Public Document Pack

RUSHMOOR BOROUGH COUNCIL

LICENSING AND GENERAL PURPOSES COMMITTEE

at the Council Offices, Farnborough on
Monday, 29th January, 2018 at 7.00 pm

To:

Cllr A. Jackman (Chairman)
Cllr J.E. Woolley (Vice-Chairman)

Cllr Sue Carter
Cllr Sophia Choudhary
Cllr Liz Corps
Cllr A.H. Crawford
Cllr B. Jones
Cllr S.J. Masterson
Cllr M.D. Smith
Cllr L.A. Taylor
Cllr Jacqui Vosper

Enquiries regarding this agenda should be referred to the Committee Administrator, Kathy Flatt, Democratic and Customer Services, Tel. (01252 398829) or email kathy.flatt@rushmoor.gov.uk.

A G E N D A

1. **MINUTES –** (Pages 1 - 4)

   To confirm the Minutes of the Meeting held on 27th November, 2017 (copy attached).

2. **CRITERIA FOR THE SELECTION OF THE MAYOR AND DEPUTY MAYOR 2018/19 –** (Pages 5 - 6)

   The Chief Executive to report on the criteria for the selection process for the Mayor-Elect and Deputy Mayor-Elect 2018/19 (copy attached). The Committee will be asked to consider the application of the criteria in 2018/19.

3. **WELLESLEY SECTION 106 AGREEMENT - RUSHMOOR BOROUGH COUNCIL APPOINTMENT TO THE ESTATE MANAGEMENT COMPANY - WELLESLEY RESIDENTS TRUST LTD –** (Pages 7 - 10)

   To consider the Solicitor to the Council's Report No. LEG1801 (copy attached) regarding the Council's appointment to the Estate Management Company (Wellesley Residents Trust Ltd) in respect of the Section 106 Agreement for the Wellesley development in Aldershot.

4. **AUDIT PLAN –** (Pages 11 - 48)

   To receive a report from the external auditors, Ernst & Young, which sets out how they intend to carry out their responsibilities as auditor for the audit of the 2018/19 financial year (copy attached).

5. **HOUSING BENEFIT CLAIM CERTIFICATION –** (Pages 49 - 56)

   To receive a report from the external auditors, Ernst & Young, which summarises the results of the audit work undertaken on the Council's 2016/17 Housing Benefit claims (copy attached).

6. **LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING –** (Pages 57 - 64)

   To receive a copy of Ernst & Young's Local Government Audit Committee Briefing (copy attached).

7. **INTERNAL AUDIT UPDATE –** (Pages 65 - 70)

   To consider the Internal Audit Manager's Report No. AUD1801 (copy attached) which provides an update on the 2017/18 current position.

8. **INTERNAL AUDIT PLAN –** (Pages 71 - 78)

   To consider the Internal Audit Manager's Report No. AUD1802 (copy attached) which contains the Internal Audit Plan for 2018/19.

9. **FEES AND CHARGES - ENVIRONMENTAL HEALTH ANIMAL LICENCES –** (Pages 79 - 80)

To consider the Head of Environmental Health and Housing's Report No. EHH1802 (copy attached) which seeks approval for revised fees for certain licensing functions relating to animal licences, to come into effect on 1st April 2018.

10. **AMENDMENT TO STANDING ORDER 8 - NOTICES OF MOTION –** (Pages 81 - 84)

To consider a report from Councillor John Woolley (copy attached) on a proposal to amend Standing Order 8 on Notices of Motion.

11. **APPOINTMENT OF HONORARY ALDERMEN –** (Pages 85 - 86)

To consider the Head of Democratic and Customer Services' Report No. DEM1802 (copy attached) which proposes changes to the Constitution in relation to the appointment and role of Honorary Aldermen.

12. **APPOINTMENT OF INDEPENDENT PERSON –** (Pages 87 - 90)

To consider the Head of Democratic and Customer Services' Report No. DEM1801 (copy attached), which recommends the appointment of an Independent Person for Rushmoor.

13. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2018/19 –** (Pages 91 - 114)

To consider the Head of Financial Services' Report No. FIN1802 (copy attached) which sets out the Treasury Management Strategy, Prudential Indicators for Capital Finance and the Minimum Revenue Provision Statement for 2018/19.

14. **RISK MANAGEMENT UPDATE –** (Pages 115 - 134)

To consider the Head of Financial Services' Report No. FIN1806 (copy attached) which provides an update on risk management.

15. **AUDIT FEES - RESPONSE TO CONSULTATION –** (Pages 135 - 138)

To receive the Head of Financial Services' Report No. FIN1805 (copy attached) which sets out the Council's response to consultation on audit fees.

16. **PUBLIC SECTOR AUDIT APPOINTMENTS' REPORT ON RESULTS OF AUDITOR'S WORK –** (Pages 139 - 176)

To receive the Head of Financial Services' Report No. FIN1807 (copy attached) which sets out the Public Sector Audit Appointments' Report on the results of auditor's work.

17. **ACCOUNTING POLICIES AND RELATED MATTERS FOR THE YEAR 2017/18 –** (Pages 177 - 184)

To consider the Head of Financial Services' Report No. FIN1809 (copy attached) which reviews the proposed accounting policies to be applied for the closure of the 2017/18 accounts.

18. **FOLLOW UP FROM AUDIT RESULTS REPORT –** (Pages 185 - 190)

To consider the Head of Financial Services Report No. FIN1810 (copy attached) which sets out proposed actions in response to the recommendations raised by Ernst & Young in their annual Audit Results Report, previously reported to the Committee on 25th September 2017.

PUBLIC PARTICIPATION AT MEETINGS

Members of the public may ask to speak at the meeting on any of the items on the agenda by writing to the Committee Administrator at the Council Offices, Farnborough by 5.00 pm three working days prior to the meeting.

LICENSING AND GENERAL PURPOSES COMMITTEE

Meeting held on Monday, 27th November, 2017 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr A. Jackman (Chairman)
Cllr J.E. Woolley (Vice-Chairman)

Cllr Liz Corps
Cllr A.H. Crawford
Cllr B. Jones
Cllr S.J. Masterson
Cllr M.D. Smith
Cllr L.A. Taylor

Apologies for absence were submitted on behalf of Cllr Sue Carter, Cllr Sophia Choudhary and Cllr Jacqui Vosper.

19. **MINUTES**

The Minutes of the Meeting held on 25th September, 2017 were approved and signed by the Chairman.

20. **ANNUAL AUDIT LETTER**

The Chairman welcomed to the meeting Mr Andrew Brittain (Associate Partner) and Ms Justine Thorpe (Manager, Government & Private Sector) from Ernst & Young who were attending the meeting to present the Annual Audit Letter for the year ended 31st March, 2017 following the completion of its audit procedures for the financial year.

The Committee was advised that, in respect of the Council's Financial Statements, the auditors had issued an unqualified opinion, stating that the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year ended 31st March, 2017. The auditors were also of the opinion that other information published with the financial statements was consistent with the Annual Accounts. In respect of the Council's arrangements for securing economy, efficiency and effectiveness, the auditors had concluded that the Council had put in place proper arrangements to secure value for money in its use of resources.

The auditors had also concluded that the Governance Statement was consistent with their understanding of the Council and had no matters to report in the public interest and had no matters to report to the Council which should be copied to the Secretary of State. There were no matters to report regarding other actions taken in relation to the auditor's responsibilities under the Local Audit and Accountability Act, 2014.

Going forward, the auditors had recommended revised terms of reference and a work programme for the Committee to include regular risk management updates, self-assessment of the Committee's effectiveness and the production of an annual report of its achievements for the Cabinet.

