



AYLESBURY VALE DISTRICT COUNCIL

Democratic Services

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12 January 2017

AUDIT COMMITTEE

A meeting of the **Audit Committee** will be held at **7.00pm** (or as soon as possible after the conclusion of a Members' training session on "the role of External Audit") on **Monday 23 January 2017** in **The Olympic Room, Aylesbury Vale District Council, The Gateway, Gatehouse Road, Aylesbury, HP19 8FF**, when your attendance is requested.

Contact Officer for meeting arrangements: Craig Saunders; csaunders@aylesburyvaledc.gov.uk;

Membership: Councillors: K Hewson (Chairman); B Chapple OBE (Vice-Chairman), C Adams, C Branston, M Collins, P Irwin, M Smith, R Stuchbury, D Town and H Mordue (ex-officio)

NOTE: The training session for Members will begin at 6.30pm

AGENDA

1. APOLOGIES

2. TEMPORARY CHANGES TO MEMBERSHIP

Any changes will be reported at the meeting.

3. MINUTES (Pages 3 - 14)

To approve as a correct record the Minutes of the meeting held on 14 November 2016, copy attached as an appendix.

4. DECLARATION OF INTEREST

Members to declare any interests.

5. EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015-16 (Pages 15 - 26)

To consider the attached report.

Contact Officer: Andrew Small (01296) 585507

6. EXTERNAL AUDIT - AUDIT PLAN (Pages 27 - 44)

To consider the attached report.

Contact Officer: Andrew Small (01296) 585507



7. INTERNAL AUDIT PROGRESS REPORT (Pages 45 - 114)

To consider the attached report.

Contact Officer: Kate Mulhearn (01296) 585724

8. WORK PROGRAMME (Pages 115 - 116)

To consider the attached work programme.

Contact Officer: Kate Mulhearn (01296) 585724

9. CORPORATE RISK REGISTER (Pages 117 - 122)

To consider the attached report.

Contact Officer: Kate Mulhearn (01296) 585724

10. EXCLUSION OF THE PUBLIC

The following matter is for consideration by Members "In Committee". It will therefore be necessary to

RESOLVE –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act:-

Item No. 11 – Corporate Risk Register

The public interest in maintaining the exemption outweighs the public interest in disclosing the information because the report contains information relating to the financial or business affairs of organisations (including the Authority holding that information) and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals or transactions.

11. CORPORATE RISK REGISTER (Pages 123 - 126)

To consider the attached confidential report.

Contact Officer: Kate Mulhearn (01296) 585724

AUDIT COMMITTEE

14 NOVEMBER 2016

PRESENT: Councillor K Hewson (Chairman); Councillors B Chapple OBE (Vice-Chairman), C Adams, M Collins, M Smith, R Stuchbury, D Town and H Mordue (ex-Officio)

APOLOGIES: Councillors Branston and P Irwin, and David Guest (Ernst and Young, external auditors)

1. MINUTES

RESOLVED –

That the Minutes of the meeting held on 26 September 2016 be approved as a correct record.

2. COMMERCIAL AVDC PROGRAMME

The Committee received a report and presentation on the Commercial AVDC programme which included information on its progress and plans, governance and the management of the risks.

AVDC continued to build on the success of the changes delivered in recent years by developing an organisation with a sustainable funding model and commercial operating model driven by continuous improvement. Underpinning all of the programme's work was the pursuit of the economic, social and environmental wellbeing of the area.

AVDC had lost 60% of the government grant over the last six years but had managed to save around £14 million through a wide range of initiatives. The Commercial AVDC Programme had continued to focus on three primary strands of activity, (a) focussing on driving returns from commercial activity from existing operations, (b) reviewing Council Services to improve effectiveness and efficiency and (c) improving the overall capability of AVDC's staff. By 2020/2021, these commercial activities would need to provide a contribution of £5m to the council's revenues, through a combination of increased income and reduced expenditure.

The programme operated alongside work led by Vale Commerce to drive long term returns from commercial activity in new areas. While the two initiatives were managed separately, they needed to work to ensure they were aligned and the Programme Board provides oversight over Vale Commerce also.

The Programme Board was accountable for delivering the programme's targets while maintaining operational stability. The Board comprised the Cabinet Member for Business Transformation, the Chief Executive and Directors, the Programme Sponsor, one of the Commercial Sector Leads, Programme Manager and external challenge from the Chief Executive of IESE (Improvement and Efficiency South East).

Although the achievement of Vale Commerce's income generation goals were not within the scope of the programme, the programme board had some oversight on the delivery of Vale Commerce objectives, and engaged with Vale Commerce staff outside board meetings to gain assurance of progress. Reports and recommendations were shared with Cabinet, Council, Council and Staff Consultative Committee, Scrutiny and Audit as appropriate and/or when requested.

Responsibility for delivery of the programme was with the programme delivery group, made up of the programme manager and workstream leads. There was a workstream designed to improve each sector led by the sector leads, and some supporting workstreams covering programme management, finance, communications and organisational development (which covered people and culture).

Each workstream contained a range of projects (for example Transactional Services improvement and Customer Contact), and each project had a project manager responsible for delivery, reporting into the workstream lead. In a minority of projects, where more in depth oversight and input was required, there was a project board with some delegated authority from the programme board (for example finance and business intelligence/customer insight), but the programme board remained ultimately accountable.

The programme also worked with a Staff Engagement Group, Transition Board, Managers Group and with staff via forums such as “Let’s Get Talking” to engage and involve everyone.

In January 2016 the programme had successfully delivered an organisation wide restructure (called “Lift and Shift”) to create a new sector based structure as a launch pad for ongoing business improvements. These new sectors were led by interim leads whose role included not only running the operation but driving the implementation of business reviews and improved capability in their sectors.

In order to change the culture and skill level of the organisation to become more commercial, efficient and effective, a new behavioural and job family framework had been developed. The framework would underpin all assessments and selection of staff into the new roles arising from business reviews that would affect all areas, as well as ongoing performance management and development. It had been developed in collaboration with staff and trade unions and there had been extensive engagement and familiarisation work to increase awareness and understanding. This had involved the sharing of behavioural resources on Connect and the running of staff development sessions in August 2016.

Part 1 consultation with trade unions and staff representatives which covered the overall restructuring approach had commenced in August and had very recently been closed. Staff engagement surveys conducted at the beginning of the programme compared to those covered in September showed that engagement had remained level despite the level of change directly affecting staff across the organisation.

The report provided a summary of the different Business reviews undertaken in Community Fulfilment, Customer Fulfilment, Commercial IP, Commercial Property, Business Strategy and Governance and Business Support and Enablement (which had included a joint review of finance).

The Business Reviews were aimed to assess each sector and service to understand its customers, their needs and how the service can best be structured to deliver those needs in the most efficient and cost effective way. Each review that led to a change in team structures and roles would go through a process called Part 2 consultation with trade union and staff representatives prior to being finalised.

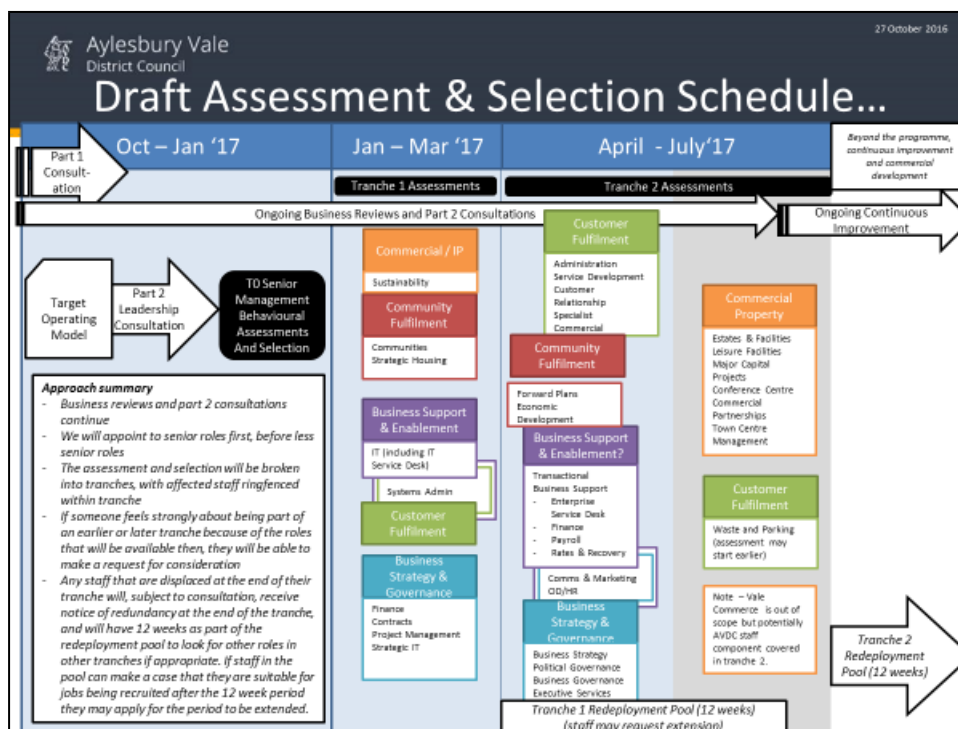
A target operating model and senior structure for the organisation was currently being finalised with a view to sharing it with key stakeholders and consulting with trade unions and staff representatives starting in November 2016. The model was based on the current sector based structure, with some alterations based on what had been learned from the 8 months of operations since January’s “Lift & Shift”. It was expected that the leaders of these sectors would be appointed in January 2017, subject to them having

been successful in the new assessment and selection processes based on the behavioural framework.

The behavioural framework's implementation required assessment and selection process and tools to be in place. Their design would be completed in November, with external assessors assigned and trained, ready to start assessing people from January 2017. Across all of the reviews, role profiles would be developed and evaluated through Hay panels. All roles would change through individual profiles being refined or developed, and the behaviours incorporated.

Following the implementation of the behavioural assessments and role selection approach, the performance management framework would be completed so that performance could be managed to get the best from people and to ensure that they were working on the right things. A personal development strategy will focus on developing staff to meet their full potential, enable effective communication and challenge with succession planning. It would include the implementation of a personal development portal to support staff development. In addition, AVDC would focus on an improved recruitment strategy, ensuring that the best people joined AVDC and the Council was the employer of choice for ambitious and talented individuals.

The programme's activities were currently focussed on completing the reviews, consulting on then with a view to then implementing new structures in a series of 3 to 4 month tranches, as set out in the schedule below:



The first tranche would take place in January – March 2017. Having appointed to the leadership roles for the sectors, the first set of areas would go through assessment and selection. The second tranche would start in April 2017, with two areas, Commercial Property and Waste aiming to start as soon as possible, likely to be May.

As each area completed role selection they would need to plan for implementation of any structures, processes, systems and business continuity plans. At that point they were ready for an ongoing process of continuing improvement where they delivered further people development, commercial development and operational efficiency.

The programme requirement was to deliver £5.1m contribution to the bottom line, a combination of increased income and reduced cost to serve by financial year 2020/2021, where £2.7m was required in the first two years – 2017 to 2019.

Currently, the reviews were still being developed and consultation would need to be completed before any firm forecasts could be made. There was an initial indication of possible contribution of £3m in those first two years, and £4.2m for the whole period. This indicated that the short term requirement would be covered by the current programme's activities, and that continuous improvement in the period up to April 2019 would provide opportunities to identify and implement the rest of the contribution required by March 2021.

As with any major change management programme, there were a number of risks that were having to be managed. These included:-

- Corporate Risk Register #1 (Achieving Savings and Efficiency Gains) – on the programme targets, budget and management of suppliers.
- Commercial Risk Register #2 (Commercialisation and Income Generation) – concerning the activities and future plans for Vale Commerce.
- Corporate Risk Register #3 (Cultural Change) – regarding the Behaviour Framework and Employee Relations.
- Corporate Risk Register #17 (Service Delivery and Risk Management) – covering a range of issues including pace versus resilience and quality, operational standards and maturity, and role changes and business continuity.

The Committee sought further information and were informed:-

- (i) that approximately 80 staff would be involved in Tranche 1 assessments, and 300 staff in the Tranche 2 assessments.
- (ii) that following the behavioural assessment and selection, it was anticipated that people would have been appointed to positions in the new structure by July 2017.
- (iii) that all staff would be able to apply for positions in Tranche 0 (senior management / leadership positions).
- (iv) on the proposed structure for senior management / leadership that would make up Tranche 0.
- (v) that one union representative and one Employee Representative had been released to work full time over the next period to assist with employee relations.
- (vi) that a large percentage of the change programme budget was being spent on the behavioural assessment. Overall it was anticipated that the process would enable staff to work in a more commercial way in the future.
- (vii) that a new Technology Strategy for the Council would be considered in the coming months that would be the catalyst for technological innovation and

change for the Council into the future. It would help to support and provide staff with the necessary tool and policies to further enhance the commercial mind-set and company culture of the organisation.

Members also commented:-

- (a) on their concerns over future service delivery, which would place greater stress on fewer staff to keep delivering services to a larger population, particularly with the number of houses being proposed to be built in Aylesbury Vale over the next 20 years.
- (b) that Aylesbury Vale might be able to learn some lessons from Milton Keynes (30-40 years ago) on how to provide services to a rapidly growing number of houses and people.
- (c) that the scale, complexity and level of dynamic change that the Council was going through needed to be better communicated to local residents.
- (d) that the programme needed to ensure that Members continued to be kept informed on how the programme was progressing.
- (e) that they would like Vale Commerce to attend and brief Members at the next meeting, similar to what had happened with the Commercial AVDC programme at this meeting.
- (f) that they were concerned for the welfare of staff who would have to go through this process, with the likelihood of more change on the horizon regarding the unitary proposals for Buckinghamshire.

In conclusion, the Committee commented that they were satisfied that risk and governance were being managed satisfactorily as a part of the Commercial AVDC programme and, it was

RESOLVED –

- (1) That the Programme Sponsor be thanked for attending the meeting and updating Members on the Commercial AVDC Programme.
- (2) That the progress made to date in progressing the programme be noted.
- (3) That Vale Commerce be asked to provide a similar report and presentation to the next Audit Committee meeting.

3. ANNUAL AUDIT LETTER 2015-16

The Committee received, for information, the external auditors' Annual Audit Letter which provided an overall summary of the external auditors' assessment of the Council. The letter drew on the findings of audit work carried out on the Council's financial statements for 2015/16. These key findings on the Financial Statements audit, the Value for Money conclusion, Whole of Government Accounts, Annual Governance Statement, and control themes and observations had already been reported to the Audit Committee, so were very briefly summarised in the AAL

The external auditors were anticipating issuing the Annual Certification Report of grant claims and returns for 2015/16 in January 2017. Members attention was also drawn to 'Focused on your future' section of the report that detailed information on the need to make arrangement for the appointment of external auditors for the 2018/19 financial year.

RESOLVED –

That the contents of the External Auditor's Annual Audit Letter for 2015/16 be noted

4. EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report summarising the audit approach and scope for the 2016/17 audit in accordance with the requirements of the Audit Commission Act 1988, Code of Audit Practice, Standing Guidance, auditing standards and other professional guidance. It was usual practice to share this information with Members at this stage of the audit so that Members could confirm that it was aligned to their expectations.

The external auditors would be adopting a risk based approach to the audit and, as part of their ongoing continuous planning, would hold regular meetings with key officers ensure the 2016/17 audit ran as smoothly as possible and identified any risks at the earliest opportunity.

