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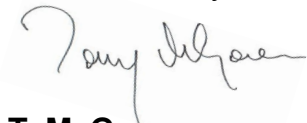
16 March, 2018

Dear Councillor,

**AUDIT & GOVERNANCE COMMITTEE
4:00PM, TUESDAY 27 MARCH, 2018
ESPERANCE ROOM, CIVIC CENTRE, CANNOCK**

You are invited to attend this meeting for consideration of the matters itemised in the following Agenda.

Yours sincerely,



**T. McGovern
Managing Director**

To: Councillors

Grice, Mrs. D. (Chairman)
Johnson, J.P. (Vice-Chairman)

Bowater, J.L. Stretton, Mrs. P.Z.
Dean, A. Tait, Ms. L.
Dudson, A.

A G E N D A

PART 1

1. Apologies

2. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

To declare any personal, pecuniary or disclosable pecuniary interests in accordance with the Code of Conduct and any possible contraventions under Section 106 of the Local Government Finance Act 1992.

3. Minutes

To approve the Minutes of the meeting held on 5 December, 2017 (enclosed).

4. Internal Audit Quarter 3 Report 2017/18

Report of the Chief Internal Auditor and Risk Manager (item 4.1 – 4.8).

5. Internal Audit Plan 2018/19

Report of the Chief Internal Auditor and Risk Manager (Item 5.1 – 5.23).

6. Cannock Chase District Council Certification Letter 2016/17

Letter of the External Auditors (Item 6.1 – 6.3).

7. Cannock Chase District Council Audit Plan 2017/18

Report of the External Auditors (Item 7.1 – 7.16).

8. Informing the Audit Risk Assessment for Cannock Chase District Council 2017/18

Report of the External Auditors (Item 8.1 – 8.23).

9. Audit Progress Report and Sector Update 2017/18

Report of the External Auditors (Item 9.1 – 9.17).

CANNOCK CHASE COUNCIL
MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON TUESDAY 5 DECEMBER 2017 AT 4:00 P.M.
IN THE CIVIC CENTRE, BEECROFT ROAD, CANNOCK

PART 1

PRESENT:
Councillors

Bowater, J.	Stretton, Mrs. P.Z.
Dean, A.	Tait, Ms. L.
Dudson, A.	

Also Present:

Richard Percival, Engagement Lead, Grant Thornton (External Auditors);
Jim McLarnon, Engagement Manager, Grant Thornton (External Auditors).

18. Appointment of Chairman

Councillor A. Dudson was appointed as Chairman for the meeting.

19. Apologies

Apologies for absence were received from Councillors Mrs. D. Grice (Chairman) and J.P. Johnson (Vice-Chairman).

Apologies were also noted for the Head of Governance and Corporate Services.

20. Declaration of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

No Declarations of Interests were made in addition to those already confirmed by Members in the Register of Members' Interests.

21. Minutes

RESOLVED:

That the Minutes of the meeting held on 19 September 2017, be approved as a correct record and signed.

22. Internal Audit Quarter 2 Report 2017/18

Consideration was given to the Report of the Chief Internal Auditor and Risk Manager (Item 4.1 – 4.9 of the Official Minutes of the Council).

The Chief Internal Auditor and Risk Manager advised Members that at the end of quarter two the number of completed audits was behind plan. Owing to a number of vacant posts within the Internal Audit team it was possible that the full year's plan may not be achieved. To mitigate the impact of the vacancies a specialist contractor had been appointed to help deliver some of the planned audits. It was intended to recruit to the vacant posts; however a number of options were being considered with regards to the structure of the team.

In respect of the follow-up audits completed in quarter 2 not enough progress had been made to revise the original assurance ratings, although work was ongoing to complete the agreed actions.

RESOLVED:

That the contents of the Internal Audit Report for Quarter 2, 2017/18, be noted.

23. Strategic Risk Register

Consideration was given to the Report of the Head of Governance and Corporate Services (Item 5.1 – 5.18 the Official Minutes of the Council) (*presented by the Chief Internal Auditor and Risk Manager*).

The Chief Internal Auditor and Risk Manager advised Members that as at 30 September 2017 the number of strategic risks remained unchanged, as did the rating for each risk. Risk 18, '*vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime*', was still rated as a red risk owing to continued uncertainty and lack of clarity over the future impact of the New Homes Bonus and Business Rates Retention.

A Member queried if there had been any recent updates regarding the planned 100% retention of Business Rates funding. The Head of Finance replied that the Chancellor's Autumn Budget confirmed that 100% retention was still intended, but due to the proposed Local Government Finance Bill not featuring in the Government's legislative programme for 2017/18 and 2018/19 the position remained unclear. At this stage it was expected that any changes would now be implemented from 2020/21.

RESOLVED:

That the progress made in the identification and management of the strategic risks be noted.

24. Annual Governance Statement – Progress Report

Consideration was given to the Report of the Head of Governance and Corporate Services (Item 6.1 – 6.8 of the Official Minutes of the Council) (*presented by the Chief Internal Auditor and Risk Manager*).

The Chief Internal Auditor and Risk Manager advised Members that of the 8 significant governance issues identified in the Annual Governance Statement (AGS), progress on completion was as follows:

- Significant progress had been made on the delivery and completion of 1 issue;
- Some progress had been made on the delivery and completion of 6 issues;
- No action had yet been taken on 1 issue – ‘*Employees’ Code of Conduct and Embedding Values*’. It was expected that work on this issue would now not commence until 2018/19 due to other projects taking priority.

RESOLVED:

That the contents of the progress report on the Annual Governance Statement 2016/17 be noted.

25. Treasury Management Mid-Year Report 2017/18

Consideration was given to the Report of the Head of Finance (Item 7.1 – 7.13 of the Official Minutes of the Council).

The Head of Finance advised Members that the report provided an update on the Council’s treasury management activity and performance for the period 1 April to 30 September, 2017. The capital expenditure prudential indicators had increased since the budget approved in February 2017, primarily because of changes in the Housing Revenue Account and Housing General Fund, and the external debt/operational boundary prudential indicators had remained unchanged since the budget.

RESOLVED:

That the Report, treasury activity and prudential indicators for the first half of the 2017/18 financial year be noted.

26. Annual Audit Letter for Cannock Chase District Council 2016/17

Consideration was given to the Report of the External Auditors (Item 8.1 – 8.15 of the Official Minutes of the Council).

Richard Percival advised Members that the Letter summarised the key findings which had arisen from the work undertaken by the external auditors for the year ended 31 March 2017. In respect of certification work on the Council’s Housing Benefits subsidy claim, a number of errors had been identified which resulted in the work not being completed until 1 December 2017, a day after the set deadline. Discussions were already underway with Officers on how to make the process

smoother for future years to ensure deadlines would not be missed. Work was now taking place to prepare for the audit of 2017/18 accounts and it was expected that all relevant deadlines would be met.

RESOLVED:

That the Report of the External Auditors be noted.

27. Progress Report and Emerging Issues & Developments for Cannock Chase District Council

Consideration was given to the Report of the External Auditors (Item 9.1 –9.16 of the Official Minutes of the Council).

Jim McLarnon advised Members that the purpose of the Report was to provide an update on progress in delivering the responsibilities of the external auditors to the Council. In respect of work to certify the pooling of capital receipts the deadline for completion had been deferred until 31 December 2017, however required guidance had not yet been issued, therefore it was uncertain at this stage whether the revised deadline would be achievable. Work to undertake an interim accounts audit, final accounts audit and value for money conclusion were planned to take place between January and July 2018.