It had further been recommended by Ernst & Young that the Council should consider mapping its Assurance Framework, where it obtained its risk assurances, where there were gaps and risks to manage and actions to take. This should then be reported to the Committee to give Members a clear view of how the Council was achieving its objectives and addressing areas for improvement.

During debate, Members raised questions regarding training for Members of the Committee on their duties and responsibilities, which was something that was being looked at by the Member Training and Development Group.

RESOLVED: That the Annual Audit Letter for the year ended 31st March, 2017 be noted.

21. **TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2017/18**

The Committee received the Head of Financial Services' Report No. FIN1736, which set out the main activities of the Treasury Management Operations during the first half of 2017/18.

RESOLVED: That the Head of Financial Services' Report No. FIN1736 be noted.

22. **AMENDMENT TO STANDING ORDER 8 - NOTICES OF MOTION**

At the request of Cllr John Woolley, the Committee considered the possibility of making an amendment to the Standing Order relating to notices of motion. The effect of the proposed change would be to remove the words "or which affects the Borough directly" from Standing Order 9 (6).

Following discussion, it was agreed that Cllr Woolley should prepare a report for consideration by the Committee, setting out further details of reasons for the proposed change.

RESOLVED: That a report on this matter be drafted by Cllr. Woolley for consideration at a future meeting.

23. **WELLESLEY S106 AGREEMENT - RUSHMOOR BOROUGH COUNCIL APPOINTMENT TO THE ESTATE MANAGEMENT COMPANY - WELLESLEY RESIDENTS TRUST LTD**

The Committee considered the Solicitor to the Council's Report No. LEG1720, which proposed the appointment of the Head of Community and Environmental Services as a Director of Wellesley Residents Trust Ltd.

Members noted that, under the terms of the Section 106 agreement dated 10th March, 2014 for the Wellesley Development, the developers (Grainger plc and Grainger (Aldershot) Ltd) were required to set up an Estate Management Company as a non-profit-making entity, to maintain and manage in perpetuity the features of the development (as set out in the appendix to the Report). A detailed Estate Management Plan setting out the maintenance and management arrangements had been approved by the Council, as required by the Section 106 agreement.

The Estate Management Company comprised stakeholders in the development, including the Minister of State for Defence and/or the developers, Rushmoor Borough Council, Hampshire County Council, any registered provider of social housing on the site and occupiers of the residential units and commercial units on the site and full details of this were set out in the Report. The structure and voting rights of the Estate Management Company had been approved by the Council prior to its formation as required by the provisions of the Section 106 agreement. The maintenance and management costs of the Estate Management Company were funded by an annual service charge levied on the residential units in the development in accordance with the obligations of the Section 106 agreement.

The Report recommended that the Council's representative should be an officer of the Council rather than an elected Member during the build-out period. It was considered that the Head of Community and Environment had an in depth understanding of the estate management obligations of the Estate Management Company and the terms of the Section 106 agreement.

During discussion, the view was expressed that the Council should be represented by a Ward Councillor and further clarification was requested from the Solicitor to the Council before a decision could be made.

RESOLVED: That the decision be deferred pending further clarification by the Solicitor to the Council on the appointment.

The meeting closed at 8.00 pm.

CLLR A. JACKMAN (CHAIRMAN)

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CRITERIA FOR THE SELECTION OF THE MAYOR AND DEPUTY MAYOR

The Council has established criteria for selecting the Mayor and Deputy Mayor. The Licensing and General Purposes Committee keeps the criteria under regular review. The arrangements are as follows:

- The position of the Mayor and Deputy Mayor of the Borough will be taken in order of seniority from all the elected Members of the Council and will be calculated in accordance with the procedure adopted by the Council on 20th May 1976 as follows:

  "The order of seniority of Members of the Council shall be determined by the length of previous local government service with the Council, including past service with the former Aldershot Borough Council and Farnborough Urban District Council. In the case where two or more Members have the same length of service, then priority between such Members shall be determined by the number of votes received by each Member expressed as a percentage of the total number of ballot papers issued at the most recent election held in their respective Wards."