Members were informed that no matters had arisen from initial planning meetings that needed to be reported to the Committee. The Committee would be updated when the planning and early substantive testing had been reported. The detailed audit plan, setting out identified risks and the work to be taken in response would be submitted to the Committee in January 2017. During the audit work, the external auditors would also be required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Work was also ongoing in testing the Housing Benefits Grant Claim 2015/16, and the findings would be submitted to the January 2017 meeting.

RESOLVED –

That the contents of the External Auditor's progress report and the progress of work undertaken to date, and planned for 2017, be noted.

5. INTERNAL AUDIT PROGRESS REPORT

The Committee received a progress report on assurance work activity undertaken against the 2016/17 Assurance Plan since March 2016 and the following matters were highlighted:-

Activity and Progress

The following reviews were in progress:-

- Debt Recovery – in response to internal audit recommendations from 2015/16 reviews, a project was underway to review the Council's strategic approach to debt recovery. The scope was detailed in the report. This was a non-assurance review with internal audit supporting in an advisory capacity.
- Safeguarding – Section 11 arrangements were to be agreed in October 2016.
- General Ledger – work had been completed and the report was being prepared.

- Treasury Management – work had been completed and the report was being prepared.
- Payroll – work was in progress.
- Accounts Receivable – work was due to commence in the second week of November.
- Accounts Payable – work was due to commence in the third week of November.
- Fixed Assets – work was due to commence in the third week of November.

Overdue Recommendations and Follow Up Work

- Financial Systems – the Commercial AVDC Financial Systems and Processes Review Board was continuing to monitor the implementation of actions identified in the 2015/16 Accounts Payable & Receivable and the General Ledger and Budgetary Control internal audit reports.

The financial systems would be audited again in quarters 3 and 4, and this would pick up on previous actions and provide assurance over the design and operation of financial controls.

- Housing Allocations (January 2016) – in line with the Bucks Home Choice Partnership Policy adopted in May 2014 and the requirement to review annually the outcomes of lettings, an assessment had been published on the Bucks Home Choice on 16 October stating that the scheme aims and objectives had been assessed and remained relevant and were being achieved. The action was now complete.
- Taxi Licensing (October 2015) – a document retention policy had been drafted and would be finalised very soon. Implementation of it was expected to be completed by the end of the year.

Commercial AVDC and Internal Audit Resources

The Committee was informed that an external provider of public sector internal audit services (BDO) had been engaged to support the delivery of the remainder of the 2016/17 internal audit plan, reporting to the Business Assurance Manager. The outcome of the Governance Business Review would determine further resource requirements and the delivery model going forward. The first of the audit reports from BDO would be reported to Members in January 2017.

Appendix 1 to the Committee report detailed the updated 2016/17 Annual Internal Audit Plan, which had originally been approved by the Audit Committee in March 2017. Members were asked to consider and comment upon the updated / proposed changes.

Members sought further information and were informed:-

- (i) that the budget from vacant posts in Internal Audit were being used to pay for the audit work done by BDO.
- (ii) that the Housing Allocations (January 2016) medium priority recommendation had now been completed and been published on the Bucks Home Choice website.

RESOLVED –

- (1) That the progress made against the 2016/17 Assurance Plan be noted.
- (2) That the updated Annual Internal Audit Plan, as submitted to the meeting, be approved.

6. APPOINTMENT OF EXTERNAL AUDITOR

The Committee received a report that had been submitted to Cabinet on 8 November, 2016, informing the Committee of the arrangements that were being put in place for the future appointment of the Council's external auditors. The Cabinet report was attached as appendix to the Committee report.

As part of closing the Audit Commission the Government had novated external audit contracts to Public Sector Audit Appointments (PSAA) on 1 April 2015. The audit appointments were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State had confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the Appointed Person regime.

There was a degree of uncertainty around the Appointed Person regime until July 2016 when PSAA were specified by the Secretary of State as an Appointing Person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The Appointing Person was sometimes referred to as the sector led body and PSAA had wide support across most of local Government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and was a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

The PSAA had invited AVDC to become an opted-in authority in line with the above Regulations. To do so, the Council would need to respond with a form of notice of acceptance to PSAA before 5pm on 9 March 2017.

Cabinet had considered this matter on 8 November, 2016, and made a recommendation to full Council that this Council opted into the Appointing Person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors. This would be submitted to full Council on 7 December 2016 and would allow AVDC to respond by the deadline.

The main advantages of using PSAA were set out in its prospectus (attached as Appendix 1 to the Cabinet report) and the key points were detailed below, although these might also be viewed as disadvantages should the Council decide to undertake its own procurement.

- Assure timely auditor appointments.
- Manage independence of auditors.
- Secure highly competitive prices.
- Save on procurement costs.
- Save time and effort needed on auditor panels.
- Focus on audit quality.

- Operate on a not for profit basis and distribute any surplus funds to scheme members.

The options considered and resource implications were also detailed in the Cabinet report.

RESOLVED –

That the Audit Committee was supportive of Cabinet's recommendation to Full Council that this Council opted into the Appointing Person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

7. ANNUAL FRAUD REPORT 2015/16 - ACTION PLAN UPDATE

The Committee received an update on progress made on the actions identified in the 2015/16 fraud risk benchmarking assessment and which had been originally reported in January 2016. The Council was making progress and tracking towards the performance targets. As assessment of the Council's performance would be undertaken again in due course and reported to Members.

Appendix 1 to the report detailed information on the issues and proposed action, person(s) responsible for taking that action, target date, and other comments that would assist Members in evaluating the progress.

Members sought information on a number of the issues and were informed as follows:-

RESOLVED –

That the current position and progress made against the updated Fraud Action Plan be noted.

8. WORK PROGRAMME

The Committee considered the future Work Programme for 2016-17 which took account of comments and requests made at previous Committee meetings and particular views expressed at the meeting, and the requirements of the internal and external audit processes. Members were also provided with a timetable of training events for future meetings.

Members commented that they would like to include a regular agenda item relating to 'Update on management of risk issues', with a report from Vale Commerce to be requested to the next meeting in January 2017.

RESOLVED –

That the future Work Programme as discussed at the meeting be approved.

9. CORPORATE RISK REGISTER

The Audit Committee had a role to monitor the effectiveness of risk management and internal control across the Council. As part of discharging this role the committee was asked to review the Corporate Risk Register (CRR). The CRR provided evidence of a risk aware and risk managed organisation and reflected the risks that were on the current radar for Transition Board. Some of the risks were not dissimilar to those faced across other local authorities. The risk register had not been reviewed as a whole by Transition Board since their meeting on 31 August 2016. However, risks and actions

had been reviewed with risk owners and updated accordingly. The following changes had been made:-

- Organisational culture fails to support strategy – the wording of “organisational resilience” had been updated to reflect the importance of cultural change to support the achievement of strategy and the work being done on the behavioural framework.
- Depot and workshop redevelopment project – the overall risk rating had been reduced from Extreme to High, as the redevelopment plans had been approved by full Council and, when implemented, would address Health and Safety and environmental risks.
- Vale of Aylesbury Local Plan – the overall risk rating had increased from medium to high, to reflect the risk associated with the changed timescales and the lack of ability to influence the required external input.

No new risks had been added since the Register was reported to the Audit Committee in September 2016. As reported at the last meeting, the risks arising from the Brexit decision had been considered but at this stage there was too much uncertainty about the specific implications on the strategic objectives and day to day operations of the Council to put anything meaningful on the CRR. Management would review the situation as information became available and update the CRR accordingly.

The covering report and the CRR Update (Appendix 1) were in the open part of the agenda. However, the CRR (Appendix 2) contains information on some risks relating to commercially sensitive decisions and, as such, was in Part 2 section of the agenda. Overall, there were 17 risks on the CRR (3 low risk, 4 moderate risk, 9 high risk and 1 extreme risks) and these were considered by Members. Information on the risk matrix and risk ratings (impact and likelihood) was explained further in the Committee report.

To facilitate discussion about the detail of the CRR, the Committee resolved to exclude the public from the meeting under Section 100 (A) (4) of the Local Government Act, 1972, on the grounds that the item involved the likely disclosure of commercially sensitive information as defined in Paragraph 3 of Schedule 12A of the Act. The disclosure of such information might prejudice negotiations for contracts and land disposals or transactions.

Members challenged robustly some of the assumptions made in the CRR, both in specific and general terms. In response to a question Members were informed that the risks associated with modernising local government / ‘unitary’ would be considered by Transition Board when the CRR was next reviewed.

RESOLVED –

- (1) That the current position of the Corporate Risk Register be noted.
- (2) That Cabinet be recommended to review the Corporate Risk Register, a minimum of twice yearly and, as a part of setting and monitoring the Council’s budget, and to report back to the Audit Committee on risks with an overall rating of high or extreme, in particular relating to the Council’s approach to commercialisation.

(it was commented that in support of recommendation 2, Cabinet might also wish to consider assigning responsibility for each corporate risk to an individual Cabinet Member).

10. EXCLUSION OF THE PUBLIC

RESOLVED –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act:-

Corporate Risk Register (Part 3)

The public interest in maintaining the exemptions outweighed the public interest in disclosing the information because the documents contained information relating to the financial or business affairs of organisations (including the authority holding that information), and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals/transactions.

11. CORPORATE RISK REGISTER

As part of the above discussions, consideration was given to the Council's Corporate Risk Register.

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Audit Committee
23 January 2017

CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16

1 Purpose

- 1.1 To receive a report on the external auditors' work associated with the certification of 2015/16 claims and returns submitted by AVDC.

2 Recommendations/for decision

- | | |
|-----|--|
| 2.1 | The committee is asked to note the contents of the external auditors' certification report (attached). |
|-----|--|

3 Supporting information

- 3.1 The external auditor is required to certify claims and report findings to the Audit Committee.
- 3.2 This year there was only one claim requiring certification. This was:
-Housing Benefits Subsidy Claim
- 3.3 The certification work identified a small number of classification errors which were corrected and these had no impact on the subsidy claim.

4 Options considered

- 4.1 None.

5 Reasons for Recommendation

- 5.1 This certification report is required by the Audit Commission under Section 28 of the Audit Commission Act 1998.

6 Resource implications

- 6.1 Contained within the body of the report.

Contact Officer
Background Documents

Kate Mulhearn 01296 58724
none

Certification of claims and returns annual report 2015-16

Aylesbury Vale District Council

January 2017

Ernst & Young LLP



Building a better
working world

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5 January 2017

Direct line: 07769 932604
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Dear Members

Certification of claims and returns annual report 2015-16 Aylesbury Vale District Council

We are pleased to report on our certification work. This report summarises the results of our work on Aylesbury Vale District Council's 2015-16 Housing Benefit claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £45.1 million. We met the submission deadline. We issued a qualification letter for the claim, details of which are included in section 1.

Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due. Fees for certification and other returns work are summarised in section 2.

The housing benefits subsidy claim fees for 2015-16 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the 23 January Audit Committee.

Yours faithfully

Maria Grindley
Executive Director
Ernst & Young LLP
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£45,055,371
Amended/Not amended	Amended – subsidy reduced by £16
Qualification letter	Yes
Fee – 2015-16	£17,411 (See Section 2)
Fee – 2014-15	£16,600
Recommendations from 2014-15	Findings in 2015-16
None	Initial workbooks completed early which identified a number of errors requiring additional testing (40+ testing) or extended testing being made to the claim. Further details of these findings are included below.

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out additional testing in several areas.

Extended testing identified errors which the Council amended. This included:

Backdated Expenditure

One case failed as the amount classed as backdated expenditure did not meet the requirements of backdated expenditure. This had been picked up by the Council in the year but had not been changed on the system to affect the claim.

A full listing of cases with backdated expenditure was obtained and all cases tested for evidence of the checks performed by the Council in the year. This identified 114 cases that had this element of the claim classified incorrectly as backdated expenditure. This had no impact on the claim.

Non HRA – Weekly Rent Liability

For one of the cases tested the weekly rent liability for the claimant had been calculated incorrectly. This was due to part of the claimants rent being ineligible and the wrong amount had been used. This led to an overpayment of benefit.

100% of Non-HRA cases were tested and the rent liability tested. This identified one additional error where there was no information to support the rental liability amount. As a result the claim was amended

Additional '40+' testing was undertaken which was not amended and included within the Qualification letter:

Self Employed Earnings

Two cases failed due to an incorrect calculation of the claimant's self-employed earnings resulting in an overpayment of benefit.

As a result, a full listing of cases with self-employed income was obtained and an additional 40 cases were tested for correct calculation of self-employed income. This identified a further 4 failures where the incorrect amount had been calculated. For 3 of these cases this resulted in an overpayment and the other case did not have an impact on the claim.

In addition there were 4 cases where there was insufficient evidence to support the figure used for self-employed income. As a result the whole period where there was insufficient evidence is an overpayment.

This resulted in an extrapolated overpayment of £171,964.

Weekly Rent Liability

For one of the cases tested the weekly rent liability for the claimant had been calculated incorrectly. This was due to part of the claimants rent being ineligible and the wrong amount had been used. This led to an overpayment of benefit.

As a result an additional sample of 40 cases was selected which identified one additional error where there was no information to support the rental liability amount.

This resulted in an extrapolated overpayment of £50,174.

Childcare Costs

For one of the cases tested the childcare costs for the claimant had been calculated incorrectly. This led to an overpayment of benefit.

As a result, a full listing of cases with childcare costs obtained and an additional 40 cases were tested for correct calculation of childcare costs. This identified a further failure where the incorrect childcare cost had been calculated resulting in an overpayment of benefit.

This resulted in an extrapolated overpayment of £2,256.

Earned Income

For one of the cases tested the earned income for the claimant had been calculated incorrectly. This led to an overpayment of benefit.

As a result, a full listing of cases with earned income obtained and an additional 40 cases were tested for correct calculation of earned income. This identified a further 2 failures where the incorrect earned income had been calculated. One of these resulted in an overpayment of benefit while the other did not have an impact.

This resulted in an extrapolated overpayment of £1,245.

The total value of the extrapolated overpayments detailed above is £225,639.

If the Council were to amend based on these extrapolations, it would increase their Local Authority Error amount to £377,333 and put them over the threshold (£234,776) in which they are guaranteed full subsidy from the DWP.

We have reported these extrapolations within our qualification letter to the DWP and the DWP will decide whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid.

2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	17,411*	11,286*	16,600

* The indicative fee is based on the amount of work performed in 2013/14. In 2013/14, there were no errors identified which required additional '40+' testing. Given the additional work performed in 2015-16 compared to 2013/14 an additional fee has been requested.

This will be subject to approval by the PSAA. The proposed fee for 2015-16 comprises the indicative fee plus £6,125 being the additional fee required to cover the work needed to complete the additional testing on this year's claim. This additional fee is currently under review and subject to agreement by PSAA so is not yet confirmed.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £12,450. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of the PSAA to any proposed variations to these indicative certification fees. We will inform the Director responsible for finance before seeking any such variation.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions required.

Issue	Proposed Action
Self-employed income cases having insufficient evidence to support the figure used for self-employed income.	The Council should ensure that for all self-employed cases, there is supporting information obtained from the claimant.
Increased incidents of errors compared to prior years resulting in additional testing being necessary.	Staff to receive continuous training on documentation requirements, particularly staff new to the role.

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Aylesbury Vale District Council

Year ending 31 March 2017

Audit Plan

5 January 2017

Ernst & Young LLP



Building a better
working world

Audit Committee
Aylesbury Vale District Council
The Gateway
Gatehouse Road
Aylesbury
HP19 8FF

5 January 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 23 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies ". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Aylesbury Vale District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Changes in our audit scope

There have been no changes in the scope of our audit at the date of this report. Should any changes occur during the audit we will update the Audit Committee accordingly.