RESOLVED:

That the Report of the External Auditors be noted.

The meeting closed at 4:30 p.m.

CHAIRMAN

Report of:	Chief Internal Auditor and Risk Manager
Contact Officer:	Stephen Baddeley
Telephone No:	(01543) 464 415
Report Track:	Audit & Gov Cttee: 27/03/18

AUDIT & GOVERNANCE COMMITTEE
27 MARCH 2018
INTERNAL AUDIT QUARTER 3 REPORT 2017/18

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information the Internal Audit Quarter 3 Report for 2017-18.

2 Recommendations

- 2.1 That the Committee notes the contents of the Internal Audit Report for Quarter 3 of 2017-18.

3 Key Issues and Reasons for Recommendation

- 3.1 At the end of the quarter 11 audits had been completed to at least draft report stage and a further eight audits were in progress. No Limited or No Assurance have been issued in the quarter.

4 Relationship to Corporate Priorities

- 4.1 The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5 Report Detail

- 5.1 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the

committee any relevant areas where significant weaknesses have not been addressed by managers.

- 5.2 Appendix 1 shows the performance of the section which whilst below target at the end of quarter is not of significant concern due to the amount of work-in-progress. When this is taken into account there are no major concerns in relation to the completion of the audit plan by the end of the year
- 5.3 The table below gives a summary of the level of assurance for each of the audits completed in the quarter. More detailed information on each of the reports issued is contained in Appendix 2.

Number of Audits	Assurance	Definition
3	Substantial ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
2	Partial ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	Limited ✘	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	No Assurance ✘	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.

- 5.4 Appendix 3 lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.

5.5 Appendix 4 contains the details of the follow-up audits issued in the quarter. No follow-ups have been complete in the quarter.

6 Implications

6.1 Financial

None.

6.2 Legal

None.

6.3 Human Resources

None.

6.4 Section 17 (Crime Prevention)

None.

6.5 Human Rights Act

None.

6.6 Data Protection

None.

6.7 Risk Management

None.

6.8 Equality & Diversity

None.

6.9 Best Value

None.

7 Appendices to the Report

Appendix 1	Audit Performance.
Appendix 2	Audits Completed in Quarter 3.
Appendix 3	Audits in Progress.
Appendix 4	Audit Follow-ups completed in the Quarter.

Previous Consideration

None.

Background Papers

Audit Plan File

Audit Time Recording System

Internal Audit Reports


Appendix 1

Audit Performance

Breakdown of the Planned Delivery of the Audit Plan by Quarter






Target Completion	Quarter %	No of Audits for Quarter	Cumulative %	Cumulative Total Number of Audits
Quarter 1	11	3	11	3
Quarter 2	25	7	36	10
Quarter 3	25	7	61	17
Quarter 4	39	11	100	28

Cumulative Performance Information at the end of the Quarter

	Planned Audits	Actual Audits			
		Complete	% Of Completed	Work In Progress	% WIP & Complete
Audit Plan	17	11	65%	8	111%
Commentary	The Section is slightly below target for the quarter. The team is currently carrying a number of vacant posts which may have an impact on the completion of the current audit plan although this has been mitigated by the engagement of a contractor. The section has also recruited to one of the vacant posts; the new employee started in January 2018.				

Appendix 2

Audits Completed in Quarter 3

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Pest & Dog Control★	Environment & Healthy Lifestyles	Draft	4	Partial 	The key issue in relation to this audit is the requirement to draw-up a service level agreement with Stafford BC for the delivery of the function.
Scheme Managers and Sheltered Accommodation	Housing & Partnerships	Draft	7	Partial 	
Council Tax	Financial Management	Final	0	Substantial 	
National Non-Domestic Rates	Financial Management	Final	0	Substantial 	
General Ledger	Financial Management	Final	0	Substantial 	

★ Services led by Stafford Borough Council as part of Shared Services

Appendix 3Audits in Progress

Audit	Head of Service
Private Sector Housing Grants	Environment & Healthy Lifestyles
Electoral Registration & Elections	Governance & Corporate Services
Housing Benefits	Financial Management
Payroll★	Human Resources
Capital Strategy & Capital Programme - Includes s106 Arrangements & Bidding for External Funds	Financial Management
Landscape Development	Environment & Healthy Lifestyles
Planning - Local Plan/Forward Planning	Economic Development
Cemeteries	Environment & Healthy Lifestyles

Appendix 4

Audit Follow-ups Completed in the Quarter

No Follow-ups have been completed in the quarter.

Report of:	Chief Internal Auditor and Risk Manager
Contact Officer:	Stephen Baddeley
Telephone No:	(01543) 464 415
Report Track:	Audit & Gov Cttee: 27/03/18

**AUDIT & GOVERNANCE COMMITTEE
27 MARCH 2018
INTERNAL AUDIT PLAN 2018-19**

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee the Internal Audit Plan for 2018-19.

2 Recommendations

- 2.1 That the Committee approves the Audit Plan for 2018-19.

3 Key Issues and Reasons for Recommendation

- 3.1 Internal Audit has a duty to provide the Council with an annual opinion on the effectiveness of its internal control environment and governance arrangements. The work of Internal Audit is also used as one of the sources of assurance for the Annual Governance Statement.
- 3.2 Internal Audit is required to produce a plan of work to ensure that it can give an appropriate opinion on the Council's key risk areas and systems and provide sufficient coverage for the production of the Annual Governance Statement.
- 3.3 The Audit Plan is determined via a risk assessment exercise and the results of that exercise are detailed in the report along with the resources available within the team to deliver the work. The planned work is deemed to be sufficient to ensure that Internal Audit can deliver an appropriate opinion on the control environment and governance arrangements at the Council.

4 Report Detail

- 4.1 Internal Audit is an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls. The Internal Audit Section does this by conducting an

independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

- 4.2 To provide this assurance Internal Audit conducts an annual risk assessment and determines an audit plan for the year.
- 4.3 Meetings are held with Heads of Service and the Council's s151 Officer as part of the risk assessment process to obtain views and comments in relation to the composition of the Internal Audit Plan. Comments are also invited from the External Auditor.
- 4.4 A copy of the full audit needs assessment undertaken for 2018-19 is attached as Appendix 2. This shows two elements:-
- The areas delivered as a Shared Service with Stafford Borough Council; and
 - Those services solely delivered by Cannock Chase District Council.
- 4.5 The risk assessment uses a number of factors to calculate a risk score for each area and the resulting scores are banded into three risk categories
- High (scores over 100);
 - Medium (scores 60-99); and
 - Low (scores up to 59).
- 4.6 As in previous years the audit areas have then been ranked by the risk category to determine those audits that will be undertaken in 2018-19
- 4.7 The outcome of the risk assessment has resulted in the following categorisation of risk scores:

Audit Universe – Number of Audits by Risk

	Cannock Chase	Shared
High	2	6
Medium	61	33
Low	1	2
Total	64	41

- 4.8 The resource available for the delivery of the Audit Plan across both authorities in 2018-19 is 635 days; the full details are shown in Appendix 3. The In-House team is currently carrying a vacancy, which is being covered by the use of External Support. The resources available for the year are considered sufficient to cover enough work to adequately inform the Annual Audit Opinion for 2018-19.

