strategic Risk Management Group met on 6 February 2019 to review the Strategic Risk Register. The General Management Team (GMT) has since considered the proposals from the Strategic Risk Management Group. The objectives of the review were to:

- Identify the extent to which risks included in the Strategic Risk Register are still relevant
- Identify any new risks to be included in the Strategic Risk Register
- Review action plans to mitigate risks.

Details of proposed amendments to the Strategic Risk Register and action plans resulting from the above process are attached in the appendix.

The new Risk Management Strategy includes a '5x5' risk map matrix to assess both the threats and opportunities for each strategic risk in terms of both the likelihood and impact. The initial inherent and residual risk scores assigned to each strategic risk are shown in the appendix. These will be considered further and amended as necessary in due course.

The risk map is also included in the appendix to assist the understanding of the inherent and residual risk scores allocated to each strategic risk.

The revised Strategic Risk Register incorporating the proposed amendments is available on the intranet. Details of further reviews of the Strategic Risk Register will be reported to future meetings of this Committee.

Recommendation

The Committee is asked to RESOLVE that the amendments to the Strategic Risk Register and the action plans to mitigate risks as set out in the appendix be approved.

Background papers
Strategic Risk Register

APPENDIX

REVIEW OF STRATEGIC RISK REGISTER

Introduction

The Risk Management Strategy, revised in December 2018, aims to improve the effectiveness of risk management across the Council. Effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving its ability to deliver priorities, improve outcomes for residents and mitigating legal action and financial claims against the Council and subsequent damage to its reputation.

The Strategy provides a comprehensive framework and process designed to support both Members and Officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that the Council has in place to manage risk successfully. The risk management process outlined within the Strategy should be used to identify and manage all risks to the Council's ability to deliver its priorities. This covers both strategic priorities, operational activities and the delivery of projects or programmes.

The Council defines risk as "the chance of something happening that may have an impact on objectives". A risk is an event or occurrence that would prevent, obstruct or delay the Council from achieving its objectives or failing to capture business opportunities when pursuing its objectives.

Risk Management

Risk management involves adopting a planned and systematic approach to the identification, evaluation and control of those risks which can threaten the objectives, assets, or financial wellbeing of the Council. It is a means of minimising the costs and disruption to the Council caused by undesired events.

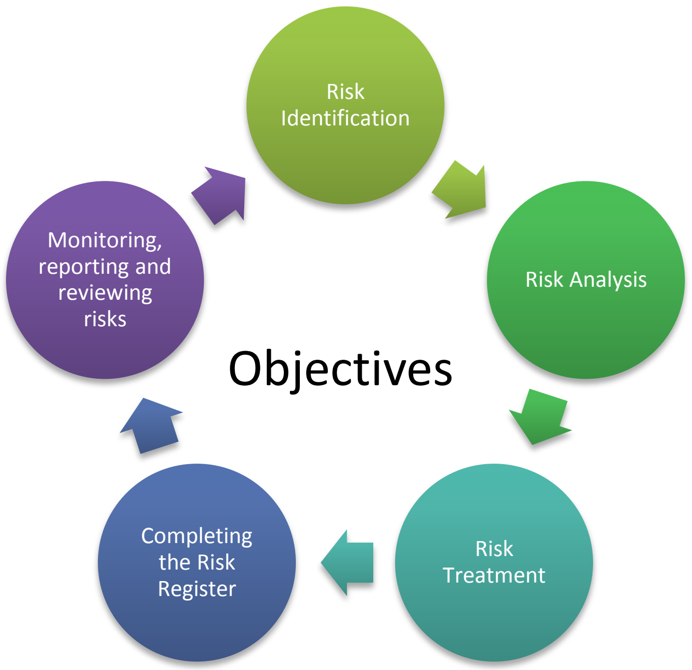
Risk management covers the whole range of risks and not just those associated with finance, health and safety and insurance. It can also include risks as diverse as those associated with public image (reputation), environment, technology and breach of confidentiality amongst others.