Other key messages

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September, 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue and expenditure recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One particular area of focus will be the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies; ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ▶ Develop a testing strategy to test material revenue and expenditure streams; ▶ Review and test revenue cut-off at the period end date; and ▶ Review and test Capital spend to ensure the appropriateness of capital/revenue coding.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias, ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Other areas of audit focus	
Pension Liability Valuation	
<p>The pension liability is considered a significant estimate in relation to its size. In 2015/16, the liability stood at £82.933 m.</p> <p>There is a higher inherent risk that small movements in the estimate could lead to material misstatement if the estimation is not robust.</p>	<p>We will review and test:</p> <ul style="list-style-type: none"> ▶ The reliance on management's experts and we will review of the data given to Barnett Waddingham; ▶ The Council's accounting treatment and IAS 19 requirements as set out by the Code; and ▶ Actuary assumptions and other relevant data using EY Pension specialists.

Property Valuation

Property valuation is considered a significant estimate in relation to its size.

There is a higher inherent risk that small movements in the estimate could lead to material misstatement if the estimation is not robust.

We will review and test:

- ▶ The reliance on management's experts and we will review of the data given to Wilkes Head and Eve
 - ▶ The Council's accounting treatment and IAS 16 requirements as set out by the Code; and
 - ▶ Assumptions and other relevant data using EY Property specialists as required.
-

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2016-17 this is based on the overall evaluation criterion:

"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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required.

Our overall risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion. Should our detailed risk assessment change as the audit progresses we will notify the Committee at the earliest opportunity.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements; and
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- 2. **Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

Our audit involves:

- ▶ assessing the key internal controls;
- ▶ placing reliance on the work of other auditors where appropriate;
- ▶ placing reliance on the work of experts on pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, plant and equipment	Wilks, Head and Eve
Pensions	EY Pensions team/ Barnett Waddingham

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council’s environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Reviewing significant disclosures included in the financial statements;
- ▶ Considering entity-wide controls;

- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Reviewing and reporting on auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements' of the Council is £1.962 million based on 2% of Gross Revenue Expenditure. We will communicate uncorrected audit misstatements greater than £98,100 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Aylesbury Vale District Council is £56,785.

4.6 Your audit team

The engagement team is led by Maria Grindley, who has significant experience on Aylesbury Vale District Council. Maria is supported by Adrian Balmer who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Finance.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning, Risk assessment and setting of scopes	December 2016 to January 2017	23 January 2017	Audit Plan
Testing routine processes and controls	January to March 2017	27 March 2017	Progress Report
Year-end audit	June to August 2017	26 July 2017	Progress Report
Completion of audit	August 2017	25 September 2017	Report to those charged with governance via the Audit Results Report. Audit report including our opinion on the financial statements and overall value for money conclusion. Reporting to the NAO on the Whole of Government Accounts return. Audit completion certificate.
Conclusion of reporting	September 2017	25 September 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	56,785	56,785	56,785	
Total Audit Fee – Code work	56,785	56,785	56,785	
Certification of claims and returns ¹	12,450	12,450	17,411*	The 2016/17 indicative fee is based on 2014/15 actual fee
Non-audit work	0	0	0	
Total	69,235	69,235	74,196*	

All fees exclude VAT.

- The final certification fee for 2015/16 is the proposed fee but is still being determined and is subject to review by PSAA based on the additional work required to complete the certification.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit if planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balances on initial audits [delete if not an initial audit] 	▶ Audit Results Report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Audit Results Report
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report ▶ Annual Audit Letter if considered necessary

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INTERNAL AUDIT PROGRESS REPORT – JANUARY 2017

1 Purpose

- 1.1 To receive the Internal Audit Progress Report of activity undertaken since March 2016.

2 Recommendations

- 2.1 The committee is recommended to note the progress report, including the completed internal audit reports.
- 2.2 The committee is requested to monitor progress against the plan and identify any issues they wish to be considered as part of the ongoing work.

3 Supporting Information

- 3.1 This report provides an update on the progress made against the 2016/17 Assurance Plan. The appendices include information on:
- Final reports issued since the previous Committee meeting.
 - Overdue recommendations and follow up work.
 - Three Internal Audit reports in full.

4. Reasons for Recommendations

- 4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the Council.

5. Resource Implications

- 5.1 There are no resource implications to report.

Contact Officer: Kate Mulhearn, Business Assurance Services Manager (01296) 585724
Background papers: none



Internal Audit Progress Report

January 2017





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1. Activity and progress

The annual internal audit plan was approved by the Audit Committee in March 2016. A summary of the plan is included in Appendix 2. We monitor progress against the plan during the year and advise the Audit Committee of any changes.

Final reports issued since the previous Committee meeting

Name of review	Conclusion*	Date of final report	No of recommendations made*			
			 Critical	 High	 Medium	 Low
Fixed Assets	Medium	10.01.2017	-	-	2	4
Treasury Management	Medium	10.01.2017	-	-	2	2
Payroll	Low	10.01.2017	-	-	1	3

* See Appendix 1 for the basis for classifying internal audit findings and reports.

The full reports are attached in Appendix 3 and summarised below:

Fixed Assets

The findings from this review raise concerns over the annual fixed asset register process, regarding the accuracy and completeness of assets held. It should be noted however, that our findings do not identify material errors. If acted upon promptly the findings in this report could be rectified for the fixed asset register as at 31 March 2017 which will form part of the 2016-17 Statement of Accounts and external audit.

The Council is planning to replace the existing LogoTech fixed asset software. The findings and recommendations outlined in this report should be considered as part of any future system implementation and process redesign.

Two medium risk findings were identified:

- There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.
- We re-performed depreciation for all assets, and discrepancies have been discovered from depreciation schedules for the 2015/16 year. No reconciliation has taken place between the fixed asset register general ledger.

Four low risk findings were identified relation to:

- Segregation of duties is not maintained for the processes of recording, updating and monitoring fixed assets.
- In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing highlighted a number of issues.
- There has been a lack of consultation and involvement with the Commercial Property department in the annual valuation process.
- In our sample testing, we identified one heritage asset for which no evidence of cost or valuation could be obtained.

Treasury Management

We considered the Council's performance compared to best practice drawn from knowledge of processes in other local authorities . A number of areas of good practice were noted and no significant risks were identified. Two medium risk and two low risk findings were raised relating to:

- The Council breached C.15 of the Financial Regulations by not issuing the Treasury Management Strategy on or before the start of the 2016-17 financial year; it was issued on 18 May 2016. C.17 was also breached by not issuing a Mid-Year Treasury Report by 30 September 2016; at the time of this report being issued there was no Mid-Year Report in issue.
- Whilst value for money can be demonstrated in some regards by adherence to the Strategy, on an investment by investment basis, it could not be documented to specifically identify the considerations as to why an investment was made with a particular counter party. Therefore value for money is not documented sufficiently.
- Procedures need to be documented setting out the key processes of Treasury Live, including roles and responsibilities, segregation of duties and risk management considerations. Although borrowings have not been undertaken in recent years, prior to any future loans procedures and controls will need to be updated.
- The Council should provide training to Members to support their Treasury duties and an annual assessment of the training needs for Members regarding treasury activity should be made.

Payroll

Against the key objective of payroll i.e. payments made are in line with Council establishment lists and are accurate and complete through to payslips, we did not identify any issues and a number of areas of good practice were noted. Following the prior year audit recommendation, a reconciliation is now performed between the general ledger and iTrent. One medium and three low findings were raised relating to:

- the Council’s inability to produce reports from the payroll system (iTrent) to monitor changes to pay rates/hours/grade. This is an expected key control to periodically check for unauthorised changes.
- Insufficient detail to support expense claims, including low level narrative and inconsistencies in the receipting procedures
- New Starter and Leaver forms are not completed in full, with instances where management have not signed off checklists
- The Council need to formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. This issue has been re-raised from the prior year.

Internal audit plan work in progress

As at the date of preparing this report the following reviews are in progress:

<i>Name of review</i>	<i>Update on progress</i>
Debt Recovery	<p>In response to internal audit recommendations arising from 2015/16 reviews, a project is underway to review the Council’s strategic approach to debt recovery. The scope includes:</p> <ul style="list-style-type: none"> – understand the level of debt – including all income streams and age profile – develop strategic direction/policy for debt management and recovery action – recommend future operating model, structure of teams and resources to maximise efficient collection of debts – clarity over responsibility & ownership of debt collection – identify reporting needs to effectively monitor and manage debt at the budget holder and corporate level – identify best practice and benchmark debt management elsewhere – apply customer insight to profile debtors which will support more focused recovery action and reduce overall debt <p>This is not an assurance review and IA is supporting in an advisory capacity.</p>
Safeguarding	Review started but on hold pending restructure. Revised scope to be agreed January 17
General Ledger	Work completed and report being prepared
Accounts Receivable	Work completed and report being prepared
Accounts Payable	Work completed and report being prepared
Service Charges	Review is in progress

2. *Overdue recommendations and follow up work*

We monitor the implementation of actions and recommendations raised by internal audit reviews to ensure that the control weaknesses identified have been satisfactorily addressed. We only report to the Audit Committee when more than 3 months has passed since the original agreed target date.

Update on financial systems

The Commercial AVDC Financial Systems & Processes Review Board is continuing to monitor the implementation of actions identified in the 2015/16 Accounts Payable & Receivable and the General Ledger and Budgetary Control internal audit reports.

During Q3 and Q4 financial systems will be subject to internal audit review again. This will pick up on previous actions and provide assurance over the design and operation of financial controls.

Overdue recommendations

Taxi Licensing (October 2015) – Medium priority recommendation to be completed by 31 March 2016 – Complete

Finding - There is no policy on document retention governing the licensing application process so there is a risk that personal data is being held for longer than appropriate. Management agreed to adopt a document retention policy that incorporates the whole licensing function.

Management update – A policy has been drafted along with the data retention schedule. This has been incorporated into the system specification and data migration processes for the new Salesforce system.

Appendix 1: Internal audit opinion and classification definitions

Individual reviews - Basis of classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual findings are considered against a number of criteria and given a risk rating based on the following:

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2: Internal audit plan and progress tracker

The 2016/17 Annual Internal Audit Plan was approved by members of the Audit Committee in March 2016. Progress and changes are reported below.

Review	Description	Status/Comment	Risk Rating
General Ledger	Ongoing input to Commercial AVDC Finance Review project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)	In progress	
Payroll		In progress	Low
Accounts Receivable		In progress	
Accounts Payable		In progress	
Treasury		Complete	Medium
Fixed Assets		Complete	Medium
HR - Recruitment	Review recruitment processes and controls	Processes are being assessed as part of Commercial AVDC reviews. Consider audit in 207/18.	Defer to 17/18
Electoral & Democratic Services	Deferred from 15/16. Roll out of ModGov – review processes post implementation	Implementation has gone wells so far but not yet using full functionality. This is being considered as part of the Business Review. IA to consider once review has concluded.	Defer to 17/18
Contract Management – Supplier Resilience	Deferred from 15/16. Assurance that key suppliers/contracts have adequate business continuity plans in place. Consider outcomes of Commercial AVDC review.	Q4	
Budget Management		Q4	
Information Governance	Information governance effectiveness review.	Scope of was work agreed. Now pending outcome of Intel report. Scope will be modified as needed.	
Health & Safety	Compliance with OHSAS18001; review of H&S Management System	New H&S provider from 1 Oct 16 will review management systems following departure of H&S officer. Work will be overseen by BAS Manager but not likely to require specific IA resource. Audit should be deferred until systems are in place.	Defer to 17/18
Safeguarding	Review pre Sec 11 audit. Also consider vulnerable adults.	In progress	
Debt Recovery	Council wide review of debt management and recovery processes, including council tax, business rates, HB overpayments and other income streams.	Work commenced July 2016 to support review of processes. This is IA advisory work.	

My Account	Review security of payments, information and interfaces with other systems	Q4	
Good Governance Framework for Local Government	Review compliance with new CIPFA code and implications for AGS 16/17	CIPFA framework has been published. Review will commence in Q3.	
Risk Management	Continuous assurance over risk management process	Corporate risk register reviewed and reported to Audit C'ttee.	
Enterprise zones	Processes governing management of E Z partnerships	Not considered a key risk area for focus at this time.	Remove
Housing benefits		Start w/c 23 Jan 2017	
Collection fund		Start w/c 23 Jan 2017	
Estates – Service Charges	Basis for and calculation of service charges, collection processes	In progress	
Business Reviews	Ongoing	Internal audit has supported Commercial AVDC reviews: <ul style="list-style-type: none"> • Procurement & Contract Management • Business Intelligence • Financial Systems and Processes 	
Vale Lottery	The review focussed on four areas identified as being key to ensuring that the lottery is being operated effectively and in compliance with the Gambling Act.	Complete	Low

Appendix 3: Internal audit reports

The Committee requested to see all internal audit reports in full. Those completed since the last meeting are attached below.

1. Fixed Assets
2. Treasury Management
3. Payroll



Internal Audit Report 2016/17

Fixed Assets

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings
2. Background and Scope	4	should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is
3. Detailed findings and action plan	5	shared.
Appendix 1. Finding ratings and basis of classification	16	
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Distribution List

For action	Tony Skeggs – Finance Manager
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium risk (10 points)	Control design	-	-	1	2
	Operating effectiveness	-	-	1	2
	Total	-	-	2	4

*We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Medium. This review raises findings around both the control design and operating effectiveness of the fixed asset procedures in place.

The control design currently does not include an annual verification of the existence of assets in departments where there is high turnover i.e. IT and Fleet; we identified differences in the assets recorded on the fixed asset register and listings provided by these two departments (see Appendix 3). We noted inaccurate application of depreciation as per the Council's Accounting Policy; our findings identified 3 instances of depreciation being charged in full in one year when it should have been split over the asset's useful economic life.

The findings from this review raise concerns over the annual fixed asset register process, regarding the accuracy and completeness of assets held. It should be noted however, that our findings do not identify material errors. To support the implementation of an improved control environment, on page 5 of this report we have set out the current and suggested annual fixed asset register process. If acted upon promptly the findings in this report could be rectified for the fixed asset register as at 31 March 2017 which will form part of the 2016-17 Statement of Accounts and external audit.

The Council is planning to replace the existing LogoTech fixed asset software. The findings and recommendations outlined in this report should be considered

as part of any future system implementation and process redesign.

Key Findings

Two medium risk findings were identified:

- There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.
- We re-performed depreciation for all assets, and discrepancies have been discovered from depreciation schedules for the 2015/16 year. No reconciliation has taken place between LogoTech (fixed asset register) and Tech1 (general ledger).

Four low risk findings were identified relation to:

- Segregation of duties is not maintained for the processes of recording, updating and monitoring fixed assets.
- In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing highlighted a number of issues.
- There has been a lack of consultation and involvement with the Commercial Property department in the annual valuation process.
- In our sample testing, we identified one heritage asset for which no evidence of cost or valuation could be obtained.

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Good practice noted

- External valuers were instructed on a timely basis to ensure that material changes were reflected in the financial statements correctly and in a timely manner.