4.9 This is broken down into:

Allocation of Resources to Audit Plan Requirements

Shared Service Audits	200
Cannock Specific Audits	225
Stafford Specific Audits	150
IT Audit Plan	60
Total Days	635

- 4.10 The resources available within the Internal Audit Section were then compared to the risk assessment in order to determine those audits that will be undertaken in 2018-19 and form the basis of the Audit Plan, with priority given to the highest risk scoring areas. Although most of the work of the team is contained in the Audit Plan some time is also set-aside for other work carried out by the team. This includes fraud related work, other consultancy reviews, provision of ad hoc advice and special investigations.
- 4.11 Internal Audit has sufficient resources to review all of the High Risk areas in the risk assessment for the Cannock Chase specific audits (those scoring 100 or higher) and a proportion of the medium risk areas, i.e. those with a score over 84.
- 4.12 The Audit Plan for 2018-19 covering the Shared Service Audits and the Cannock Chase Specific Audits is included in Appendix 1.
- 4.13 The Cannock Chase Specific Audit Plan equates to 18 out of a possible 64 audits that have been risk assessed (approximately 28%) and comprises 100% (2/2) of the High Risk areas and 26% (16/61) of the medium risk areas (those with a score of 84 or more).
- 4.14 In addition to the Cannock Chase Specific work 10 audits have been included for Shared Service areas. This comprises all of the High Risk areas (6/6) and 4 of the 33 (approximately 12%) medium risk areas (those scoring over 87). The plan equates to approximately 24% of the 41 Shared Service Audits that have been identified.
- 4.15 For the large financial systems which appear on the Audit Plan annually (Housing Benefits, Council Tax, NNDR and Payroll) the section reviews a portion of the system in detail each year. This provides full coverage of the system over a 2-3 year period.
- 4.16 This year the audits have also been categorised into 3 types:
- Key Finance Systems – these are the major finance systems of the Council, e.g. Council Tax, Payroll, General Ledger.

- Assurance Functions – These are functions which provide the Council with information about how well other systems are operating e.g. risk management, performance management and budget monitoring.
- Operational Audits – These are the functions of the Council which provide a service to the public or ensure that the Council functions operate e.g. Grounds Maintenance, Housing Allocations and Food Safety Inspections.

4.17 The Audit Plan has been split across the 3 audit types as follows:

	Number	%
Key Finance Systems	7	25
Assurance Functions	4	14
Operational Audits	17	
Total	28	100

4.18 It is considered that the current resources of the Internal Audit section will allow sufficient work for an appropriate opinion to be given on the Council's key risk areas and systems and provide sufficient coverage for the production of the Annual Governance Statement.

4.19 The risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-

- system based reviews of all key financial systems that could have a material impact on the Council's financial statements e.g. payroll, creditors;
- regulatory audits of Council establishments e.g. Sheltered Housing Schemes; and
- system based reviews of departmental systems/service areas e.g. Homelessness, Procurement and corporate processes.

4.20 The IT Audit Plan for 2018-19 has not yet been developed; this will be presented to a future meeting of the Audit & Governance Committee for approval.

5 Implications

5.1 Financial

None.

5.2 Legal

None.

5.3 **Human Resources**

None.

5.4 **Section 17 (Crime Prevention)**

None.

5.5 **Human Rights Act**

None.

5.6 **Data Protection**

None.

5.7 **Risk Management**

None.

5.8 **Equality & Diversity**

None.

5.9 **Best Value**

None.

6 Appendices to the Report

Appendix 1 Internal Audit Plan 2018-19.

Appendix 2 Audit Needs Assessment 2018-19.

Appendix 3 Available Audit Resources 2018-19.

Previous Consideration

None.

Background Papers

Audit Plan File

ITEM NO. 5.

Internal Audit Plan 2018-19

Shared Service Audits

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Housing Benefits	A review of the systems and procedures in place to assess entitlement and to make payments in relation to Housing & Council Tax Benefit.	Customers	Key Finance System	Head of Financial Management	30	High
Council Tax	A review of the systems and procedures in place to calculate the liability, issue bills, collect income and monitor arrears in relation to Council Tax.	Customers	Key Finance System	Head of Financial Management	25	High
National Non-Domestic Rates	A review of the systems and procedures in place to calculate the liability, issue bills, collect income and monitor arrears in relation to Business Rates.	Customers	Key Finance System	Head of Financial Management	25	High
Banking Arrangements	A review of the Banking Contract and associated arrangements. (Including cash/cheque banking arrangements.)	Customers	Operational Audit	Head of Financial Management	10	High
Payroll	A review of the systems and procedures for the accurate payment of employees and other costs associated with employment to other bodies e.g. Tax, NI and Pensions.	Customers	Key Finance System	Head of HR	25	High

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Pensions Assurance for the County	A review of arrangements for dealing with the Employee and Employer Pension Contributions.	N/A	Key Finance System	Head of HR	10	High
Information Governance	A review of Data Protection/GDPR and FOI arrangements at the Council and to cover information sharing protocols & arrangements	Customers	Assurance	Head of Governance & Corporate Services	15	Medium
Creditors	A review of the systems and procedures in place to accurately pay all invoices for services and supplies used by the Council. This review will cover all aspects of the system not just the functions carried out by the Accounts Payable Team.	Customers	Key Finance System	Head of Financial Management	25	Medium
Staff Timekeeping & Leave	A review of the systems and procedures relating to the recording of staff attendance at work and the authorisation of leave.	Customers	Operational Audit	Head of HR	20	Medium
Insurance	A review of the systems and procedures for administering the Council's Insurance provision and dealing with claims.	Customers	Assurance	Head of Governance & Corporate Services	20	Medium
Total Days					205	

Cannock Specific Audits

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Asset Management	A review of the systems and procedures in place to manage and maintain the Council's physical assets and property portfolio in line with corporate priorities & needs.	Customers	Assurance	Housing & Partnerships	10	High
Stores Function	A review of the stores function supporting Housing Maintenance and other Council needs.	More & Better Housing	Operational Audit	Housing & Partnerships	15	High
Customer Services (CRM, Reception, Social Alarms etc.)	A review of the systems and procedures in place to provide a front line customer facing service. This will include personal visits on reception, telephone contact via the contact centre and the out of hours telephone provision.	Customers	Operational Audit	Governance & Corporate Services	15	Medium
Fleet Management & Garage Workshop	A review of the operation and management of the Garage Workshop including the services provided to the Public and the operation of the Council's fleet of vehicles.	Cleaner and Safer Environments	Operational Audit	Environment & Healthy Lifestyles	10	Medium
Culture & Leisure Services Contract Monitoring (Client Function)	A review of the contract monitoring and liaison of the Leisure Contract and a review of arrangements for liaison with key partners	Better Health Outcomes	Operational Audit	Environment & Healthy Lifestyles	15	Medium

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Non-Housing Maintenance	A review of the systems and procedures in place to carry out repairs and maintenance of the Council's properties (excluding Housing Stock)	More & Better Housing	Operational Audit	Housing & Partnerships	15	Medium
Environmental Protection/ Pollution Control	A review of the operation of the Council's responsibilities in relation to Environmental Protection and preventing and investigating pollution related incidents.	Cleaner and Safer environments	Operational Audit	Environment & Healthy Lifestyles	10	Medium
Public Relations & Marketing Including Graphic Design	A review of the systems and procedures for PR and marketing	Customers	Operational Audit	Governance & Corporate Services	10	Medium
Ethical & Governance Framework	Review of the Council's Ethical Governance Arrangements including Constitution, Code of Conduct, Gifts & Hospitality	Customers	Assurance	Governance & Corporate Services	15	Medium
Economic Development & Tourism	A review of the Council's activities to improve the local economy and to promote tourism. This will include a review of the Council's involvement of the LEP.	Better Jobs and Skills	Operational Audit	Economic Development	15	Medium