The benefits of successful risk management include:

- Improved service delivery with fewer disruptions, efficient processes and improved controls
- Improved financial performance and value for money with increased achievement of objectives, fewer losses, reduced impact and frequency of critical risks
- Improved corporate governance and compliance systems with fewer legal challenges, robust corporate governance and fewer regulatory visits
- Improved insurance management with lower frequency and value of claims, lower impact of uninsured losses and reduced premiums.

Risk Management Process

The Council's risk management process has five key steps as outlined below.



Process Step	Description
Risk Identification	Identification of risks which could significantly impact the Council's aims and objectives – both strategic and operational.
Risk Analysis	Requires consideration to the identified risks potential consequences and likelihood of occurring. Risks should be scored against the Council's risk matrix
Risk Treatment	Treat; Tolerate; Transfer; Terminate – Identify which solution is best to manage the risk (may be one or a combination of a number of treatments)
Completing the Risk Register	Document the previous steps within the appropriate risk register. Tool for facilitating risk management discussions. Standard template to be utilised to ensure consistent reporting.
Monitoring, reporting and reviewing the risks	Review risks against agreed reporting structure to ensure they remain current and on target with what is expected or manageable.

Risk Matrix

		Risk – Threats				
Likelihood	Almost Certain - 5	5	10	15	20	25
	Likely – 4	4	8	12	16	20
	Possible - 3	3	6	9	12	15
	Unlikely - 2	2	4	6	8	10
	Rare – 1	1	2	3	4	5
		Insignificant – 1	Minor – 2	Moderate – 3	Major – 4	Catastrophic – 5
		Impact				

Risk Rating	Value	Action
Red Risk	25	Immediate action to prevent serious threat to provision and/or achievement of key services or duties
	15 to 20	Key risks which may potentially affect the provision of key services or duties
Amber Risk	12	Important risks which may potentially affect the provision of key services or duties
	8 to 10	Monitor as necessary being less important but still could have a serious effect on the provision of key services
	5 to 6	Monitor as necessary to ensure risk is properly managed
Green Risk	1 – 4	No strategic action necessary

Strategic Risk Register – Summary of Proposed Changes

Inherent Risk – Gross risk **before** controls and mitigation

Residual Risk – Risk remaining **after** application of controls and mitigating measures

Risk	Inherent Risk	Residual Risk	Changes
1. Failure to maintain effective corporate performance management and implement change management processes	20	9	No change.
2. Failure to obtain adequate resources to achieve service objectives	25	12	The action to agree the Section 106 requirements for the Beeston Business Park and Alliance Boots planning applications has been amended by removing the reference to Beeston Business Park. The action to evaluate proposals submitted for the future of the Town Hall has been updated with an action to proceed with the disposal of the Town Hall. The action to progress the disposal of Cavendish Lodge has been updated with an action to complete the disposal of Cavendish Lodge. The following actions are deleted: • Agree the lease and necessary processes for the introduction of a new public car park at Technology Drive, Beeston. • Consult with relevant stakeholders, including the public, on the future of the Town Hall in Beeston and seek appropriate and cost effective solutions. • Support the application by Nottinghamshire local authorities to become a business rates retention pilot area from 2019/20.

Risk	Inherent Risk	Residual Risk	Changes
3. Failure to deliver the Housing Revenue Account (HRA) Business Plan	25	12	The Housing Business Plan 2019-2022 is added as a key control. New actions have been added to: • Implement the recommendations of the Social and Affordable Housing Need report approved by the Housing Committee in December 2018. • Undertake a full condition survey of the Council's housing stock in 2019/20. • Develop two dementia friendly bungalows on the former Beeston Market site. • Develop a Buy Back Policy in respect of properties sold under the right to buy scheme. • Model the potential impact of the rollout of Universal Credit on rental income and minimise the level of rent arrears. The action to upgrade the Capita Housing system is updated with an action to complete Phase 2 of the Capita Upgrade by June 2019. The following actions are deleted: • Assess the implications of any requirement to dispose of high value properties. • Implement pre-eviction protocol for rent arrears and the actions arising from the KPMG report.
4. Failure of strategic leisure initiatives	25	15	The action point to provide for the replacement of the Combined Heat and Power Unit at Bramcote Leisure Centre when the extended warranty expires in 2020/21 can be deleted.
5. Failure of Liberty Leisure trading company	25	12	The Get Active Strategy 2018-2021 is added as a key control.