Management comments

We accept the findings of this report. We recognise the procedures can be improved regarding the annual process and in the short term will seek to implement the segregation of duties and engagement with IT/Fleet to obtain updated asset registers. In the longer term we have begun to consider the functionality of Tech1 our main accounting software over whether the asset register would be better managed on this software. If this is the case it may resolve many challenges faced with the current system and improve the control environment. Tony Skeggs, Finance Manager.

2. Background and Scope

Background

The Council holds the variety of fixed assets expected for an organisation of its type and size i.e. property plant and equipment, heritage assets and investment properties; the respective 31 March 2016 values in the Statement of Accounts for each of these types of assets was £120.1m, £0.220m and £0.415m. The recording of fixed asset transactions onto Tech1 (general ledger) is a year-end only process and is facilitated through the LogoTech software. The fixed asset central year-end process is performed by the Finance Manager who is supported by wider members of the Finance Team.

The purpose of this audit is to review the design and effectiveness of controls in relation to fixed asset activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken to compile the fixed asset register.

Scope

The scope covered the key risks set out in Terms of References (see Appendix 2), including review of accuracy, completeness of the fixed asset register and the existence of current fixed assets.

We have reviewed the Council's current process of updating of the fixed asset register in LogoTech through discussions with the Finance Manager and by conducting the following tests:

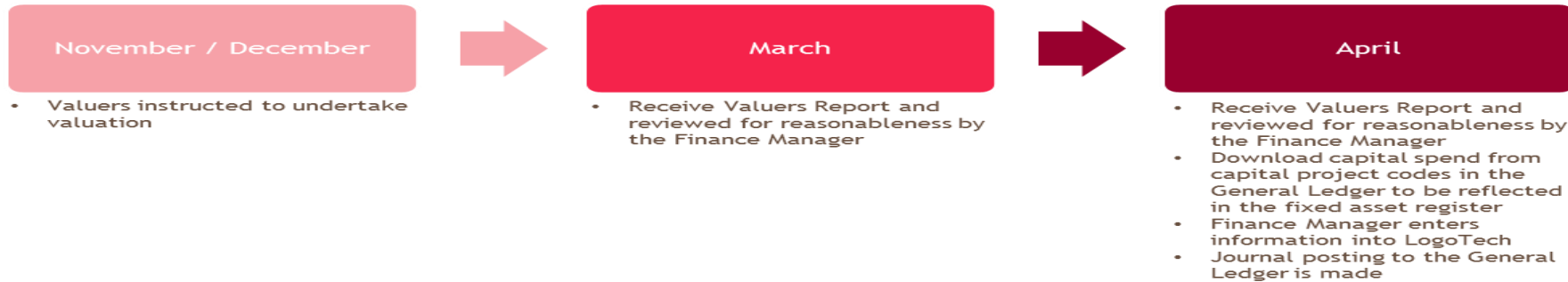
- Recalculating depreciation for all assets
- Verifying all Gross Book Values (GBV) against revaluation reports provided by the external valuer
- For those assets not covered by the external valuers reports, we selected a sample of five assets to match their GBV against the evidence of cost
- Selected a sample of 15 assets to verify their physical existence.

The above is not a comprehensive list of all tests. The review also involved holding discussions with the Council's external auditor and external valuer.

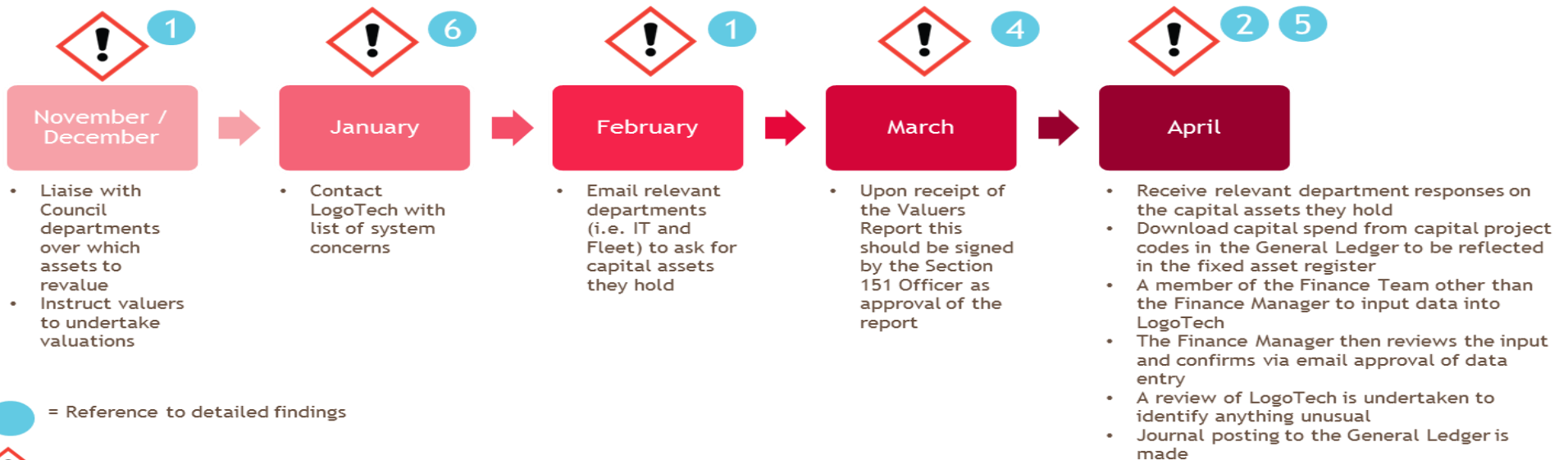
3. Detailed findings and action plan

Set out below is a comparison of the current annual process to compile and authorise the fixed asset register and Internal Audit’s recommended process based on the findings of this review.

Current Process



Recommended Process



= Reference to detailed findings

= Current process with control weakness

1. Fixed asset register inconsistent with department assets lists – Control design

Finding

There is no process where the assets on the Council's fixed asset register are checked with department asset lists to ensure accuracy. We found discrepancies in IT and Fleet asset listings.

LogoTech is the system used for recording and maintaining fixed assets. The Finance Manager runs capital ledger codes from the Council's general ledger system – Tech1, to obtain balances at the year end, and inputs relevant movements on to LogoTech. See page 5 for the current process.

The only material movements in the year are the revaluations of land and buildings conducted by the Council's external valuer. Other categories of assets such as IT equipment and fleet hold immaterial Net Book Values (NBV) and therefore less significance is placed on the accuracy and validity of these assets. The Finance Manager advised that:

- IT assets: There has been no update to the asset register since 2008/2009
- Fleet assets: There has been no update to the asset register since 2013/2014.

We selected a sample of 12 fixed assets from the Council's asset register to confirm their physical existence. We could not locate the assets labelled as *Digital Cameras*, which recorded Gross Book Value (GBV) of £19,793 from IT, and the Land Rover Defend (GBV £19,999) from Fleet. The Fleet Manager advised that there were two Land Rovers, but one of them was stolen and the other one sold in the previous years. However, none of the changes of assets had been reflected in the Council's fixed asset register.

The updated lists of fixed assets were obtained from the IT Manager and the Fleet Manager as part of this review, which show a number of variances when compared to the Council's fixed asset register. See Appendix 3 for detailed listings. Most of the IT and fleet assets have been fully depreciated to zero Net Book Values (NBV) so from an accounting point of view, there is no material financial impact on the Council's accounts. However, those assets are still in use and any misplacement (loss/ theft/damage) would lead to expenditure to further repair or replace.

Moreover, from the list obtained from the Fleet Manager, some of the vehicles have been owned by the Council for less than 3 years, which means that based on the Council's accounting policy (depreciate vehicles for 3 years on straight line basis), they still have NBV remaining. With incomplete fleet assets recorded on the Council's asset register, the value of assets contained in previous years' accounts and the depreciation charged could have been underestimated. The Fleet Manager advised that the fleet records can easily be extracted from Tech1, therefore this should be included as part of the year end process of asset register updating.

It is anticipated that the fixed asset system will be replaced during 2017/18 and concerns raised here will be addressed as part of the replacement system implementation.

Risks / Implications

Fixed asset balance and depreciation charges are not accurate or complete.

Finding rating

Action Plan

Page 64
Medium

Finance Manager should contact the IT Manager and Fleet Manager in February each year to request:

- A comprehensive listing of all capital assets they hold
- The location of the assets
- The unique identifier of the asset
- The current cost estimate of the asset
- The useful economic life of the asset

The Finance Manager should ensure the details are received by 31 March each year. Any necessary updates to LogoTech along with the relevant accounting changes should be made.

Ongoing, regular reconciliation should be undertaken to ensure that system errors are identified and corrected. Management should determine the frequency but of there is significant movements, this could be quarterly.

See Recommended Process on page 5.

Responsible person / title

Tony Skeggs – Finance Manager

Target date

Start in February 2017 to complete by April 2017

2. Incorrect depreciation has been applied– Operating effectiveness

Finding

We recalculated the depreciation for every asset on the Council's fixed asset register in line with the Council's Accounting Policy. The following discrepancies were identified:

- CCTV (Asset No. 0061) has not been depreciated in year 2015/16, with NBV of £15,745. The CCTV was first recorded at a GBV of £326,038 in year 2007/08, with useful life of 10 years. Based on the accounting policy, however, it should have been depreciated by £32,604 (£326,038/10) during the year, with NBV at the end of year of £65,207 (two years of useful lives remaining). As a result, depreciation was understated by £32,604, and NBV was understated by £49,462 (£65,207-£15,745). It is difficult to explain how LogoTech has obtained £15,745 as NBV left after eight years of depreciation (08/09-15/16).
 - Three Refuse Freighters (Asset No. 364-366) were acquired on 01/01/2014, with a GBV of £60,226 for each asset at the time of purchase. Based on the accounting policy, there should be no depreciation in the year of purchase (2013/14), and for the following years of 2014/15, 2015/16, and 2016/17, there should be depreciation of £20,075 recorded for each Refuse Freighter. However they were fully depreciated in 2015/16, with zero NBV left at 31/03/2016. As a result, depreciation was overcharged in 2015/16 by £20,075 each (£60,226 in total), and closing value of assets were understated by £20,075 each (£60,226 in total).
- Another Refuse Freighter (Asset No. 373) was acquired on 01/07/2014, with the same GBV of £60,226. It has not been depreciated during year 2015/16 at all on the Assets Register. Based on the accounting policy, it should have been depreciated by £20,075 (£60,226/3), with NBV of £40,150 at 31/03/2016. Therefore, depreciation has been underestimated by £20,075, and closing value overestimated by £20,075.

We have reviewed LogoTech with regards to the above assets and noted that the asset classification, GBV and remaining lives were correctly input for each individual asset but the reason for the discrepancies could not be explained by the Finance Manager.

Due to lack of annual reconciliation procedures between the depreciation schedule and assets register report, errors were not identified and corrected, which leads to the risk that material balances could be incorrectly entered onto the Council's general ledger system, Tech1.

Risks / Implications

Fixed assets and depreciation are misstated.

Finding rating	Action Plan	
<p>Medium</p> <p>Page 66</p>	<p>When the fixed asset register is updated annually in April the following steps should be taken:</p> <ul style="list-style-type: none"> • Sample checks should be conducted to verify the correct calculation of depreciation in line with the Council’s Accounting Policy • A review of the draft fixed asset register should be performed by the Finance Manager to identify any anomalies such as those identified as part of this review and these should then be investigated and corrected • The above tasks should be recorded on a template to identify that one member of the Finance Team conducted the sample checks and another member of the Finance Team (i.e. the Finance Manager) reviewed these checks. The template should be signed and dated by the two separate members of the Finance Team. <p>See Recommended Process on page 5.</p>	<p><i>Responsible person / title</i></p>
		<p>Tony Skeggs – Finance Manager</p>
		<p><i>Target date</i></p> <p>April 2017</p>

3. Lack of segregation of duties – Control design

Finding		
<p>The Finance Manager has the following responsibilities regarding the fixed asset register, on top of his other management activities:</p> <ul style="list-style-type: none"> • Reviewing and updating the fixed assets register annually by extracting balances off the general ledger • Arranging the revaluation exercise with external valuers • Monitoring and authorising capital expenditure for capital projects • Inputting additions and disposals onto both LogoTech and Tech1 <p>We recognise that the Council’s fixed asset register is relatively small with less than 300 fixed assets in total, however the lack of segregation of duties could lead to the risk of self-review and asset misappropriation. Moreover, two people in the Finance Team can get access to LogoTech, but currently only the Finance Manager knows how to use it. When the Finance Manager is on leave or unavailable, there is no designated responsible person to cover these duties.</p>		
Risks / Implications		
Duties are not properly segregated to ensure accuracy of asset recording.		
Finding rating	Action Plan	
Low	Responsibility for updating the fixed asset register should be assigned to another member staff in the Finance Team, and the Finance Manager should be supervising and monitoring the activities undertaken.	<i>Responsible person / title</i>
		Tony Skeggs – Finance Manager
		<i>Target date</i>
	This will be addressed as part of the finance review and Commercial AVDC restructure.	June 2017
	See Recommended Process on page 5.	

4. LogoTech configuration issues – Operating effectiveness

Finding		
<p>In its current set-up, LogoTech is not capable of providing sound financial functionality to allow the accurate and complete recording of fixed assets. Our testing has highlighted a number of issues:</p> <ol style="list-style-type: none"> 1) ‘5 Year Revaluation Summary’ (The Summary) – we obtained this report from LogoTech and all external revaluation reports from 2012/13 to 2015/16. We noted that there are 47 assets involved in the rolling revaluation programme, however, seven of the assets were recorded incorrectly (double the value) on The Summary. Although each individual asset’s revised value was input correctly on LogoTech, the system has generated incorrect balances on The Summary; this system error could not be explained by the Finance Team. <p>The Summary should be used by the Finance Manager to verify the correctness of values input into the system against the value provided by the external valuer. It could also flag up assets which are due to be revalued in the financial year. With the incorrect balance contained in the Summary however, the report cannot support management monitoring processes effectively.</p> <ol style="list-style-type: none"> 2) In Finding 2 we identified “system errors” that LogoTech has treated the same group of assets differently and calculated the depreciation charge incorrectly for five assets. 3) The system is not user-friendly and it does not generate correct and useful management information. LogoTech reports are in PDF format, which are difficult to edit and review. <p>The Council is looking to replace the fixed asset system. The findings from this report should inform the specification of a future system. In the short term however the issues with Logotech should be addressed with the software provider.</p>		
Risks / Implications		
Incorrect accounting for fixed assets.		
Finding rating	Action Plan	
Low	For year end 2016/17, the Finance Manager should contact the system provider and raise all system errors so that they can be fixed i.e. the concerns regarding Summary Report, how to generate reports in excel	<u>Responsible person / title</u> Tony Skeggs – Finance Manager

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documents or other findings as part of this report which changes in system functionality could support.

Target date

It is anticipated that the system will be replaced during 2017/18 and concerns raised here will be addressed as part of the replacement system implementation.

January 2017

See Recommended Process on page 5.

5. Revaluations are not discussed with other departments and/or properly authorised by the s151 officer – Control design

Finding

It is the Council's Accounting Policy that, 'Assets included in the balance sheet at current value are revalued on a rolling basis within a five year time-frame'.

The Finance Manager is responsible for arranging the external valuation of assets aiming to cover all the assets on the five year rolling basis as per the Accounting Policy. The valuation is undertaken by the external valuer (Wilks Head and Eve LLP) before the year end. The external valuer provides a report to the Council setting out the assumptions taken and detailed revaluations. The changes will then be made on the balances of assets' GBV and NBV accordingly based on the revaluation reports received.