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Utilities Management	A review of the systems and procedures in place to procure and manage utilities usage at the Council. To include the supply of gas and electricity to the main Council sites and methods of reducing energy usage via energy efficiency measures and "green" IT	Customers	Operational Audit	Housing & Partnerships	10	Medium
Street Cleansing	A review of the operation and management arrangements Council's and Street Cleansing provision	Cleaner and Safer environments	Operational Audit	Environment & Healthy Lifestyles	15	Medium
Miscellaneous Engineering Functions (Public Clocks, Bus Stations, Street Furniture & Land Drainage)	A review of the arrangements for carrying out the Council's minor engineering functions.	Cleaner and Safer environments	Operational Audit	Environment & Healthy Lifestyles	10	Medium
Countryside Management & Rangers Service	A review of the management and operation of the Countryside Service.	Cleaner and Safer environments	Operational Audit	Environment & Healthy Lifestyles	10	Medium
Grounds Maintenance	A review of the management arrangements and contract monitoring of the Council's and Grounds Maintenance provision	Cleaner and Safer environments	Operational Audit	Environment & Healthy Lifestyles	15	Medium

Audit Area	System Description	Priority	Type	Service Lead Officer	Planned Days	Rank
Partnerships & CCTV	A review of the arrangements that the Council has for working in partnership with others. Will include reviews of the governance arrangements and the partnership management procedures. This includes a review of the CCTV provision.	Cleaner and Safer environments	Operational Audit	Housing & Partnerships	15	Medium
Rent Debit, Collection & Arrears	A review of the systems and procedures in place to issue bills, collect income and recover arrears in relation to rents for Council Houses.	More & Better Housing	Key Finance System	Housing & Partnerships	10	Medium
Sale of Council Houses	A review of the systems and procedures in place to operate the "Right To Buy" Scheme.	More & Better Housing	Operational Audit	Housing & Partnerships	10	Medium
Total Days					225	

Cannock Chase DC Audit Needs Assessment 2018-19**Shared Service Areas**

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Risk Category
Housing Benefits	Customers	Key Finance System	Head of Financial Management	30	High
Council Tax	Customers	Key Finance System	Head of Financial Management	25	High
National Non-Domestic Rates	Customers	Key Finance System	Head of Financial Management	25	High
Banking Arrangements	Customers	Operational Audit	Head of Financial Management	10	High
Payroll	Customers	Key Finance System	Head of HR	25	High
Pensions Assurance for the County	N/A	Key Finance System	Head of HR	10	High
Information Governance	Customers	Assurance	Head of Governance & Corporate Services	15	Medium
Creditors	Customers	Key Finance System	Head of Financial Management	25	Medium
Staff Timekeeping & Leave	Customers	Operational Audit	Head of HR	20	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Risk Category
Insurance	Customers	Assurance	Head of Governance & Corporate Services	25	Medium
Staff Expenses	Customers	Operational Audit	Head of HR	20	Medium
Budgetary Control & Budget Setting	Customers	Assurance	Head of Financial Management	25	Medium
Housing Benefits Overpayment Team	Customers	Operational Audit	Head of Financial Management	15	Medium
Capital Accounting	Customers	Key Finance System	Head of Financial Management	20	Medium
Procurement	Customers	Assurance	Head of Governance & Corporate Services	20	Medium
Value Added Tax	Customers	Operational Audit	Head of Financial Management	20	Medium
Court Fees & Recovery, Legal Admin & Case Management System	Customers	Operational Audit	Head of Law & Administration	14	Medium
Training/Development, Staff Appraisals & PETS	Customers	Operational Audit	Head of HR	14	Medium
Treasury Management	Customers	Key Finance System	Head of Financial Management	25	Medium
Reprographics (inc photocopiers)	Customers	Operational Audit	Head of Technology	15	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Risk Category
Building Control & Inspection	Cleaner and Safer Environments	Operational Audit	Head of Economic Development	15	Medium
Use of Purchasing Cards	Customers	Operational Audit	Head of Financial Management	15	Medium
Pest & Dog Control	Cleaner and Safer Environments	Operational Audit	Head of Operations	15	Medium
LTB Compliance & Social Housing Fraud Team	Customers	Operational Audit	Head of Financial Management	15	Medium
Grants Procedures (Grants to the Council)	Customers	Operational Audit	Head of Financial Management	10	Medium
Sundry Debtors	Customers	Key Finance System	Head of Financial Management	25	Medium
Civil Contingencies (Emergency Planning, Business Continuity)	Customers	Assurance	Head of Governance & Corporate Services	20	Medium
Risk Management	Customers	Assurance	Head of Governance & Corporate Services	15	Medium
E-Payments & residual cash income	Customers	Key Finance System	Head of Financial Management	20	Medium
Bank Reconciliation	Customers	Key Finance System	Head of Financial Management	20	Medium
Central Recharge Processes	Customers	Operational Audit	Head of Financial Management	14	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Risk Category
Re-evaluation, Regrade and Honoraria Procedures	Customers	Operational Audit	Head of HR	15	Medium
Leasing	Customers	Operational Audit	Head of Financial Management	20	Medium
LTB Control Section (Include DIPS)	Customers	Operational Audit	Head of Financial Management	20	Medium
Managing Absence	Customers	Assurance	Head of HR	15	Medium
Telecommunications Arrangements	Customers	Operational Audit	Head of Technology	20	Medium
Capital Strategy & Capital Programme - Includes s106 Arrangements & Bidding for External Funds	Customers	Key Finance System	Head of Financial Management	20	Medium
General Ledger	Customers	Key Finance System	Head of Financial Management	20	Medium
Recruitment & Selection Procedures	Customers	Assurance	Head of HR	15	Medium
Fairer Charging Service	Customers	Operational Audit	Head of Financial Management	20	Low
Mortgages	Customers	Operational Audit	Head of Financial Management	14	Low