Risk	Inherent Risk	Residual Risk	Changes
6. Failure to complete the re-development of Beeston town centre	25	15	Specialist VAT advice is added as a key control. The action to agree heads of terms with the proposed cinema operator has been amended to include food and beverage operators. The action to prepare all necessary documentation for the sale of part of the site for residential development has been updated with an action to complete the sale of part of the site for residential development. A further action point to seek external funding (where available) for the re-development of Beeston town centre has been added.
7. Not complying with domestic or European legislation	25	12	See further details below.
8. Failure of financial management and/or budgetary control and to implement agreed budget decisions	25	12	No change.
9. Failure to maximise collection of income due to the Council	20	9	No change.
10. Failure of key ICT systems	25	10	No change.
11. Failure to implement Private Sector Housing Strategy in accordance with Government and Council expectations	20	8	The Enforcement Policy and Houses in Multiple Occupation (HMO) Standards is added as key controls. The availability of staff to deal with HMO licences is a new risk indicator. An action point to license HMO in accordance with adopted standards and legal requirements is added The action to deliver a Warm Homes on Prescription (WHOP) scheme in Broxtowe has been deleted.

Risk	Inherent Risk	Residual Risk	Changes
12. Failure to engage with partners/community to implement the Broxtowe Borough Partnership Statement of Common Purpose 2018-2020	15	6	The Partnership Working Strategy has been replaced as a key control with the Partnership Board. Progress on Action Plans is added as a risk indicator. The action point to implement the Action Plans within the Broxtowe Sustainable Community Strategy is replaced with an action to implement the Action Plans generated from the Broxtowe Partnership.
13. Failure to contribute effectively to dealing with crime and disorder	15	6	The Alcohol Licensing Policy needs to be added as a key control The Police and Crime Panel is replaced as a key control with the Police and Crime Plan 2018-2021. Partnership working with other agencies and the Nottinghamshire Community Safety Agreement has been deleted as key controls. The completed action to review the Alcohol Licensing Policy is deleted.
14. Failure to provide housing in accordance with the Local Development Framework	20	12	The Housing Needs Survey needs to be added as a key control. The following actions are deleted: • Commission a housing needs assessment • Prepare for a public examination of the Part 2 Local Plan.
15. Natural disaster or deliberate act, which affects major part of the Authority	15	10	An action point to recruit a new Health and Safety Manager has been added.

Risk	Inherent Risk	Residual Risk	Changes
16. Failure to mitigate the impact of the Government's welfare reform agenda	20	10	The Income Management Policy and the Welfare Reform Working Party have been added as key controls. The number of tenants claiming Universal Credit; the number of referrals to the Financial Inclusion Service; Citizens' Advice (CAB); and the number of evictions are added as risk indicators. The following actions are added: • Implement the Welfare Reform Action Plan • Integrate the Rents team into the Housing Department • Move to the agreed new structure for the Rents team. The completed action to assess the staffing implications of the introduction of Universal Credit has been deleted.
17. Failure to maximise opportunities and to recognise the risks in shared services arrangements	20	9	An action point has been added to assist Rushcliffe Borough Council with the development of a new crematorium. The following actions have been removed: • Explore further shared service opportunities through the Managed Revenues and Benefits Service with Erewash Borough Council. • Develop closer working with Rushcliffe in respect of democratic and electoral services.
18. Corporate and/or political leadership adversely impacting upon service delivery	20	8	An action point to address any changes required following the outcome of the forthcoming Borough elections has been added.
19. High levels of sickness	16	9	No change.