We can confirm that all assets involved in the five yearly revaluation programme have been revalued within the past five years, and all revised GBVs correspond to the revaluation report provided by external surveyors.

Discussion with other departments

The Finance Manager decides which assets to value by those where there is significant known change and/or those which are topical. This is not discussed with the Commercial Property function. Commercial Property should have the latest valuation of Council assets to inform their decision making and better support their ability to optimise financial value from their transactions as they can leverage the latest valuation figures to form part of their agreements to sell/buy assets.

Section 151 Officer approval

We have reviewed the revaluation reports completed by the external valuer and we are satisfied that the firm meet the relevant qualifications and their valuation method and assumptions appear reasonable. However, we have noted that the valuation report is not required to be authorised by the Section 151 Officer of the Council. The valuer's report is currently discussed with, and addressed to, the Finance Manager.

Per the 2016 Statement of Professional Practice issued by the Chartered Institute of Public Finance Accountants (CIPFA), the Section 151 Officer should be responsible for ensuring the income and expenditure of the organisation is properly and regularly monitored in line with budgeting setting and reporting requirements. Therefore the Section 151 Officer should be the individual addressed when the external valuer's report is issued and good practice would involve their explicit authorisation on the conclusions of the external valuer's report either by email or counter signing the external valuer's report.

<i>Risks / Implications</i>		
The valuation report is not properly authorised and monitored in line with the Council's budget setting		
<i>Finding rating</i>	<i>Action Plan</i>	
Low	Commercial Property should provide input into the assets to be revalued by the external valuer each year.	<i>Responsible person / title</i>
		Tony Skeggs – Finance Manager
	External valuer reports should be addressed to the Section 151 Officer and authorisation of the conclusions in the report should be made either by email or counter signing the external valuer's report.	<i>Target date</i>
		May 2017
	See Recommended Process on page 5.	

6. Insufficient evidence for asset cost/GBV – Operating effectiveness

Finding

Evidence should be maintained to verify the accuracy of the Gross Book Value (GBV) of assets held on the balance sheet. This is typically in the form of invoices, auction letters or formal valuations or solicitor correspondence.

In our sample testing, we identified one heritage asset, the Ronnie Barker Statue (£70,000), for which no evidence of cost or valuation could be obtained. We understand the statue was made in 2009.

Risks / Implications

Inaccurate balances are included in the fixed asset register and subsequent accounting transactions are inaccurate and/or incomplete.

Finding rating

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Low

Action Plan

As part of the implementation of the new asset register, a cleansing process will be undertaken to remove assets no longer in use.

For those maintained on the register, a process will be developed to ensure evidence is held to verify the cost of assets and this will be easy to locate.

Responsible person / title

Tony Skeggs – Finance Manager

Target date

September 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks and audit objectives agreed in the Terms of Reference are set out below. Each finding in the report is linked to a key risk from the Terms of Reference.

Sub-process	Risks	Objectives
Policies and procedures	Fixed asset balances are inaccurate, incomplete and transactions not recorded timely Expenditure is inappropriately treated as capital.	<ul style="list-style-type: none"> • Policies and procedures are clear, understood and followed to ensure the objectives of activity are met • Policies are sufficient to give clear guidance on key capitalisation principles and given the activities of the Council
Access	Data may be amended or deleted without appropriate approval	<ul style="list-style-type: none"> • Access to the system is controlled to manage unauthorised manipulation of data
Reconciliations	Fixed assets are inaccurate and incomplete	<ul style="list-style-type: none"> • Reconciliations are performed to ensure data held is accurate and complete
Recording	Inaccurate and/or incomplete net book values of additions, disposals and amendments to fixed asset records (including the application of depreciation)	<ul style="list-style-type: none"> • Data held on the system is correctly input and calculated to ensure it is valid, accurate and complete • Fixed asset additions are recorded and correctly treated as capital • Assets are removed from the register when disposed and any gains/losses correctly calculated
Depreciation	Inaccurate NBV and depreciation charges.	<ul style="list-style-type: none"> • Depreciation is calculated accurately and in accordance with policy
Verifying existence	Assets do not exist. Misappropriation of assets.	<ul style="list-style-type: none"> • Existence of assets held is confirmed to validate the assets held and their location/condition
Reconciliations	Reconciliations between other interface systems are inadequate to verify the accuracy and completeness of data held on Tech1	<ul style="list-style-type: none"> • Reconciliations are performed to ensure data held is accurate and complete
Valuations	Inaccurate financial records and inappropriate property valuations	<ul style="list-style-type: none"> • Valuations are performed by suitably qualified organisations/individuals and are conducted on a regular basis to ensure coverage of assets held • External valuations of properties and heritage assets agree with data held on the system

Appendix 3. Asset Lists Comparison

IT Assets

We have obtained the current list of assets from the IT Manager and compared it with the central Fixed Asset Register. As set out in Finding 1 of this report there is no process where the IT assets on the Council's fixed asset register are checked with the IT Manager to ensure the asset list is accurate. The below comparison details significant differences which raises the following concerns:

- There could be significant changes to the IT asset register which are not reflected in the Council's fixed asset register
- There is limited ability to match asset register held by IT to the fixed asset register due to it not being updated for a significant period of time
- There are some assets which have been capitalised on the fixed asset register which do not meet the de minimus set out the Council's Accounting Policy of £10,000 i.e. I Mac at £1,424.00.

It should be clarified that the concerns raised do not have a financial impact on the Council's Financial Statements because the NBV of assets held are already fully depreciated and if any values are held currently they would be considered immaterial.

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List provided by IT Lead as at November 2016

Unit Description	Quantity estimate	Unit estimate	Current cost estimate
Monitors	694	£100.00	£69,400.00
50" LCD screens	10	£400.00	£4,000.00
Smartboard	1	£3,000.00	£3,000.00
Microsoft Hub	1	£7,000.00	£7,000.00
Thin Clients	339	£300.00	£101,700.00
Desktops	49	£400.00	£19,600.00
Laptops	48	£400.00	£19,200.00
Tablets	58	£400.00	£23,200.00
Chromebooks	13	£250.00	£3,250.00
Multi-Function Devices	13	£2,600.00	£33,800.00
Mobile phones	295	£100.00	£29,500.00
Total			£313,650.00

List held in LogoTech as at November 2016

Unit Description	GBV
Cisco Telephones	£92,693.00
Impact Printers	£14,241.00
Inkjet Printers	£21,855.00
Laser Printers	£74,699.00
Plotter Printer	£6,076.00
Comms Equipment	£176,963.00
Digital Cameras	£19,793.00
Laptops	£119,182.00
Miscellaneous	£31,009.00
Data Storage	£28,343.00
I Mac	£1,424.00
Monitor	£112,004.00
Total	£698,282.00

Fleet Assets

We have obtained the current list of assets from the Fleet Manager and compared it with the central Fixed Asset Register. As set out in Finding 1 of this report there is no process where the Fleet assets on the Council's fixed asset register are checked with the Fleet Manager to ensure the asset list is accurate. The below comparison details significant differences which raises the same concerns as on the previous page.

List provided by Fleet Manager as at November 2016

Registration	Fleet Number	Vehicle Type	Age
LL63UJR	R22	Food	3
LL63UJP	R24	Food	3
LL63UJS	R19	Food	2
OU58 JXL	R42	RCV/Food	8
VU58 KFZ	R7	RCV	8
VU07 HYW	R1	RCV	9
VU10 HYW	R17	RCV/Food	6
LN63 JJK	R41	Food	3
FU02 KJA	R25	Box Van	14
NX05 BWV	R36	Box Van	11
NX05 DXT	R31	Box Van	11
KP08 ZXX	R40	Transit Van	18
KN02 SJU	R29	Caged	14
P113 NVS	R21	SKIP	-
W417 AHG	R23	SKIP	-
		Fork lift truck	

List held in LogoTech as at November 2016

Description	GBV
Daewoo Box Tail L	£0.00
Ford Ranger	£0.00
Ford Connect L220	£0.00
Leyland/Teleho	£0.00
Ford Connect 220	£0.00
Ellite/Dennis/Terb *2	£0.00
Peugeot Painter L *2	£0.00
Leyland/Terberg	£25,474.00
Land Rover Defend	£19,999.00
Ford Transit 120	£0.00
Scania/Telehois	£0.00
Ellite/Dennis/Terb	£0.00
Vauxhall Astra	£0.00
Vauxhall Corsa	£0.00
Land Rover Defend	£0.00
Ford Connect L230	£0.00
Ford Transit mini	£0.00
Refuse Freightor *4	£60,229.00



Internal Audit Report 2016/17

Treasury Management

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is shared.
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Distribution List

For action	Tony Skeggs – Finance Manager
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Medium risk (8 points)	Control design	-	-	1	1
	Operating effectiveness	-	-	1	1
	Total	-	-	2	2

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We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

The review raises two medium and two low risk findings around the control design and operating effectiveness of the Treasury Management function and overall has been classified as Medium risk.

We performed an exercise comparing current practice against best practice drawn from our knowledge of processes in other local authorities – see Appendix 3 for more information. Whilst there were no critical or high risks identified, we have raised findings regarding the breach of two Financial Regulations relating to treasury activity and inadequate reporting. We recommend that policies/procedures are developed to set out continuity arrangements. It was also identified that the Council does not document for each transaction how it achieved value for money.

Summary of findings

- The Council breached C.15 of the Financial Regulations by not issuing the Treasury Management Strategy on or before the start of the 2016-17 financial year; it was issued on 18 May 2016. The Council also breached C.17 by not issuing a Mid-Year Treasury Report by 30 September 2016; at the time of this report being issued there was no Mid-Year Report in issue (Finding 1 - Medium)

- Whilst value for money can be demonstrated in some regards by adherence to the Strategy, on an investment by investment basis, it could not be documented to specifically identify the considerations as to why an investment was made with a particular counter party. Therefore value for money is not documented sufficiently (Finding 2 - Medium).

Good practice noted

- The Council maintains a list of approved counterparties and does not enter transactions with unapproved counterparties
- All transactions tested in our sample underwent the appropriate review and approval by the Finance Manager
- The Council has recently joined a benchmarking group with five authorities based in Buckinghamshire and Hertfordshire to consider other treasury management approaches. This is a new process and the full outcome of the exercise is not known however early discussions suggest this is a useful tool to challenge the Council's investments/borrowings and approach to treasury management
- Finance have discussed possible implications of Brexit, although no actions have been taken as these are still yet to be known
- The Council receives weekly updates from Capita Asset Services on the credit status of counterparties, and daily updates, should there be any immediate changes.

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Management comments

We accept the findings of this report. We recognise the delays in issuing the Strategy and Mid-Year Report; to rectify this we expect to issue the 2017-18 Strategy to Cabinet for approval ahead of 1 April 2017. We have moved to a new treasury system and will consider using the system to better demonstrate the achievement of value for money in treasury activities. Tony Skeggs, Finance Manager.

2. Background and Scope

Background

Good Treasury Management is a key element of the effective management of working capital, ensuring the organisation has cash available to meet its obligations while ensuring any surplus cash is managed within the Council's appetite for risk and return. The team is made up of the Finance Assistant, who carries out day-to-day treasury functions which are overseen and approved by the Finance Manager. The Council's transactions with counterparties in the financial year to 30 September, was made up of payments totalling £91m and receipts of £71.5m. There have been no borrowings.

The purpose of this audit is to confirm the existence and efficiency of key controls in place to mitigate the risks associated with treasury management (see Appendix 2). As well as performing the audit, we carried out a benchmarking activity looking at good practices drawn from other local authorities (see Appendix 3).

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Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2), including a review of the Treasury Management Strategy Statement, risk management and reporting requirements.

We reviewed a sample of ten investments to ensure there are appropriate procedures in place including review and approval by the Finance Manager and ensuring all Counterparties are within the credit limits set out in the Strategy. With regards to borrowings, the Council have not undertaken any since April 2014 however we still reviewed the processes through discussion.

3. Detailed findings and action plan

1. Reporting requirements breached and ineffective – Operating effectiveness

Finding

The Treasury Management Strategy 2016 has been approved by Members and is in line with CIPFA guidance. The Strategy states that as a minimum, *‘the Full Council is required to receive and approve three main reports with regards to treasury activity. The Treasury Management Strategy, a Mid-Year Treasury Report and the Year-End Treasury Report’*. Furthermore the Council’s Financial Regulations have two requirements within it which relate to treasury activity namely:

- C.15: The Section 151 Officer is responsible for reporting to the Council a proposed treasury management strategy for the coming financial year at or before the start of each financial year
- C.17: The Section 151 Officer is responsible for reporting on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. One such report will comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year to the Council.

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Mandatory Reporting

Set out above are the mandatory reporting requirements for the Council. As part of this review we report the following breaches:

- A Strategy was approved by Cabinet on 18 May 2016; this breaches C.15 of the Financial Regulations as it was not approved at or before the start of the financial year
- A Mid-Year Treasury Report was not issued by 30 September 2016 and had not been issued at the time of finalising this report in December 2016 which breaches C.17 of the Financial Regulations.

Through discussion it was confirmed that due to other pressures the Strategy was delayed in being issued and similarly with the Mid-Year Treasury Report. Prompt review by Cabinet of both these reports is important because they set out the approach the Council takes with the use of significant material funds and regular review allows opportunity to challenge the effectiveness of the Councils approach to meet its objectives and achieve value for money.

Good Practice Reporting

The Council reports on finance activity in the Quarterly Digest and as part of this review we obtained the latest report for the quarter ended 30 June 2016. This report goes to a wide distribution, including Members, but it is not a mandatory reporting requirement. We reviewed the coverage of treasury activity in the Quarterly Digest and noted the level of information provided and the commentary is not sufficient to adequately scrutinise treasury activity. It should be noted that in the Quarterly Digest there is a form for individuals to complete and give their feedback on information received however to date, no feedback has been received and therefore the information presented has not changed in format.

Risks / Implications

Members may not have sufficient oversight on the Council's treasury activity in accordance with the strategy's reporting requirements.

Finding rating

Action Plan

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Medium

- a) Ensure the Mid-Year and Annual Strategy treasury management reports are completed and presented to Council members in a timely manner as per the Financial Regulations
- b) Develop a reporting schedule for the rest of the financial year and consider including this in the 2017/18 Treasury Management Strategy (See Appendix 3)
- c) Provide commentary in the Quarterly Digest to inform readers on the movement in funds and rates.

Responsible person / title

Tony Skeggs – Finance Manager

Target date

April 2017

2. Value for money assessments not documented – Control design

Finding

An important objective of treasury activity is to select the optimum rates of return (investments) or interest rates applied (borrowing) to deals undertaken. In the year to 30 September 2016 investment activity comprised payments totalling £91m and receipts of £71.5m.

The process to achieve value for money on investments is as follows:

- The Finance Manager or Finance Assistant will call one of the three Brokers the Council transact with
- Through these discussions it will be the best rate currently available for the funds the Council wish to invest will be identified. There can often be a limited choice of counterparties to invest with because a process of elimination is undertaken to discount those who do not meet criteria set out in the Council's Treasury Management Strategy i.e. they do not meet credit criteria or the maximum investment limits have been reached
- The Finance Manager or Finance Assistant will then select the most economically advantageous investment and place the deal. Subsequently the Broker will email the Council confirmation of the deal which confirms the name of the counter party, rate agreed and length of investment amongst other details.

The reason a particular counter party was chosen to invest with is not documented on either the Deal Document or the treasury system. Whilst we accept that a level of value for money assessment would have taken place, in that only those counter parties who are on the agreed counter party list are invested with, we cannot determine the extent the Council are optimising their investments.