Cannock Chase DC Specific

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Asset Management	Customers	Assurance	Head of Housing & Partnerships	10	High
Stores Function	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	High
Customer Services (CRM, Reception, Social Alarms etc.)	Customers	Operational Audit	Head of Governance & Corporate Services	15	Medium
Fleet Management & Garage Workshop	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Culture & Leisure Services Contract Monitoring (Client Function)	Better Health Outcomes	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Non-Housing Maintenance	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Medium
Environmental Protection/Pollution Control	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Public Relations & Marketing Including Graphic Design	Customers	Operational Audit	Governance & Corporate Services	10	Medium
Ethical & Governance Framework	Customers	Assurance	Head of Governance & Corporate Services	15	Medium
Economic Development & Tourism Exclude the LEP)	Better Jobs and Skills	Operational Audit	Head of Economic Development	15	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Utilities Management	Customers	Operational Audit	Head of Housing & Partnerships	10	Medium
Street Cleansing	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Miscellaneous Engineering Functions (Public Clocks, Bus Stations, Street Furniture & Land Drainage)	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Countryside Management & Rangers Service	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Grounds Maintenance	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Partnerships & CCTV	Cleaner and Safer Environments	Operational Audit	Head of Housing & Partnerships	15	Medium
Rent Debit, Collection & Arrears	More & Better Housing	Key Finance System	Head of Housing & Partnerships	10	Medium
Sale of Council Houses	More & Better Housing	Operational Audit	Head of Housing & Partnerships	10	Medium
Refuse Collection and Recycling	Cleaner & Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
HRA Business Plans	More & Better Housing	Key Finance System	Head of Housing & Partnerships	10	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Private Sector Housing Grants	Better Health Outcomes	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Electoral Registration & Elections	Customers	Operational Audit	Head of Governance & Corporate Services	15	Medium
Mortuary & Assisted Burials	Cleaner and Safer Environments	Operational Audit	Head of Economic Development	10	Medium
Residents & Tennent Support and Advice Arrangements	More & Better Housing / Customers	Operational Audit	Head of Housing & Partnerships	10	Medium
Allocations & Voids	More & Better Housing	Operational Audit	Head of Housing & Partnerships	10	Medium
Leisure & Culture Major Projects	Cleaner & Safer Environments / Better Health Outcomes	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Business Planning, Performance Management & Corporate Plans	Customers	Assurance	Head of Governance & Corporate Services	15	Medium
Local Enterprise Partnership Arrangements / Combined Authority	Better Jobs and Skills / More and Better Housing	Operational Audit	Head of Economic Development	10	Medium
Land charges	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium
Members Allowances, PCs & Other Expenses	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Licensing & Hackney carriages	Cleaner & Safer Environments	Operational Audit	Head of Economic Development	10	Medium
Grants to Voluntary Organisations & Subscriptions	Customers	Operational Audit	Head of Financial Management	5	Medium
Housing Property Services	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Medium
Housing Maintenance	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Medium
Property Management	Customers	Operational Audit	Head of Housing & Partnerships	15	Medium
Urban Forestry Management & Tree Preservation Orders	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Localism Act and Transparency Agenda arrangements	Customers	Operational Audit	Corporate	10	Medium
Cleaning & Caretaking Provision	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium
Development Control (Planning Applications & Enforcement)	Cleaner & Safer Environments	Operational Audit	Head of Economic Development	10	Medium
Health & Safety	Customers	Assurance	Head of Governance & Corporate Services	10	Medium
Community Engagement & Consultations	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Democratic Services	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium
Allotments	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Safeguarding Children & Vulnerable Adults	Customers	Assurance	Head of Housing & Partnerships	15	Medium
Support Services Admin	Customers	Operational Audit	Head of Governance & Corporate Services	10	Medium
Civic Expenses, (Hospitality, Regalia, Chairman's Fundraising & Ball etc.) to include Town Twinning	Customers	Operational Audit	Managing Director	10	Medium
Miscellaneous Housing Act Responsibilities & Empty Homes Scheme	More & Better Housing	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Landscape Development	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Scheme Managers and Sheltered Accommodation	More & Better Housing	Operational Audit	Head of Housing & Partnerships	10	Medium
Public Health & Other Enforcement	Cleaner & safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	10	Medium
Estate Management & Caretakers	More & Better Housing	Operational Audit	Head of Housing & Partnerships	10	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Equality and Diversity	Customers	Assurance	Head of Governance & Corporate Services	10	Medium
Community Infrastructure Levy	Customers	Operational Audit	Head of Economic Development	10	Medium
Cemeteries	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Local Authority Health & Safety Inspection & Enforcement	Cleaner and Safer Environments	Operational Audit	Head of Economic Development	10	Medium
Planning - Local Plan/Forward Planning	More & Better Housing	Operational Audit	Head of Economic Development	10	Medium
Homelessness Provisions & Housing Options Team	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Medium
Food Safety Inspections and Enforcement	Cleaner and Safer Environments	Operational Audit	Head of Economic Development	10	Medium
New Social Housing Building Schemes	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Medium
Car Parking Arrangements	Cleaner and Safer Environments	Operational Audit	Head of Environment & Healthy Lifestyles	15	Medium
Official Complaints, MP letters and Ombudsman	Customers	Assurance	Head of Managing Director	10	Medium
Strategic Housing	More & Better Housing	Operational Audit	Head of Housing & Partnerships	10	Medium

Audit Area	Priority	Type	Service Lead Officer	Planned Days	Rank
Markets	Cleaner and Safer Environments	Operational Audit	Head of Housing & Partnerships	10	Medium
Lease Holder Recharges	More & Better Housing	Operational Audit	Head of Housing & Partnerships	15	Low

ITEM NO. 5.

Appendix 3Available Audit Resources 2018-19

	General Audit Total	IT Audit Support	Total Days
Staffing of the Team (Excludes Chief Internal Auditor)	2.6		
In House Total Days	1044		1044
External Support	100	60	160
Days Available	1144	60	1204
Less Non Operational (leave, training etc)	334		334
Chargeable Days	810	60	870
<u>Chargeable Work</u>			
Fraud	30		30
Advice, Consultancy	65		65
Contingency Budget	110		110
Follow-ups	30		30
Audits	575	60	635
Chargeable Days	810	60	870
<u>Allocation of Resources to Audit Plan Requirements</u>			
Shared Service Audits	200		
Cannock Specific Audits	225		
Stafford Specific Audits	150		
IT Audit Plan	60		
Total Days	635		

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22 February 2018

Dear Bob,

Certification work for Cannock Chase District Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by Cannock Chase District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £25.8million. Further details are set out in Appendix A.

We identified the following issues from our certification work that we wish to highlight for your attention. There were errors from the extended testing that we carried out on this year's subsidy return that recurred from 2015/16 and two new areas. The extrapolated financial impact on the claim was again relatively insignificant to the total subsidy receivable. However, the errors found means that there will be a higher volume of testing required for the 2017/18 subsidy claim audit.

The volume of errors found during our certification process was more than previous years and indicative of weaknesses in the quality control procedures in place. This increases the audit testing required and means that some claimants may not be receiving benefits consistent with their entitlement under the regulations.

Our certification of the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative £7,740 certification fee for 2016/17 was set by PSAA, based on the final 2014/15 certification fee. This reflects the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. Due to the additional work required to complete the 2016/17 certification audit, we have agreed with you an additional fee of £2,353. This is subject to confirmation from PSAA and is set out in more detail in Appendix B.