Risk	Inherent Risk	Residual Risk	Changes
20. Lack of skills and/or capacity to meet increasing initiatives and expectations.	20	12	The Apprenticeship Levy has been added as a key control. The amount of Levy needing to be spent and the number of apprenticeships are also added as key controls. The following actions are completed: • Develop a new People Strategy and present to Committee for approval • Develop a formal Apprenticeship Strategy.
21. Inability to attract or retain key individuals or groups of staff	20	12.	The number of apprenticeships and the Learning and Development Policy are added as key controls. The use of the scarcity rating in recruiting staff is added as a risk indicator.
22. Failure to fully utilise investment in ICT infrastructure	16	9	See further details below.
23. Processes or procedures not followed leading to ill informed decisions and/or abuse of Council facilities	20	9	The Driving at Work Policy is added as a key control. The costs awarded following the overturning of Planning Committee decisions is added as a risk indicator.
24. Failure to comply with duty as a service provider and employer to groups such as children, the elderly, vulnerable adults etc.	20	9	The Vulnerable Persons Panel has been replaced as a key control by the Complex Cases Panel. The following actions have been removed: • Monitor the effect of actions taken in response to water safety concerns at Beeston Weir • Set up a task and finish group to capture the Council's approach to those with mental health issues. • Provide a guidance document for staff when dealing with people who threaten suicide • Implement a care leavers council tax reduction scheme.
25. Failure to ensure appropriate levels of data quality	8	4	No change.

Risk	Inherent Risk	Residual Risk	Changes
26. Unauthorised access of data	20	9	No change.
27. High volumes of employee or client fraud	20	9	No change.
28. Failure to effectively communicate either externally or internally	12	6	No change.

Further Details

The following items are highlighted for the attention of Members.

1. Risk Map

   Following the approval of the new Risk Management Strategy for the Council, a '5x5' risk map matrix is now being used to assess both the threats and opportunities for each strategic risk in terms of both the likelihood and impact.

   The initial inherent and residual risk scores assigned to each strategic risk by the Strategic Risk Management Group are set out above. These will be considered further and amended as necessary at future meetings.

2. Not complying with domestic or European legislation (Risk 7)

   Whilst there is an action point under this risk to assess the impact of any relevant legislative changes arising from the United Kingdom leaving the European Union, the uncertainty regarding this process and its potential implications will require close scrutiny. There may be a significant impact upon a number of strategic risks and these will have to be addressed in due course.

3. Failure to fully utilise investment in ICT infrastructure (Risk 22)

   Concern was expressed with regards to the capacity of the ICT team to deliver a number of key corporate projects. It is considered imperative that the ICT team possess the appropriate level of resources and skills to support such projects and enable the Council to fully utilise its investment in ICT infrastructure.

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Report of the Interim Strategic Director

WORK PROGRAMME

1. Purpose of report

   To consider items for inclusion in the Work Programme for future meetings.

2. Background

   Items which have already been suggested for inclusion in the Work Programme of future meetings are given below. Members are asked to consider any additional items that they may wish to see in the Programme.

20 May 2019	• Corporate Governance Arrangements
22 July 2019	• Annual Review of Complaints 2018/19 • Internal Audit Review 2018/19 • Internal Audit Progress Report • Review of Strategic Risk Register • Audit of Accounts 2018/19 and Associated Matters • Procurement Update • Internal Audit Review of Effectiveness 2018/19
23 September 2019	• Internal Audit Progress Report • Review of Strategic Risk Register
2 December 2019	• Internal Audit Progress Report • Internal Audit Review of Effectiveness 2019/20 • Review of Strategic Risk Register
16 March 2020	• Internal Audit Plan 2020/21 • Internal Audit Progress Report • External Audit Plan 2019/20 • Review of Strategic Risk Register • Statement of Accounts 2018/19 – Accounting Policies • Statement of Accounts 2018/19 – Underlying Pension Assumptions

Recommendation

The Committee is asked to CONSIDER the Work Programme and RESOLVE accordingly.

Background papers
Nil

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