Risks / Implications

Investments: The Council cannot demonstrate for each deal undertaken the process that confirms value for money was achieved. Given these are large funds of money there should be greater documentation to support these decisions.

Finding rating

Action Plan

Medium	a) The Council should implement either through Treasury Live, or another process, a way of documenting the reasons as to why a specific counter party was selected for testing. This information then needs to be recorded on a regular basis so it can be subject to review.	<i>Responsible person / title</i>
		Tony Skeggs – Finance Manager
		<i>Target date</i>
		February 2017

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- b) A template form needs to be established to ensure approvals are documented and that all verbal confirmations are removed from the process.

3. Policies and procedures not sufficiently detailed – Control design

Finding

The Council has a 2016/17 Treasury Management Strategy Statement in place which is the guideline for the all treasury activity. The objective is to ensure cash flow is adequately planned for future need and investing surplus monies in low risk counterparties. The Council has recently updated the Financial Procedures which outline the key roles and responsibilities for the treasury management function.

The Council has been using Treasury Live from 1 December 2016, a system designed to reflect CIPFA's recommended best practice for day-to-day treasury activities. There are currently no procedure notes on the day to day use of Treasury Live.

There are only two people at the Council delegated with treasury responsibilities and no-one else at the Council has the appropriate skills and knowledge to carry out treasury functions. If these two individuals are unavailable and there is a significant economic situation which requires urgent withdrawal of funds, the Council may not be able to act quickly due to continuity procedures not being in place to provide the names and numbers of brokers to contact.

During our benchmarking exercise, we found that other local Councils have developed procedure notes and a Treasury Management Manual containing various policies and other considerations (see Appendix 3). As the Council has changed systems to Treasury Live from LogoTech, it is now even more important to ensure there are policies and manuals with regards to Treasury activity.

Processes for Borrowing

The Council has not undertaken any borrowings in the year and in fact, no borrowings have occurred since April 2014. Long term and short term borrowing occurs for capital project investments but since April 2014 the Council's reserves have been used to fund current Capital projects. The Council is currently in the process of finalising the tender for the redevelopment of Pembroke Road and intends to use further reserves in the first instance however, if these are insufficient a loan may be required.

The Council currently has a £0.5million overdraft facility to ensure all chaps/bacs payments are paid in a timely manner.

As borrowings may be required in future, we performed a high level review of the established processes and note the following controls are lacking from the established process:

- No documented procedure is in place for borrowing funds for capital projects
- There are currently no template forms or emails to confirm the amounts that are to be borrowed and there is currently no requirement for a physical

signature by the Finance Director to evidence approval of borrowing funds

- The Finance manager is able to borrow funds of up to and including £5million but there is no official documentation or authorised signatory listing outlining that this action was acceptable by the Council
- There is no specified time frame that management must monitor the interest rates before they proceed to borrow.

Risks / Implications

Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions.
 New staff may not be able to execute treasury activity to an acceptable standard in line with the Strategy.
 Borrowings may not be authorised and achieve value for money.

Finding rating

Action Plan

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Low

1. The Council should formulate a Treasury Manual/Procedure document with the key processes of Treasury Live, set out key roles and responsibilities, segregation of duties and risk management considerations. This should include the procedures to be followed in the absence of the two individuals with delegated responsibility and this should be distributed to all those in the Finance Team (See Appendix 3).
2. For borrowing, prior to any future loans:
 - a) Procedures to borrow funds from the Bank should be documented
 - b) A Template Form needs to be established to ensure approvals are documented and that all verbal confirmations are removed from the process
 - c) Evidence needs to be kept to document how value for money was achieved on the borrowing undertaken; this could be recorded on the Template Form

Responsible person / title

Tony Skeggs – Finance Manager

Target date

1. February 2017
2. Earlier of June 2017 or any future borrowings

4. Member training not sufficient – Operating effectiveness

Finding

Members are charged with approving the Treasury Management Strategy and assessing reports they receive on treasury activity from the Council. This area can be highly technical. To support Members in their duty to effectively scrutinise the information presented and understand the risks to which the Council is exposed other local authorities often provide an annual training session to Members.

The Finance Manager advised that there have been discussions regarding training with Capita Asset Services, who support the Council in managing its treasury activities. However due to the cost implications of the training and an on-going consideration over whether training would be effective, no training has been organised.

Risks / Implications

Without sufficient training to support Members there is a risk they are not equipped adequately to scrutinise the treasury activities of the Council.

Finding rating

Action Plan

6889

Low

- a) The Council should pursue arrangements Capita Asset Services regarding the provision of training to Members. If Capita Asset Services are not instructed to offer the training then the Council need to put in place alternative arrangements to ensure Members are adequately trained
- b) An annual assessment of the training needs for Members regarding treasury activity should be made.

Responsible person / title

Tony Skeggs

Target date

April 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

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Individual finding ratings

Finding rating	Assessment rationale
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High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

Sub-process	Risks	Objectives
Policies and procedures	Inadequate policies and procedures are in place which weakens the framework to support accurate, complete and timely transactions	<ul style="list-style-type: none"> • Policies and procedures are clear, understood and followed to ensure the objectives of activity are met
Risk Management	Inappropriate risk management consideration and arrangements for the treasury function	<ul style="list-style-type: none"> • Risk management arrangements are appropriate and embedded in the strategy
Borrowings	Investment transactions are entered into without appropriate authorisation, increasing the risk of fraudulent activity. Borrowing transactions are entered into with unauthorised counterparties	<ul style="list-style-type: none"> • Conducted in a structured way and in line with the council's Capital Programme / Minimum Revenue Provision calculations. Decision over when to borrow and at what interest rate conducted in a way that is transparent and demonstrates affordability
Investments	Investment transactions are entered into without appropriate authorisation, increasing the risk of fraudulent activity. Investment transactions are entered into with unauthorised counterparties, increasing the counterparty credit risk	<ul style="list-style-type: none"> • Transactions are authorised by senior financier and are only entered with an approved list of counterparties which meet the requirements set out in the strategy
Reporting	Treasury activity is not monitored and reported to members in accordance with proper practice	<ul style="list-style-type: none"> • TM mid-year reports are prepared and presented to the Board. • The Council monitor TM activity in the Quarterly Digest
Risks of Brexit	Insufficient actions have been taken to manage the risks associated with Brexit	<ul style="list-style-type: none"> • Consideration and understanding of known Brexit risks to Treasury Management. Actions taken once risks identified.
Treasury Live	Insufficient steps taken to manage the switch to Treasury Live and insufficient reconciliation of data between current and new system	<ul style="list-style-type: none"> • Accurate transfer of transactions to Treasury Live from LogoTech.

Appendix 3. Benchmarking Good Practice

As part of our benchmarking activity, we reviewed Treasury Management procedures at other authorities and have drawn on these areas of best practice relating to Finding 3.

Treasury Management Manual

- The Council has a Strategy which outlines the objectives for the Treasury Management function but lacks a Treasury Management manual which can be referred to for procedural notes, performance monitoring and reporting requirements
- The Council should consider implementing a treasury management manual or procedure notes on the overall processes for the new system, Treasury Live.
- The manual should describe practices and procedures which define the way the Council carries out treasury management activities.
- A set of instructions for one other member in Finance to contact brokers in the event both members of treasury are not available and urgent withdrawal is required
- The Financial Procedures and 2016/17 Treasury Management Strategy can be the starting point to draw information from and expand on the below items:
 - (a) General Statement on treasury risk management
 - (b) Performance Measurement – a methodology on how the Council intends to evaluate the impact of treasury management decisions. Possibly include the action from finding 5 – ‘Compliance Reviews’
 - (c) Delegated powers for decision making – looking at the roles and responsibilities of the Finance Manager and Assistant, procedures on documenting evidence of treasury management decisions and reference to the limits set out in the Strategy
 - (d) Reporting Requirements and Management Information Arrangements – awareness of the reporting requirements with Members and appropriate Committee, a schedule of performance reports and the time frames they should be prepared, as well as budget monitoring and compliance reviews and the timeliness of these reviews
 - (e) Cash and Cash Flow Management – responsibilities of the Finance Assistant, cash flow and investment arrangements and timeframes, preparation and submission of cash flow statements and updates
 - (f) Training and Qualifications – details of approved training courses and skills required for day-to-day Treasury Management activities
 - (g) Detailed Flow chart/Walkthrough of the procedures for all functions of Treasury Live.

Compliance Reviews

- Good practices drawn from local authorities are for the Treasury Management team to regularly meet and formally document minutes of actions taken. We recommend this is implemented so that there is sufficient oversight on the Council’s treasury activity, ensuring the Council is compliant with and working in line with strategy objectives, allows management to add value and improve the treasury function should they come across practices that work well in other sectors.
- The items that should be discussed and reported are: Previous Meeting Minutes and Actions Arising, Counterparty change update, Monthly review of investment indicators including significant economic news, and movements in Equity prices, Key actions on investments and borrowing from the month and planned for the month ahead, Actions from this meeting, as well as any other updates the Council deem appropriate to report on.
- Meetings should be recorded and actions assigned to staff where appropriate.

A common practice is to have a local treasury management risk register; this is currently not in place at the Council. We would expect the Compliance Reviews to consider these risks and for these to be presented to Members for discussion at least annually. We have set out below an example register.

ID	Risk title	Opportunity/ Threat	Risk Description	Risk Cause	Consequence	Date raised	Risk Mitigation
1	Loss of capital investment due to a counterparty collapsing	T	The Council loses its principal investment or an investment becomes impaired.	Counterparty collapses or hits a financial crisis rendering it unable to repay investments.	The Council may lose money or repayment of funds could be significantly delayed which could have an adverse impact on operational funding levels	5-Aug-15	Reducing risk by limiting the use of high risk counterparties. Imposing a maximum investment value on approved counterparties in order to spread and reduce risk. Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. Counterparties are also monitored and reviewed on a weekly basis at least, or more regularly if considered necessary to do so.
Page 94	Property fund investments lose value	T	The value of the Council's units held in property fund investments decreases.	Changes in market conditions and demand for properties	Capital depreciation will decrease the overall value of the investment.	5-Aug-15	The Council receives monthly valuations from the property fund managers detailing the indicative redemption value of the individual units. These are reported to the Head of Finance on a monthly basis. The Council has the option to sell its units if there is a concern that the fund value is likely to decrease for a prolonged period.
3	Decline in interest rates	T	Interest rates continue to remain at an all time low with very little movement.	No change to base rate and associated market investment rates. Lower risk counterparties tend not to offer as competitive a rate as the higher risk ones.	The Council may not achieve its target level of interest.	5-Aug-15	In the current economic climate where rates tend to be static, arranging investments over a longer period of time where possible will allow the Council to capitalise on a higher rate of return without there being an opportunity cost. The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in a difficult economic climate.

We have drawn on good practices from other Strategies and analysed the coverage of treasury activity in the examples below.

We reviewed treasury coverage in the Quarterly Digest and found it to be difficult to understand. Consideration should be made to the inclusion of a brief narrative to explain the movement in funds for both investments and borrowings (Finding 1).

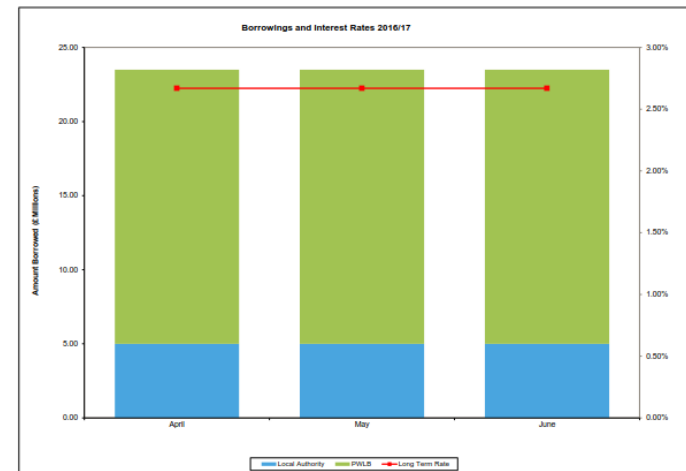
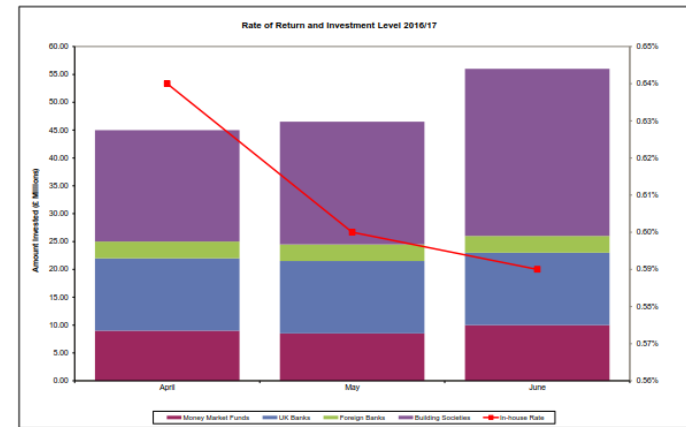
14. Reporting on the Treasury Outturn

The Director of Corporate Services will report on Treasury Management activity/performance as follows:

Report to/Coverage	Frequency:
Council	
Treasury Management Strategy/Annual Investment Strategy/MRP Policy	Annually before start of the year
Treasury Management Strategy/Annual Investment Strategy/MRP Policy – mid year report	Annually mid year
Treasury Outturn report	Annually after year end and by 30 September
Cabinet	
Receives each of the above reports in advance of Council and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation that Treasury transactions have complied with Strategy	Every cycle
Audit and Standards Committee	
Receives each of the above reports in advance of Cabinet (where publication timetable permits) and makes observations as appropriate	In advance of year/mid-year/after year end and by 30 September
Reviews details of Treasury transactions against Strategy and makes observations to Cabinet	Every cycle

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The Council should outline all reporting requirements in a similar table and include this within the strategy. This sets out the reporting requirements for the year and is a useful tool for reference to ensure the Council are compliant with section C.15 of the financial procedures which state - *The Section 151 Officer is responsible for reporting to the Council a proposed treasury management strategy for the coming financial year at or before the start of each financial year, which was breached this financial year.*





Internal Audit Report 2016/17

Payroll

January 2017



Contents

1. Executive summary	2	This report has been prepared only for Aylesbury Vale District Council (the Council), in accordance with the agreed terms of reference. The findings should not be relied upon by any other organisation and the Business Assurance Manager of AVDC should be consulted before any content is shared.
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Distribution List	
For action	Christina Ball – Income Manager and Temporary Payroll Lead
	Andrew Small – Section 151 Officer
For information	Kate Mulhearn – Business Assurance Manager

1. Executive summary

Report classification*	Total number of findings				
	Critical	High	Medium	Low	
Low risk (6 points)	Control design	-	-	1	1
	Operating effectiveness	-	-	-	2
	Total	-	-	1	3

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We only report by exception, which means that we only raise a finding / recommendation when we identify a potential weakness in the design or operating effectiveness of control that could put the objectives of the service at risk. The definition of finding ratings is set out in Appendix 1.

Summary of findings

This report is classified as Low Risk. We have issued one medium and three low risk findings.

The medium risk relates to the Council's inability to produce reports from the Payroll system (iTrent) to monitor changes to pay rates/hours/grade. This is an expected key control to periodically check for unauthorised changes.