Yours sincerely



For
Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£25,790,154	No	N/A	Yes	See below

Findings from certification of housing benefits subsidy claim

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£10,320	£7,740	£10,093	£2,353	Fee variation submitted to PSAA
Total	10,320	7,740	10,093	2,353	

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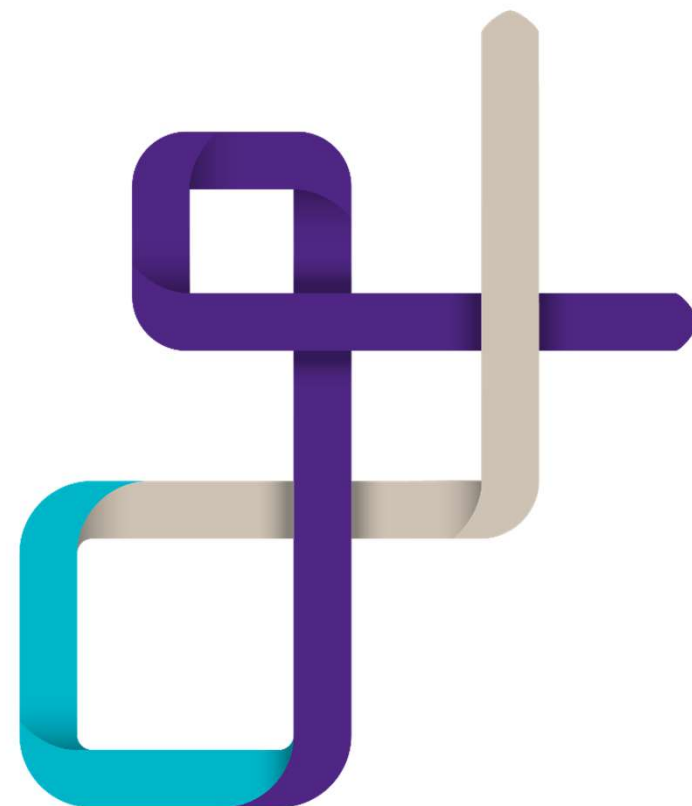


External Audit Plan

Year ending 31 March 2018

Cannock Chase District Council

31 January 2018



Contents



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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Cannock Chase District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Cannock Chase District Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

<p>Significant risks</p>	<p>Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Management over-ride of controls • Valuation of property, plant and equipment • Valuation of pension fund net liability <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
<p>Materiality</p>	<p>We have determined planning materiality to be £1,277k, which equates to 2% of your gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £64k.</p>
<p>Value for Money arrangements</p>	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:</p> <ul style="list-style-type: none"> • Financial sustainability
<p>Audit logistics</p>	<p>Our interim visit takes place in January and February, our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be no less than £52,109 for the Council.</p>
<p>Independence</p>	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements</p>

Deep business understanding

Changes to service delivery	Changes to financial reporting requirements	Key challenges		
<p>Commercialisation</p> <p>The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.</p>	<p>Devolution</p> <p>The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. Cannock Chase District Council is one of nine non-constituent member of the West Midlands Combined Authority (WMCA), helping to inform policy and drive the WMCA agenda</p> <p>The second West Midlands devolution deal was published on 23 November 2017. This is a commitment to deliver the local industrial strategy in areas including housing, transport, skills and employment, air quality, energy and digital.</p>	<p>Accounts and Audit Regulations 2015 (the Regulations)</p> <p>The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p> <p>Changes to the CIPFA 2017/18 Accounting Code</p> <p>CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.</p>	<p>Financial pressures</p> <p>The Council is broadly in line to deliver its 2017/18 budget, forecasting a net £62,000 underspend.</p> <p>The Council's draft three budget to 2020/21 assumes a 1.9% Council Tax increase each year and includes a planned use of working balances in 2019/20 of £522k.</p> <p>Efficiency plans are in place and require annual savings of £1.4m, £1.5m and £1.6m to be delivered for the three years to 2020/21.</p> <p>The financial impact of the early closure of Rugeley Power Station is being effectively managed. The timely opening of the Mill Green Outlet Village is an important part of managing this financial impact.</p>	<p>Local Plan</p> <p>The Council has concluded that the Local Plan adopted in 2014 needs updating. There are changes to both government policy and in regional response to the housing shortfall that need to be considered.</p> <p>It is proposed to begin work on a new Local Plan setting out how land will be used in the future, whether this is for housing, employment, shopping, leisure or an open space.</p> <p>Producing and agreeing the Local Plan is a significant commitment for the Council. It is intended to start work in February 2018 with a target adoption date of September 2021.</p>

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cannock Chase District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cannock Chase District Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	<p>The Council revalues its land and buildings on a 5 year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Consideration of the competence, expertise and objectivity of any management experts used • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage (21%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness • Gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls • Obtain the year-end payroll reconciliation and ensure amount in the accounts can be reconciled to the ledger and through to payroll reports investigating any significant adjusting items • Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness.
<p>Operating expenses</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage (54%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls • Obtain a listing from the cash book or equivalent of non-pay payments made in April, take a sample using the non-statistical sample size calculator and ensure that they have been charged to the appropriate year.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.277m, which equates to 2% of your recorded gross expenditure for the year 2016/17. We design our procedures to detect errors in specific accounts at a lower level of precision.

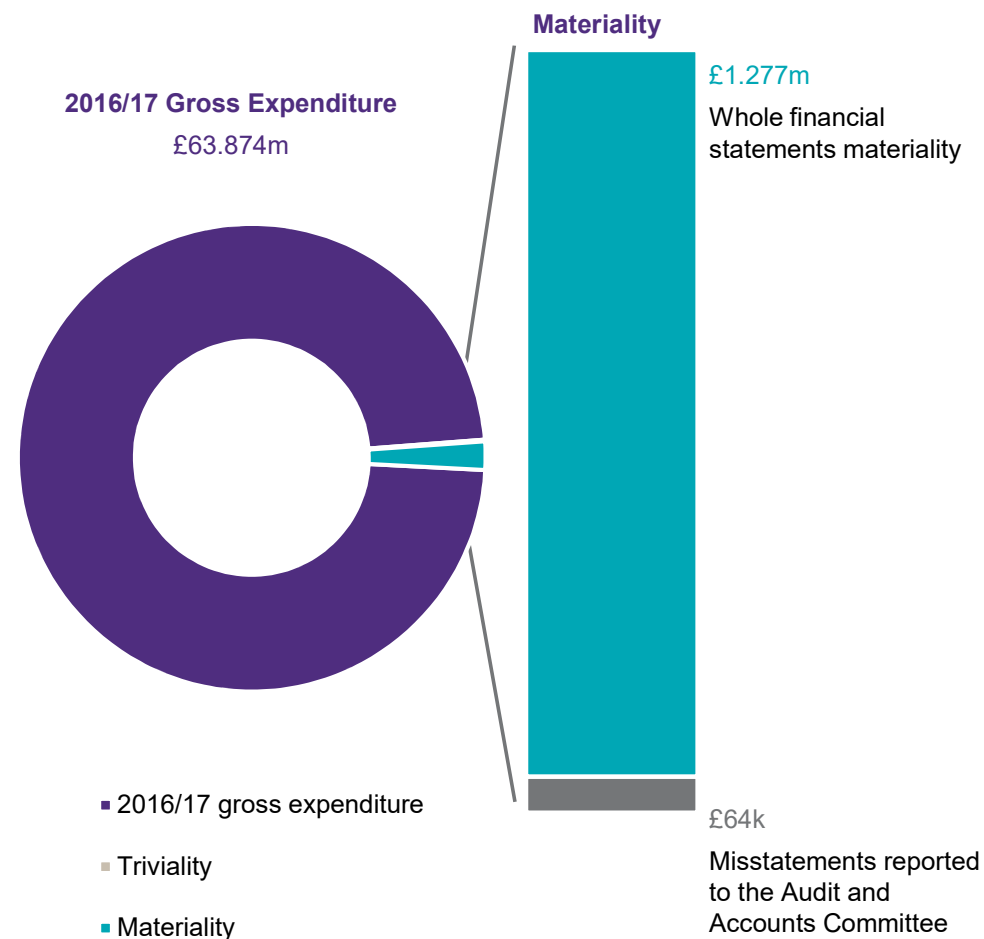
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Materiality has been reduced for remuneration disclosures to £100k due to its sensitive nature and public interest.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Accounts Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £64,000.