- The normal progression through the Mayoralty will be by the holding of the position of Deputy Mayor and then progressing to the position of Mayor the following year.

- Should an elected Member be in the position of not being able or wanting to accept the nomination when they reach their position within the seniority list, they will be considered in the following Municipal Year, depending on his or her wishes.

- The Offices of Mayor and Deputy Mayor must at all times be apolitical. The Offices should not be used for political advantage.

- Past Mayors will not be considered for the position of Mayor or Deputy Mayor until fifteen years after the completion of the end of their Mayoral Year; at that time their position on the seniority list will be calculated on the basis of total length of service less fifteen years.

- A Member will not normally be selected until that Member has served a full four year term.

- A Member will not normally be selected for Mayor or Deputy Mayor if they are seeking re-election at that year's Borough Council Elections.

- Where a Member who has not been mayor before has the same number of eligible years' service as a Member who has already been Mayor, the Member who has not been mayor shall be given priority in the selection Process.

- A Member should recognise the time required in carrying out the duties and responsibilities of the Mayor and be able to allocate that time during his or her year of office.

- Those considered for appointment:

    - must demonstrate a broad base of support amongst Councillors

    - should be able to demonstrate some experience of chairing meetings

- The Mayor-Elect and Deputy Mayor-Elect will be selected at the Licensing and General Purposes Committee on the basis of the selections being submitted to full Council in March.

LICENSING AND GENERAL PURPOSES COMMITTEE
29th January 2018

SOLCITOR TO THE COUNCIL
REPORT NO. LEG1801

WELLESLEY S106 AGREEMENT – RUSHMOOR BOROUGH COUNCIL APPOINTMENT TO THE ESTATE MANAGEMENT COMPANY – WELLESLEY RESIDENTS TRUST LTD

SUMMARY
To consider the appointment of a Director to Wellesley Residents Trust Ltd

RECOMMENDATION
That Committee decides the appointment for RBC director of Wellesley Residents Trust Ltd

1. INTRODUCTION

1.1 Under the terms of the S106 agreement dated 10 March 2014 for the Wellesley development, the developers Grainger plc and Grainger (Aldershot) Ltd were required to set up an Estate Management Company (EMC) as a non-profit-making entity, to maintain and manage in perpetuity the features of the development listed in Appendix 1 to this note.

1.2 A detailed Estate Management Plan setting out the maintenance and management arrangements has been approved by the Council as required by the S106 agreement.

2. BACKGROUND

2.1 The S106 agreement provides that the EMC shall have a management board comprised of stakeholders in the development including (inter alia) the Minister of State for Defence and/or the developers, this Council, the County Council, any registered provider of social housing on the site and occupiers of the residential units and commercial units on the site (para 9.3 of Schedule 1 to S106 agreement).

2.2 The structure and voting rights of the EMC were approved by the Council prior to its formation as required by the provisions of the S106 agreement. The maintenance and management costs of the EMC are funded by an annual service charge levied on the residential units in the development in accordance with obligations contained in the S106 agreement.

3. DETAILS OF THE PROPOSAL

3.1 The EMC was incorporated as a company limited by guarantee on 19 May 2014 and the Articles of Association of the company were adopted on 10 October 2014. They provide that the following shall be entitled to nominate one person to be appointed as a director of the company (and can require the removal of such person as a director of the company and nominate another person in his/her place):

- Grainger (Aldershot) Limited (the Second Developer).
- Grainger Trust Limited (the registered provider of housing).
- The Land Restoration Trust (who have been granted a 999 year underlease of the SANGS by Grainger (Aldershot) Ltd and will manage -and maintain the SANGS).
- Hampshire County Council.
- Rushmoor Borough Council.
- The Minister of State for Defence.
- The Residents Management Committee (one representative following occupation of more than 30% of the Residential Units proposed to be comprised in the development and two representatives following occupation of more than 60% of the Residential Units).
- Additionally the directors may nominate one or more additional persons for appointment which may include a representative of the owners/occupiers of the commercial units on the site.