It should be noted that against the key objective of payroll i.e. payments made are in line with Council establishment lists and are accurate/complete through to payslips, we have not identified any issues – we have noted Good Practices below.

Expense claims is an area many local authorities suffer a lack of compliance with policy and procedures. We noted inconsistencies in the submission and retention of receipts and insufficient narrative held regarding the nature and purpose of the expenses. From review of new starter and leaver forms we found there were instances where leaver checklists are not fully completed in line with Council policy and forms were completed post and prior to the start and leaving dates respectively.

Key Findings

- The current iTrent system functionality does not allow a report to be run for changes to hour and grade made within the year. There is therefore no control to systematically monitor and review changes to individuals contracts i.e. change in grade, change in hours or change in status (part time/full time). We were not able to test the change in hour/grade (Medium - Finding 1).
- Insufficient detail to support expense claims, including low level narrative and inconsistencies in the receipting procedures (Low - Finding 2)
- New Starter and Leaver forms are not completed in full, with instances where management have not signed off checklists (Low - Finding 3)
- The Council need to formally adopt a Corporate 'Pay Rate Structure' for Casual Workers. Managers should not set their own hourly rates outside of this structure (Low – Finding 4).

Good practice noted

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- Payroll reconciles the general ledger to iTrent as recommended in the prior year Internal Audit report - see Appendix 4
- iTrent updates are managed by the HR Advisor. These are booked in with a test update scheduled with a week prior to the live update to provide assurance on the continuity of payroll functions. Arrangements are in place for the next update to take place on 26 January 2017, with a test update scheduled for 19 January 2017
- Initial and final pay calculations are accurate with appropriate documents to support calculations
- Tax and National Insurance deductions are accurately calculated in line with government standards, from our sample of parameters tested.

Management comments

The findings of this report are accepted and the following responses are provided. It should be noted that some recommendations require HR involvement and we will work with them to ensure the recommendations are implemented.

Finding 1 – We will be contacting the software provider to clarify whether this report can be run or purchased. If this is not possible we will work with internal audit to liaise with other local authorities who use the same software to identify how this information can be reported.

Finding 2 – With current staffing changes occurring we need to identify the relevant HR contact to take forward the process of updating the Policy. Alongside this we will issue an email to staff to remind them of the expectations regarding narrative on expenses.

Finding 3 – We will continue to communicate the expectations to complete checklists fully and will work to clarify where responsibilities are with payroll and where they are with HR through the use of checkboxes. It should be noted that on 28 November 2016 the Sector Lead (Business Support) emailed Managers Group to remind them of the completion of checklists in a timely manner. A similar method will be used to remind staff of checklist expectations.

Finding 4 – The Corporate Pay Rate Structure is being finalised currently to update changes regarding casual workers. This is nearing approval and will require HR involvement to meet finalisation date set out in this report.

2. Background and Scope

Background

Aylesbury Vale District Council (the Council) uses iTrent as the payroll software. iTrent is a platform, developed by MidlandHR, that delivers Human Resources Management and Payroll Services. The payroll team is led by the Income Manager and supported by three payroll staff that process new starters, leavers and variations to employee grade and hour. Contracts are managed by the HR team who pass the appropriate information onto the payroll team for processing to ensure correct payments are made as per the employees' contract. It is essential that there is a robust process for ensuring that only valid staff are paid at the correct rates for services provided and that complete and accurate statutory and other deductions are made. In addition, it is important that payroll records are held securely and there are no disruptions to the regular making of salary payments.

The purpose of this audit is to review and assess the design and effectiveness of controls in relation to payroll activity, including expenses, and to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

Scope

The scope covered the key risks set out in the Terms of Reference (see Appendix 2), including a review of access to systems, expense claims and Tax and National Insurance parameters set up on iTrent.

We reviewed the Council's procedures around starters and leavers through testing a total sample of 12. Our testing in this area and others included:

- Starter forms are completed prior to the start date, appropriate management approval and accurate initial payslip calculation
- Leavers' final payslip calculated accurately, leaver forms completed prior to the last day and checklists completed and signed off by line managers
- Parameters were correctly entered onto the system
- Testing a sample of 10 expenses to ensure these were accurately recorded and paid in line with supporting documentation.

This does not represent a comprehensive list of tests conducted.

3. Detailed findings and action plan

1. Change in Hour/Grade – Control Design

Finding		
<p>The current iTrent system functionality does not allow a report to be run for changes to hour and grade made within the year. There is therefore no control to systematically monitor and review changes to individuals contracts i.e. change in grade, change in hours or change in status (part time/full time).</p> <p>From our experience with other local authorities who use iTrent we are aware that this functionality is available however AVDC's system is not set up to allow this reporting currently. The Council are now working with the system provider and liaising with consultants to modify the system to allow this reporting functionality.</p>		
Risks / Implications		
<p>Inappropriate / unauthorised changes may be made to pay rates, hour, grade.</p>		
Finding rating	Action Plan	
Medium	Payroll should consider the types of reports that should be run which can aid the financial reporting/management oversight and ensure these functionalities are built into iTrent.	<i>Responsible person / title</i>
		Christina Ball – Income and Temporary Payroll Lead
	Period review of changes to standing data should be performed to ensure all changes are valid and authorised.	<i>Target date</i>
		March 2017
		<i>Responsible person / title</i>

2. Expense Claims Narrative and Retention – Operating effectiveness

Finding

The Council reimburses its employees for all reasonable and necessary expenses, such as mileage and work related purchases. For the financial year 2016-17 to the end of October 2016 mileage claims totalled £15,846 and fares and subsistence totalled £8,365.

The Travel and Subsistence Policy is available on the intranet to all members of staff. Employees reclaim their expenses via the Employee Self Service function on iTrent. Claimants must include the date, the value and the description of the expense. Once submitted, the expense claim will be automatically routed to their manager, who is pre-determined based on delegations setup in the system. Payroll will only receive the expense claim after the relevant manager has authorised it for payment. As per the Policy, 'all expenses must be supported by receipts'.

We sample tested ten expenses from 1 April 2016 to 30 September 2016 and found:

Insufficient narrative on iTrent: We would expect all expense claims to contain sufficient detail and supporting evidence which would enable timely and accurate authorisation by the manager. All ten expenses were approved in a timely manner ranging between same day to four days from the date the claim was submitted. However, we found eight expense claims held insufficient narrative to describe what the expense claim was for. For example, one mileage claim had 'mileage' in the narrative box; we would expect this to have more detail i.e. 'Meeting with Energy Provider to discuss renewal of contract' (See Appendix 3 for good practice on expense claims narrative).

Inconsistent process retaining receipts: The Travel and Subsistence Policy instructs claimants to support their expense claims with receipts. From discussion with payroll, managers and claimants, we noted different approaches to 'supporting claims with receipts'; this control is inconsistently exercised throughout the Council. The current process varies, with some claimants sending scanned images to the approver, some presenting the original copies and others retaining copies with managers physically seeing the receipts and then approving the expense on iTrent. Good practice in other organisations involves a system where the upload of a receipt is the only way the claim can be submitted. Whilst we understand iTrent cannot facilitate this function, the Council should bear this in mind. In the meantime, we advise receipts are stored locally i.e. saved to a 'department expense' folder/drive on the Council network. We understand most local authorities, including the Council, do not reclaim the VAT for mileage claims so would not expect presentation and retention of 'Fuel Receipts' on the drive/ folder as long as sufficient narrative accompanies the claim on iTrent.

Risks / Implications

Fraudulent expense claims may be submitted and concealed through generalised terms such as 'fares, dinner, and petrol mileage'.

Finding rating	Action Plan	
Low	<ul style="list-style-type: none"> • HR to update the Travel and Subsistence policy to represent the new procedures for retaining receipts • The Council should remind all staff submitting expenses to include sufficient detail for the reviewer to assess whether the expense claim is appropriate or not. • If there are plans to move to a new Payroll system, the Council should consider implementing a system which allows the upload of receipts to support expense claims. 	<p data-bbox="1435 268 2177 312"><i>Responsible person / title</i></p> <p data-bbox="1435 325 2177 370">Christina Ball – Income and Temporary Payroll Lead</p> <hr/> <p data-bbox="1435 402 2177 446"><i>Target date</i></p> <p data-bbox="1435 459 2177 504">March 2017</p>

3. Starter Forms and Leaver Checklists – Operating effectiveness

Finding

Starter forms are completed for new staff joining the Council. Leaver forms are completed prior to the last working day for the member of staff. Both starter and leaver forms must be signed off by the relevant Line Manager and payslips should be calculated appropriately with relevant documents on file supporting the calculations. Leaver Checklists forms accompany the leaver forms and are completed by Payroll and Line Managers to ensure removal rights are processed where appropriate.

A sample of 5 starters and 7 leavers, from 1 April 2016 to 30 September 2016 were selected to ensure forms have been processed in a timely and accurate manner and that payslips had been calculated accurately. All starter forms reviewed were completed appropriately by Payroll and signed off by the relevant Line Manager and HR. All pay rates had been calculated appropriately and there are no issues to raise in this respect. The general finding with new starter and leaver forms is they are not always fully completed.

The details of our results are as follows:

Starter forms

- 3/5 'number of days worked' box was unticked
- 1/5 starter forms was completed post the start date.

Leaver forms and checklists

- 6/7 People and Payroll Checklists were incomplete (See Appendix 3)
- 4/7 Manager Checklists were not signed off (See Appendix 3)
- 1/7 leaver forms did not have an accompanying Manager Checklist; this could not be located.
- 1 leaver form was completed after the staff members last day

Risks / Implications

Incorrect calculation of pay.

Leavers may still have access to Council activity and assets.

Finding rating	Action Plan
Low	<ul style="list-style-type: none"> • Staff should be reminded that all starter and leaver forms should be completed in a timely manner. All leaver forms should be completed in full, including Payroll and Manager Checklists. • HR should consider the effectiveness of the Checklist with the possibility of including tick boxes next to each requirement on the leaver checklist. See Appendix 3 • Consideration should be given to the automation of the starter/leaver process on the Service Desk Portal. <div style="float: right; margin-top: 10px;"> <p><i>Responsible person / title</i></p> <hr/> <p>Christina Ball – Income and Temporary Payroll Lead</p> <hr/> <p><i>Target date</i></p> <hr/> <p>February 2017</p> </div>

4. Corporate Pay Rate Structure – Control Design – Prior Year Finding

Finding

A finding from the previous Internal Audit report on Payroll regarding ‘Corporate Pay Rate Structure’ has been re-raised in this review as an outstanding action. See Appendix 4 for the follow-up schedule.

The guidance to managers on employing casual workers (November 2011) says that, “Pay rates are determined according to the role and the appropriate rate of pay in the market”. However, the guidance does not have a structure to those hourly rates. Therefore managers appear to have set their own rates, which they deem appropriate to the nature of the role. The previous reviews analysis of the 135 casual worker records show that there are approximately 50 different salary scales and grade notations applied to casual posts, which equate to 50+ different hourly pay rates.

These pay rates are not regulated or reviewed annually in the same way as the standard ‘SG’ grades that are applied to employees. There is a reliance on the managers to adhere to the national living allowance and other legislation when authorising the hours worked. Casual workers submit timesheets that have to be approved by the Manager, so the Payroll Section do not see these and therefore cannot monitor what these staff are being paid to know whether it is acceptable. A pay rate structure for casual workers is currently in the process of being drafted. The Payroll department are currently in the process of confirming the pay rates and adopting within the pay rate structure. The structure is expected to be ratified and in place by March 2017.

Risks / Implications

The controls around casual workers are limited and need strengthening to ensure the Council adhere to their objectives and treat all those that work for the Council fairly and consistently.

Finding rating

Action Plan

Low

To formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. Managers should not set their own hourly rates outside of this structure.

Responsible person / title

Christina Ball – Income and Temporary Payroll Lead

Target date

March 2017

Appendix 1. Finding ratings and basis of classification

Report classifications

The overall report classification is determined by allocating points to each of the individual findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Overall report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact [quantify if possible = materiality]; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact [quantify if possible]; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact [quantify if possible]; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact [quantify if possible]; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

The Key risks agreed in the Terms of Reference are set out below. Each finding in the report is linked to a key risk from the Terms of Reference.

Sub-process	Risks	Objectives
Policies and Procedures	Payroll standing data are inaccurate, incomplete and transactions are not recorded timely	<ul style="list-style-type: none"> • Policies and procedure are clear, understood and followed to ensure the objectives of payroll activity are met
Access	Data may be amended or deleted without appropriate approval	<ul style="list-style-type: none"> • Access to systems is controlled to manage unauthorised manipulation of data
Reconciliation	Payroll standing data is inaccurate and incomplete	<ul style="list-style-type: none"> • Reconciliation performed to ensure data held is accurate and complete
System upgrades	Mandatory upgrades do not occur in a timely manner	<ul style="list-style-type: none"> • Upgrades including standing data occur in a timely manner and reflect changes to parameters
Starters, Leavers, Variations	Inappropriate processing of starters and leavers. Payroll data inaccurately calculated	<ul style="list-style-type: none"> • Starters and leavers are processed accurately. Initial and final payroll transactions are calculated correctly. Variations to contracts undergo the correct approval process
Transition of internal staff	Inaccurate payroll data and incorrect payments made to staff change from temporary to permanent positions	<ul style="list-style-type: none"> • Appropriate procedures for the correct transition of temporary to permanent staff
Expense claims	Fraudulent expense claims are submitted	<ul style="list-style-type: none"> • Appropriate evidence to support expense claims and/or approval procedures are unclear and not followed
Parameters	Incorrect parameters placed into iTrent, impacting the classification and value payroll costs	<ul style="list-style-type: none"> • Payroll costs and payslips are calculated accurately and in line with government parameters.

Appendix 3. Good Practice - Expenses

All expense claims should contain sufficient level of detail to help the reviewer to assess it. This appendix details an example expense claim and the expected level of detail alongside best practice when preparing and approving expense claims.

PURCHASE EXPENSE CLAIM

Date	Description	Receipt	Amount (£)
10/10/2016	Activity Equipment for Youth Group Activity	Y	25.50
13/10/2016	Bus Fares for Youth Group Members for Youth Group Activity at AVDC	Y	15.00

MILEAGE EXPENSE CLAIM

Date	Starting Point	End Point	Distance	Return Journey?	Description	Amount (£0.45 per mile)
10/10/2016	AVDC, HP19 8FF	XXX, AB1 2CD	20 Miles	N	Meeting with Energy Provider to discuss renewal of contract	9.00
13/10/2016	AVDC, HP19 8FF	XXX, EF3 4GH	10 Miles	Y	Meeting with local housing team member to discuss team performance	4.50

General expense claim best practice

All descriptions should give sufficient detail for the reviewer to judge whether the expense incurred is reasonable and appropriate

Ensure all purchase expense claims have the relevant receipts attached in an agreed location

All expense claims must be submitted within the deadline (in this case, 3 months from the purchase)

Mileage specific expense claim best practice

Detail of the starting and end point of the journey should include postcode

Employee should note down whether the journey is a return or not

Appendix 3. Good Practice - Checklists

This appendix details an example leaver form, the accompanying checklist and the expected practice.

HR must complete this checklist as part of the leaver process. Our testing found 5/7 checklists were incomplete. Should some of these boxes not apply to the leaver, payroll should write 'n/a' next to the box. HR should re-visit any leaver forms for actions to be taken in the near future, i.e. in this example 'Updated E-Learning - Will do on 11/9/16.'