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



Value for Money arrangements

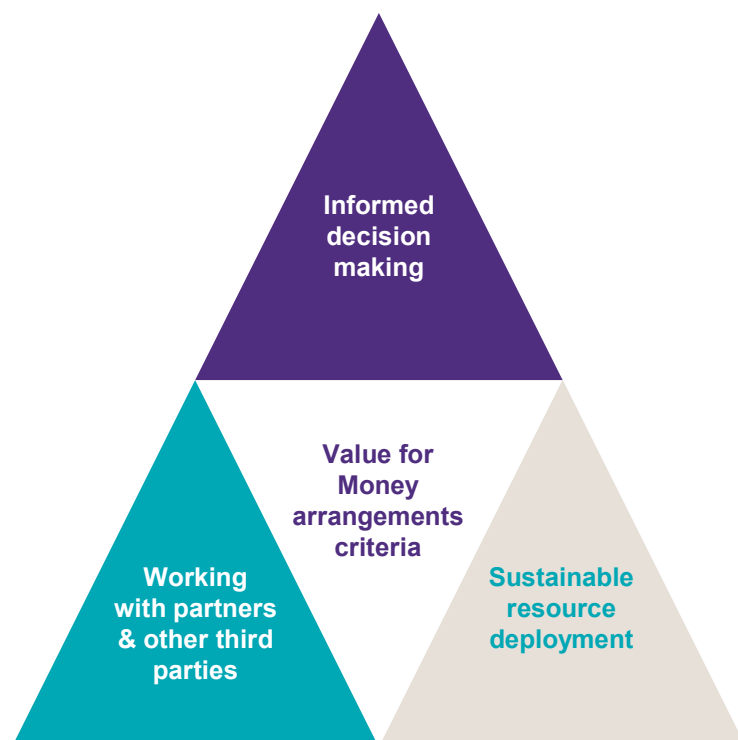
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

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



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Financial Sustainability

The Council has a challenging three year budget and significant pressures to manage to deliver its savings. This relies heavily on ensuring key cost saving measures are met and the proposed budget is delivered.

In response to this, we will:

- Review the implementation of the financial recovery plan and gain an understanding of the actual savings made against expectation
- Assess the key assumptions underlying the medium term financial plan for reasonableness

Audit logistics, team & audit fees



Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, s151 Officer and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.



Jim McLarnon, Audit Manager

Jim will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Audit & Governance Committees with Richard, and supervise Michael in leading the on-site team. Jim will undertake reviews of the team's work and draft clear, concise and understandable reports.



Michael Butler, Audit Incharge

Michael will be the day to day contact for the audit, organising our visits and liaising with Authority staff. He will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audit fees

The planned audit fees are no less than £52,109 for the financial statements audit. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable agreed with management. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,500 (est)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 (estimated) in comparison to the total fee for the audit of £52,109 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices



A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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Informing the audit risk assessment Cannock Chase District Council 2017/18



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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

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

Fraud

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. The S151 Officer has the overall responsibility for assessing the risk of material misstatement in the financial statements and is supported by management who provide the appropriate evidence for this assessment. In addition, work is carried out by Internal Audit on overall fraud risk areas and specifically on Council Tax, Housing Benefit and Social housing fraud. All work undertaken by Internal Audit has fraud considerations built into it. The risk of material misstatement of the accounts due to undetected fraud is low. Investigation into Revenues & Housing fraud is the responsibility of the compliance team within Revenues and benefits.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>There is always the potential for an override of controls within systems, however our control framework has established secondary compensatory controls in place that would identify any such override taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process, for example by the S151 Officer, Senior Management Team and Cabinet.</p>

Fraud risk assessment

Question	Management response
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of material fraud have been identified. The susceptibility of services to fraud forms part of the Council's Audit Needs assessment process. This is provided to the Audit and Governance Committee. Training and awareness sessions are provided periodically.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.</p>
<p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p>	<p>The Internal Audit Risk Based Plan is approved by the Audit and Governance Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and report regularly to Audit and Governance Committee. The Audit and Governance Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit and Governance Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.</p>
<p>How does the Authority communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The Council has a staff code of conduct, confidential reporting policy and Financial regulations in place. All staff are regularly reminded of these. In respect of contractors ethical considerations are built into all contracts.</p>

Fraud risk assessment

Question	Management response
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>There is an Anti Fraud and corruption framework and a Confidential reporting framework in place which explain the procedures to follow. Staff are expected to report suspicious or fraudulent behaviour. No significant issues have been reported and no issues have been reported under the bribery act.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>2016/17 financial statement disclosure of related party transactions did not identify any potential fraud risks. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>
<p>Are you aware of any instances of actual, suspected, or alleged fraud either within the Authority as a whole or within specific departments since 1 April 2017?</p>	<p>There are no material instances of fraud that have been identified during the year. There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> ■ Council Tax ■ Benefit fraud ■ Single person discount ■ Social housing fraud <p>There is a compliance team within Revenues and Benefits. The council takes part in the National Fraud Initiative.</p>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2017? If so how does the Audit and Governance Committee respond to these?</p>	<p>None identified.</p>

Laws and regulations

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Monitoring Officer, Heads of Service and Management are responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that the Monitoring Officers responsibilities cover:</p> <ul style="list-style-type: none"> ■ complying with the law of the land (including any relevant Codes of Conduct); ■ complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer; ■ making lawful and proportionate decisions; and ■ generally, not taking action that would bring the Council, their offices or professions into disrepute. <p>The Monitoring Officer has access to all Council committee reports and raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the Monitoring Officer would get involved at an early stage.</p> <p>Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.</p> <p>The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p> <p>Work undertaken by Internal Audit ensures compliance with the relevant laws and regulations.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports have a standard section detailing any legislative issues.</p> <p>The work of Internal Audit also provides a source of assurance . Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.</p>

Impact of laws and regulations

Question	Management response
How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>All committee papers (with the exception of the Audit and Governance Committee) are required to include an assessment of potential legal implications.</p> <p>Assurance is also provided through the Internal Audit Annual Report and opinion and the Annual Governance Statement.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2017, or earlier with an on-going impact on the 2017/18 financial statements?	None.
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and the Section 151 Officer identify and evaluate the impact of litigation and claims which are then recorded as expenditure, as a provision or disclosed as a contingent liability in the accounts. This impact is mitigated in some cases by appropriate insurance cover.
Is there any actual or potential litigation or claims that would affect the financial statements?	None.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	None.

Going concern

Matters in relation to laws and regulations

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

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an Authority is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Authority's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business.

Although the Authority is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Authority's financial position and is good practice.

Below are key questions on the going concern assumption which we would like the Audit and Governance Committee to consider.

Going concern considerations

Question	Management response
Does the Authority have procedures in place to assess the Authority's ability to continue as a going concern?	The Financial Strategy considers the financial position of the authority over the short, medium and long term and is designed to ensure that the Council continues as a going concern. Internal Audit's work plan provides an on-going review of key elements of the Strategy to ensure its delivery or to highlight at an early stage any unforeseen risks.
Is management aware of the existence of other events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	No events or conditions have been identified.
Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	The Audit and Governance Committee consider a number of reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Audit and Governance Committee throughout the year?	The Financial Plan has been prepared by appropriately qualified and experienced staff in consultation with service managers. The scrutiny committee also reviews financial plans before approval. The financial assumptions are therefore consistent with the Councils service plan. Reports in year are consistent with the budget set.