3.2 Also each of

- Grainger (Aldershot) Limited
- Grainger Trust Limited
- The Land Restoration Trust
- Hampshire County Council.
- Rushmoor Borough Council.
- The Minister of State for Defence.
- The owners of individual residential or commercial units.
- The owners of Affordable Housing Units (i.e. the registered providers of social housing);

shall be entitled to be registered as a member of the company.

3.3 Representation of the various stakeholders on the EMC is intended to ensure that the stakeholders are able to influence and monitor the management and maintenance of the common features by the EMC. It is considered that the Council should take up its right to become a member of the company, and nominate a representative as a director of the company, given the wide scope of the EMC's responsibilities, the length of the development of the site and the need to ensure that the obligations of the EMC are fulfilled in accordance with the approved Estate Management Plan.

3.4 We have approached Hampshire County Council concerning their appointments and they have advised that as it is not a requirement to take up their appointments, they have decided not to do so. They consider that as the Estate Management Plan sets out a framework for the management/maintenance of the maintained property, including the structure and funding of the maintained property, that they do not need to be a member of the EMC as the roads, streets, footpath, cycle-way, street furniture, sustainable drainage are all intended to become publically adopted (albeit that they will be covered until such time as they are adopted). HCC's interest in the management functions of the EMC is more limited than this Council's.

3.5 Following the previous committee meeting Grainger were approached to see whether RBC could have two board appointments, one officer and one a councillor, thereby replacing the counties directorship. Grainger however have confirmed that they do not wish to do this.

3.6 A decision now needs to be made regarding the appointments on behalf of this Council. The Council will become a member of the ECM and this can be done by our formally notifying the developer that we wish to be entered on the register of members of the EMC. Committee is however, asked to consider who should be nominated as the director from the Council. The duties will be those of a director of any company and will involve attendance at board and general meetings of the company.

Alternative Options

3.7 Not to appoint a Director to the EMC. This is not recommended given that the site is the major housing allocation in the borough and the council has a vested interest in ensuring that the obligations in the section 106 agreement and properly provided.

Consultation

3.8 The appointment has been considered by CLT. Grainger have expressed a preference for an officer appointment to avoid any politicisation of issues surrounding the development.

4. IMPLICATIONS (of proposed course of action)

Risks

4.1 It is important to make an appointment so that the Council can influence the estate arrangements for the development to ensure that the development is properly funded and maintained so that later issues are not experienced by residents.

Legal Implications

4.2 The appointment is provided for by the section 106 agreement

Financial and Resource Implications

4.3 None

Equalities Impact Implications

4.4 None

Other

4.5 None

5. CONCLUSIONS

5.1 The appointment will discharge the Council's obligation under the section 106 agreement to provide appropriate representation on the EMC board and ensure that this important development and the infrastructure set out in the appendix is appropriately managed and maintained to a high standard without being a drain upon Council resources.

ANN GREAVES
SOLICITOR TO THE COUNCIL

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AGENDA ITEM No. 4

Rushmoor Borough Council

Audit planning report

Year ended 31 March 2018

29 January 2018

EY

Building a better working world

Private and Confidential

29 January 2018

Licensing and General Purposes Committee,
Rushmoor Borough Council,
Council Offices,
Farnborough Rd,
Farnborough,
Hampshire.
GU14 7JU.

Dear Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Committee with a basis to review our proposed audit approach and scope for the 2017/18 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.

This report is intended solely for the information and use of the Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29 January 2018 as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

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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 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Licensing and General Purposes Committee and management of Rushmoor Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Licensing and General Purposes Committee, and management of Rushmoor Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Licensing and General Purposes Committee and management of Rushmoor Borough **Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Licensing and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	**No change** in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Risk of Management Override	Fraud risk	**No change** in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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.
Valuation of Land and Buildings	Significant Risk	**No change** in risk or focus	The fair values of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are both subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Other risk	**No change** in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, so management engages an actuary to undertake the calculations on its behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary, Aon Hewitt. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on management's use of experts and the assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Rushmoor Borough Council give a true and fair view of the financial position as at 31 March 2018 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.