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Please note that final payment will be made on 25th of each month

People & Payroll Use	To be re-paid	
Removal and Resettlement	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Mortgage Subsidy	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Career Grade / Post Entry Training Fees to be re-paid	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Child Care Vouchers to be stopped (JH)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Updated E-Learning (BW) - <i>Will do on 11/9/16.</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Leavers Questionnaire sent (PD)	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Car / Motor Vehicle / Bicycle Loan outstanding	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Non-disclosure of Information Form received in P&PS	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Login details removed from any systems (i.e. Matrix/iTrent)	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Check details removed from Emergency Plan (PD) - <i>Will do 11/9/16.</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>

If reason for leaving is Retirement check how many years service _____

Checked by: _____ Date: _____

31/8/16 - Updated i-Trent & Border PD.

*KM- SEP 16
AR Sep 16.*

Leavers form - May 2015

Line Managers are required to complete this leaver checklist for all leavers. We found 1/7 checklists were not signed off by the line manager. HR and Payroll should consider utilising tick boxes next to each of these checkpoints to give greater assurance that each point has been checked.

Leavers Checklist

Once the letter of resignation has been received and you have completed Section 1 below - Don't forget to consider the issues in Section 2 and address if relevant.

The purpose of the checklists is to assist managers to ensure all procedures appropriate to the departure of a member of staff are complied with. This applies to both permanent and fixed term staff as well as casual workers.

Employee Name: _____ Section: _____

Section 1

- Complete the 'Notification of Termination of Employment' form and send the original to the HR Enquiries / Payroll Enquiries
- Agree outstanding leave to be paid or deducted
- Complete the online IT leaver form (on Mavis)

Section 2

- Check with People & Payroll whether there are any outstanding loans or allowances to be recovered (e.g. car loans, relocation &/or mortgage subsidy payments, sponsorship or training loans)
- Agree arrangements for recovery (car loan to be repaid in full)
- If employee has regular contact with Members, ensure Members are updated before the employee leaves
- Check whether any external courses or meetings have been arranged for employee & consider a replacement to attend
- Change security codes (e.g. alarm systems, safe combinations)
- Ensure that all recoverable items (e.g. Parking Permit, Locker Key, Proximity Card, Mobile Phone, Company Credit Card, Travel Card, removable media, portable technology, etc) are returned
- Ensure Protective Equipment (e.g. hats, jackets, personal alarms) are returned
- Documents, Data and Information (ensure the form is completed and signed)
- Ensure that the Enterprise Scheme Access Card is returned to Alan Asbury

Signed by Manager: _____ Date: _____

Please sign and send to People & Payroll Services

Leaver form - May 2015

Appendix 4. Follow-up of Previous Recommendations

As part of this review, we followed up on the two recommendations raised in the previous Payroll assurance report.

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
1	<p>The guidance to managers on employing casual workers (November 2011) says that, “Pay rates are determined according to the role and the appropriate rate of pay in the market”. But the guidance doesn’t have a structure to those hourly rates. Therefore managers appear to have set their own, which they deem appropriate to the nature of the role.</p> <p>Our analysis of the 135 casual worker records show that there are approximately 50 different salary scales and grade notations applied to casual posts, which equate to 50+ different hourly pay rates.</p> <p>These pay rates are not regulated or reviewed annually in the same way as the standard ‘SG’ grades that are applied to employees. There is a reliance on the managers to adhere to the national living allowance and other legislation when authorising the hours worked. Casual workers submit timesheets that have to be approved by the Manager, so the Payroll Section do not see these and therefore cannot monitor what these staff are being paid to know whether it is acceptable.</p>	<p>To formally adopt a Corporate ‘Pay Rate Structure’ for Casual Workers. Managers should not set their own hourly rates outside of this structure.</p> <p>The guidance for managers should be updated to include the rates that apply to the demands and nature of the work undertaken. The managers can then apply the appropriate hourly rate.</p> <p>These rates should be subject to at least an annual review alongside the formal salary rates, or more frequently as law dictates i.e. minimum wage changes.</p>	June 2016	A pay rate structure for casual workers is currently in the process of being drafted. The Payroll department are currently in the process of confirming the pay rates and adopting within the pay rate structure. The structure will be ratified and in place by March 2017	N

#	Finding	Agreed Action	Original Target date	Action Taken	Complete?
2	<p>The process is updating the General Ledger (cost centres) within the finance system is managed by the Finance Section. The payroll file is passed to the Finance Section after the production of the payroll (around 25th of each month). Each element of the payroll cost is pre-coded and through the upload process, the individual cost centres in the finance system (T1) are updated via a bulk journal entry</p> <p>There is no reconciliation performed, subsequent to the upload, between the payroll file (iTrent) and the general ledger cost centres (T1), to verify that all the relevant cost centres hold the correct data.</p>	<p>To carry out and document a monthly reconciliation of the payroll costs from iTrent to the General Ledger cost centres.</p> <p>Variations should be investigated and resolved in a timely way.</p> <p>The reconciliation should be reviewed, checked and verified by a senior officer shortly after its production, as validation that both systems balance.</p>	April 2016	<p>We reviewed a sample of three reconciliations from July, August and September 2016 and noted separation of duties between the reviewer and approver, and completed in a timely manner. There is appropriate supporting documentation to support the amounts included within the reconciliations and reconciling differences were appropriately investigated and reviewed.</p>	Y

Audit Committee
23 January 2017

AUDIT COMMITTEE WORK PROGRAMME

1 Purpose

- 1.1 To discuss, amend and approve the future work programme for 2017 for the Audit Committee.

2 Recommendations/for decision

- | | |
|-----|---|
| 2.1 | The Committee is asked to review, amend and approve the proposed work programme. Appendix 1 |
|-----|---|

3 Supporting information

- 3.1 The proposed programme has been prepared taking into account the comments and requests made at previous Audit Committee meetings and the requirements of the Internal and External Audit process.
- 3.2 The Committee is asked to consider whether they wish to add or remove any items and whether the timing of items is appropriate to their needs.
- 3.3 The Committee is also asked to consider whether there are any additional areas or topics not included in the current work programme which they would like to add.

4 Reasons for Recommendation

- 4.1 To allow members of the Audit Committee to amend and agree their work programme.

5 Resource implications

- 5.1 An allowance is always included in the Annual Business Assurance Plan to support the work of the Audit Committee. There are no additional direct resource requirements arising from this report.

Contact Officer

Kate Mulhearn - Business Assurance Services Manager
Tel: 01296 585724

Background Documents

None

AUDIT COMMITTEE WORK PROGRAMME 2016-17

Item	Contact Officer	25 July	26 Sep	14 Nov	23 Jan	27 Mar
		2016	2016	2016	2017	2017
Audit Committee Work Programme	Kate Mulhearn	X	X	X	X	X
Member Training / Briefing Sessions	Kate Mulhearn		X	X	X	X
Audit Committee Annual Report	Kate Mulhearn	X				
Audit Committee Review of Effectiveness	Kate Mulhearn	X				
External Audit Plan & fee letter	David Guest (EY)					X
External Audit - Audit Results Report (ISA 260)	David Guest (EY)		X			
External Audit Annual Letter	David Guest (EY)			X		
External Audit AGR for Grant Claims	David Guest (EY)				X	
External Audit Update / Progress Report	David Guest (EY)	X		X	X	
Annual Internal Audit Strategy and Plan	Kate Mulhearn					X
Internal Audit Progress Report	Kate Mulhearn	X	X	X	X	X
Risk Management Report	Kate Mulhearn	X	X	X	X	X
Fraud Report	Kate Mulhearn	X		X		
Internal Audit Annual Report	Kate Mulhearn	X				
CIPFA Good Governance Framework	Kate Mulhearn					X
Draft Annual Governance Statement	Kate Mulhearn					X
Annual Governance Statement	Kate Mulhearn	X				
Statement of Accounts	Tony Skeggs	X				
Post Audit Statement of Accounts	Tony Skeggs		X			
Working Balances	Tony Skeggs					X

Corporate Risk Register Update

The Corporate Risk Register (CRR) shows the key risks to the Council and the actions that are being taken to respond to these risks. The CRR is reviewed on a regular basis by Transition Board following detailed review and updating by the risk owners.

Responsibility for updating the CRR and ensuring actions are taken to mitigate risks is a corporate responsibility but operational responsibility rests with the Directors and the Business Assurance Manager.

The CRR was last reviewed and updated by Transition Board as a whole at their meeting on 23 November 2016. Individual risks and actions have been further reviewed with risk owners in January 2017. Since the previous Audit Committee meeting in November 2016 two new risks have been added:

Risk Ref	Change	Comment
18) Modernising Local Government agenda	New - Extreme	i) Plans may fail to achieve an outcome that addresses community needs ii) Disruption to service delivery due to resource detracton from day-job and ongoing uncertainty
19) Failure to effectively engage with members and community around the Council's vision and strategy	New - High	

Impact of Brexit

We have considered the risks arising following the Brexit decision. At this stage there is too much uncertainty about the specific implications on the strategic objectives and day to day operations of the Council to put anything meaningful on the CRR. Management will review as information becomes available and update the CRR accordingly.

There are 19 risks on the corporate risk register. The Residual risk rating is summarised as follows:

Residual Risk Rating			
Low risk 3	Moderate risk 4	High Risk 9	Extreme risk 1
<p>11) Safeguarding arrangements, internal policies and processes are not adequate to address concerns about /protect vulnerable adults & children.</p> <p>14) Fraud, corruption, malpractice by internal or external threats.</p> <p>15) Equalities is not considered in decisions resulting in Judicial Review and other litigation</p>	<p>6) Fail to manage and deliver major capital projects - Waterside North</p> <p>9) Business Continuity - Major or large scale incident causes business interruption affecting the Council's resources and its ability to deliver critical services.</p> <p>13) Failure to manage a major partnership or a significant council contractor.</p> <p>16) Failure to manage and deliver the requirements of the SLA for HS2.</p>	<p>1) Commercial AVDC programme does not deliver the required savings and efficiency gains</p> <p>2) The Council's approach to commercialisation does not produce the income needed.</p> <p>3) Organisational culture fails to support the strategy.</p> <p>5) Depot & workshop development project fails to address H&S and Environmental concerns and achieve commercial objectives.</p> <p>7) Fail to Deliver the new Vale of Aylesbury Local Plan</p> <p>8) Health & Safety - Non-compliance with Fire and Health and Safety legislation (excl. depot /waste services).</p> <p>10) Information Governance - A significant data breach, Inappropriate access, corruption or loss of data</p> <p>12) Business Intelligence (Customer insight & performance data) is not sufficiently robust to support effective decisions.</p> <p>17) Unmanaged loss of key staff during time of change</p> <p>19) Failure to effectively engage with members and the community around the Council's vision and strategy.</p>	<p>4) Partnership with AVE fails to deliver or hinders the achievement of the Council's objectives</p> <p>18) Modernising Local Government agenda: i) fails to achieve an outcome that addresses community needs ii) disruption to service delivery due to resource detracton from day-job and ongoing uncertainty</p>

Risk Matrix

Impact	5	Catastrophic	5	10	15	20	25
	4	Major	4	8	12	16	20
	3	Moderate	3	6	9	12	15
	2	Minor	2	4	6	8	10
	1	Negligible	1	2	3	4	5
Score			Rare	Unlikely	Possible	Likely	Very Likely
			1	2	3	4	5
			Likelihood				

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	1-3	Low Risk	Acceptable risk; No further action or additional controls are required; Risk at this level should be monitored and reassessed at appropriate intervals
	4 - 6	Moderate Risk	A risk at this level may be acceptable; If not acceptable, existing controls should be monitored or adjusted; No further action or additional controls are required.
	8 – 12	High Risk	Not normally acceptable; Efforts should be made to reduce the risk, provided this is not disproportionate; Determine the need for improved control measures.
	15 - 25	Extreme Risk	Unacceptable; Immediate action must be taken to manage the risk; A number of control measures may be required.






Risk Ratings - Impact

Score	Descriptor	Compliance	Finance	Health and safety	Internal Control	Political	Reputational	Staffing & Culture
1	Negligible	No or minimal impact or breach of guidance/ statutory duty	Small loss risk of claim remote	Minor injury; Cuts, bruises, etc.; Unlikely to result in sick leave	Control is in place with strong evidence to support	Parties work positively together with occasional differences; Members & executive work co-operatively	Rumours; Potential for public concern	Short-term low staffing level that temporarily reduces service quality (<1 day)
2	Minor	Breach of statutory legislation; Reduced performance rating from external/internal inspector	Loss of 0.1-0.25 per cent of budget; Claim less than £20k	Moderate injuries; Likely to result in 1-7 days sick leave	Control in place with tentative evidence	Parties have minor differences of opinion on key policies; Members and executive have minor issues	Local media coverage short term reduction in public confidence; Elements of public expectation not met	Low staffing level that reduces the service quality
3	Moderate	Single breach in statutory duty; Challenging external or internal recommendations or improvement notice	Loss of 0.25-0.5 per cent of budget; Claims between £20k - £150k.	Major injuries; More than 7 days sick leave – notifiable to HSE	Control in place with no evidence to support	Members begin to be ineffective in role; Members and Executive at times do not work positively together	Local media coverage – long term reduction in public confidence	Late delivery of key objective/service due to the lack of staff; Low staff morale; Poor staff attendance for mandatory/key training
4	Major	Enforcement action; Multiple breaches of statutory duty; Improvement notices; Low performance ratings	Uncertain delivery of key objectives/loss of 0.5 – 1.0 percent of budget; Claims between £150k to £1m	Death; Single fatality	Partial control in place with no evidence	Members raise questions to officers over and above that amount tolerable; Strained relationships between Executive and Members	National media coverage with key directorates performing well below reasonable public expectation	Uncertain delivery of key objective/service due to lack of staff; Unsafe staffing level or competence; Loss of key staff; Very low staff morale; No staff attending training
5	Catastrophic	Multiple breaches in statutory duty; Prosecution; Complete system changes required; Zero performance against key priorities and targets	Non delivery of key objective/loss of >1 percent of budget; Failure to meet specification/slippage; Loss of major income contract	Multiple deaths; More than one Fatality	No control in place	Internal issues within parties which prevent collaborative working; Que from members shift resources away from corporate priorities	National media coverage, public confidence eroded; Member intervention/action	Non-delivery of key objective/service due to lack of staff; Ongoing unsafe staffing levels or competence; Loss of several key staff; Staff not attending training on ongoing basis

Risk Rating – Likelihood

	Likelihood	Likelihood Descriptors	Numerical likelihood
1	Rare	May occur only in exceptional circumstances	Less than 10%
2	Unlikely	Do not expect it to happen/recur but it is possible it may do so	Less than 25%
3	Possible	Might happen or recur occasionally	Less than 50%
4	Likely	Will probably happen/recur but it is not a persisting issue	50% or more
5	Very Likely	Will undoubtedly happen/recur, possibly frequently	75% or more

Capacity to Manage

Capacity to Manage	Alert	Description
Full		Full – all reasonable steps have been taken to mitigate the risk and are operating effectively. The cost / benefit considerations on implementing additional controls have been considered and no additional actions are proposed.
Substantial		Substantial – there are sound arrangements to manage the risk with some scope for improvement. Arrangements have had a demonstrable impact in reducing either the likelihood or consequence of the risk.
Moderate		Moderate – there are a number of areas for improvement in arrangements that would help to demonstrate effective and consistent management of the risk.
Limited		Limited – there are significant areas for improvement in arrangements that would help to demonstrate effective and consistent management of the risk.
None		None – there are a lack of clear arrangements in mitigation of the risk.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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