Going concern considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan explicitly considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement.
Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Although assumptions are regularly challenged by the Audit and Governance Committee, no such issues have been raised.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	Financial monitoring has not identified any such adverse financial indicators.
Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	The Council has the relevant expertise to deliver the Council's strategy and objectives.

Related parties

Matters in relation to Related Parties

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

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

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

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

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

Related parties

Question	Management response
<p>What controls does the Authority have in place to identify, account for, and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> ■ Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. ■ Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests. ■ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. ■ Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.
<p>Who have the Authority identified as related parties?</p>	<p>The Council has a significant number of related parties in which there is a material impact to the financial statements via virtue of - whether the Council might have the potential either to be controlled or influenced by the party or the potential to exert control or influence over the party (as defined by guidance in the Code). The areas where these are disclosed within the Council's financial statements are:</p> <ol style="list-style-type: none"> (1) Government - central government grants has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities. (2) Staffordshire County Pension Fund - this party is subject to common control by central government. (3) Precepts & Levies - these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy. (4) Members and Officers - Certain Members and Officers may have controlling influence or related interests with other of the Council's related party organisations; such that they may be in a position to significantly influence the policies of the Council.

Accounting estimates

Matters in relation to accounting estimates

Local Government bodies need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

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

Accounting estimates considerations have been set out below and management has provided its response.

Accounting estimates

Question	Management response
Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None identified.
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by the in-house valuer for Council dwellings and an external valuer (Lambert Smith Hampton) for all other assets. Valuations are in line with RICS guidance on the basis of 5 year rolling valuations based on classes of asset with an interim desk top review to compare the carrying values and fair values.	Accounting standards require formal revaluations sufficiently regular to ensure the carrying amount does not differ materially from fair value at the year end. In addition valuations must be carried out simultaneously for each class of asset.	In – house and external Valuer	Valuations are made in line with guidance-reliance on an expert. Valuations now undertaken for each class of asset simultaneously.	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> ■ Dwelling and other buildings 15 to 70 years ■ Equipment/vehicles 5 years ■ Infrastructure 25 years These are based on information from the valuer.	Consistent asset lives applied to each asset category	Use both in-house and external Valuer	The method makes some generalisations. For example, a new building can have a life as short as 15 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS or CIB Member. The valuer is appropriately qualified.	No

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation & amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis. Asset lives and values are obtained from the valuer.	Consistent application of depreciation method across all assets	No	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> ■ Depreciation is not applied in the year of addition ■ Assets that are not fully constructed are not depreciated until they are brought into use. 	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal and external Valuer	Valuations are made in-line with RICS guidance - reliance on expert.	No

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pensions – Defined benefit pension amounts and disclosures.	The Council is an admitted body to the Local Government Pension scheme.	Rely on the calculations made by the actuary, based on information provided by the Authority. The Actuary's report is reviewed for reasonableness by senior staff.	Yes - Actuary for the pension schemes	Reliance on the expertise of the actuaries of the pension scheme	No
Bad debt provision	A provision is estimated using a proportion basis of an aged debt listing	Members of the Finance team calculate the provision from the aged debt listing based on prior experience.	No	Consistent proportion used across aged debt as per the Code. This is based on type of debt and historic payment pattern.	No
Measurement of financial instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professionals.	Take advice from finance professionals	Yes Link Asset Services	Take advice from finance professionals, if required.	No

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of Expenditure and Income from purchase ledger and budget information. Activity is accounted for in the financial year that it takes place, not when money is paid or received	Purchase ledger and management accounts information assessed by Finance team.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Provisions for liabilities.	Provisions are made where an event has taken place that gives the Trust 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. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Calculations by Head of Finance based on information from third parties e.g. insurers and solicitors.	No	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 service if it is virtually certain that reimbursement will be received by the Council.	No

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non adjusting events - events after the BS date	S 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Heads of service notify S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances	No
Finance leases	Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	Finance review contracts and payments to ensure the lease is categorised correctly as a finance lease or an operating lease	No	Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).	No

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Audit Progress Report and Sector Update

Cannock Chase District Council
Year ending 31 March 2018

27 March 2018



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Introduction



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

The paper also includes:

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

Members of the Audit and Governance Committee can find further useful material on our website (www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications.

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

Progress at March 2018

Financial Statements Audit

At the time of writing this report, we have substantially completed our planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in December 2017 and re-visited the Council in February. We plan to complete our interim procedures in March. Our interim fieldwork visit includes:

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

The findings from our interim audit are summarised at pages 6 and 7 .

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on 4 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

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

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

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

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

We have completed our initial risk assessment to determine our approach and as reported in your audit plan, we have identified one significant risk in relation to financial sustainability of the Council.

We will keep abreast of any emerging issues to the audit sign off date and report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

We also certified the 2016/17 Pooling of Housing Capital Receipts return in February 2018. No issues were noted.

Meetings

We met with Finance Officers in December as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in September 2017 to discuss the Council's strategic priorities and plans. We plan to meet again in the Spring.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2017/18.</p>	April 2017	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit and Accounts Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.</p>	March 2018	Complete
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2018	In progress
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2018	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2018	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2018	Not yet due
<p>Annual Certification Letter</p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2018	Not yet due

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have also reviewed internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach, we will update our review to the period end and consider the Head of Internal Audits annual opinion in informing our procedures at year end.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	We are in the process of performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Our work to date has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements As part of our final interim visit in March 2018, we will follow up with management the recommendations made in relation to the findings of the 2016/17 audit.
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We have also verified the completeness of the journals population to the interim date through performance of gap analysis.	Our work has not identified any weaknesses which impact on our audit approach. We will finalise completion procedures through performance of gap analysis on the residual population at year end and following this, will undertake detailed testing on large or unusual entries.

Results of Interim Audit Work

	Work performed	Conclusions and recommendations
Early substantive testing	<p>In addition to the areas of work highlighted above, on the conclusion of our second interim visit, we will have completed early substantive testing in the following areas:</p> <ul style="list-style-type: none">- Agreement of the closing balances to the opening trial balance- Agreement of precept demands- Detailed testing of a sample of operating expenditure transactions- Detailed testing of a sample of other revenue transactions- Trend analysis to date on payroll costs incurred in the period	<p>No issues have been identified to date from our early substantive testing. We intend to build on this testing in our final interim visit in March 2018 to ensure we are in a strong position at year end.</p>

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

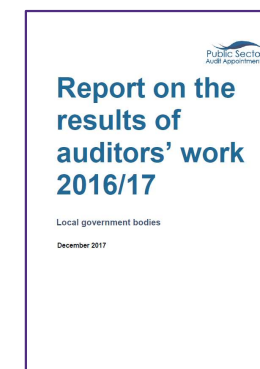
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

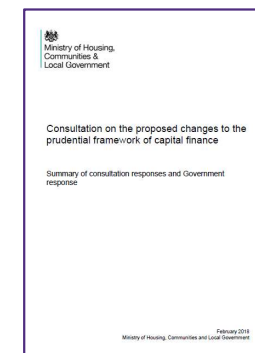
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your Head of Finance briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

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

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

CIPFA Publication

Challenge question:

Has your Head of Finance briefed members on the impact of the changes to the prudential code?



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Grant Thornton Publication

Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>



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