This means that our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Materiality

Planning materiality
£1.325m

Materiality has been set at £1.325m, which represents 2% of the prior year's gross expenditure on provision of services.

Performance materiality
£0.994m

Performance materiality has been set at £0.994m, which represents 75% of materiality.

Audit differences
£0.066m

We will report all uncorrected misstatements relating to the primary statements greater than £0.066m. Other misstatements identified will be communicated to the extent that they merit the attention of the Licensing and General Purposes Committee.

Overview of our 2017/18 audit strategy

Value for Money Conclusion

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 2017/18 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 which 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. If we do not identify any significant risks there is no requirement to carry out further work.

Our 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 resulted in the two following significant VFM risks which we view as relevant to our value for money conclusion:

- Delivery of a sustainable medium term financial plan;
- Effectiveness of the Council's risk management framework.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

What will we do?

- 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.
- Review in-year financial projections and compare to year-end position.
- Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

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Our response to significant risks (continued)

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of Management Override

Financial statement impact

We have assessed that the risk of management override is most likely to affect the estimates in the financial statements, such as year end accruals, provisions and asset valuations. These impact both on the Balance Sheet and Income Statement.

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What will we do?

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place 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 those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Reviewing accounting estimates eg valuation of PPE, pensions liability and the NDR appeals provision for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Land and Buildings

Financial statement impact

We have assessed that the risk of valuation of land and buildings is most likely to affect the PPE and Investment Property accounts. These impact both on the Balance Sheet and Income Statement.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

- Consider the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- Consider the annual cycle of valuations to ensure that assets have been valued within a five-year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets communicated to the valuer.
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.

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Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Asset Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary Aon Hewitt. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▶ Undertake IAS19 protocol procedures assisted by the pension fund audit team to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council; ▶ Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used. We do this by relying on the work of PWC, the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18, 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.

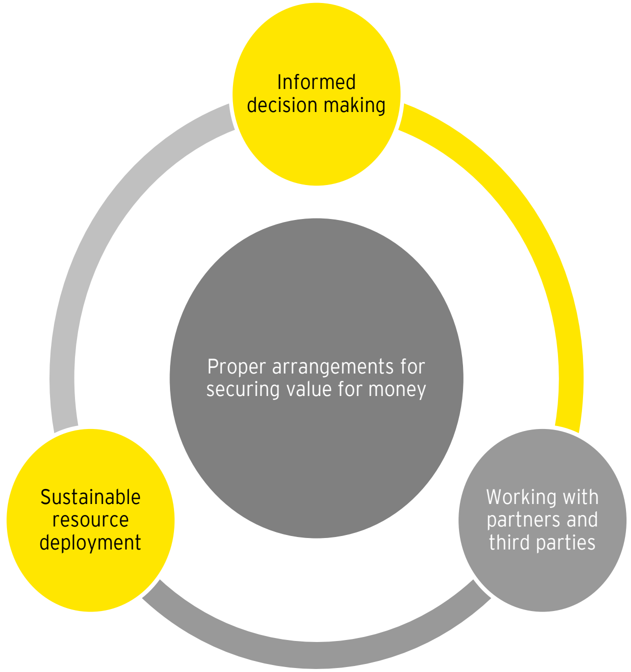
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have, and to report on through documents such as your annual governance statement.

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. If we do not identify any significant risks there is no requirement to carry out further work. Our risk assessment has therefore considered both the potential financial impact of any 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 resulted in the two following significant VFM risks which we view as relevant to our value for money conclusion:

- Delivery of a sustainable medium term financial plan.
- Effectiveness of the Council's risk management framework.



Value for Money Risks

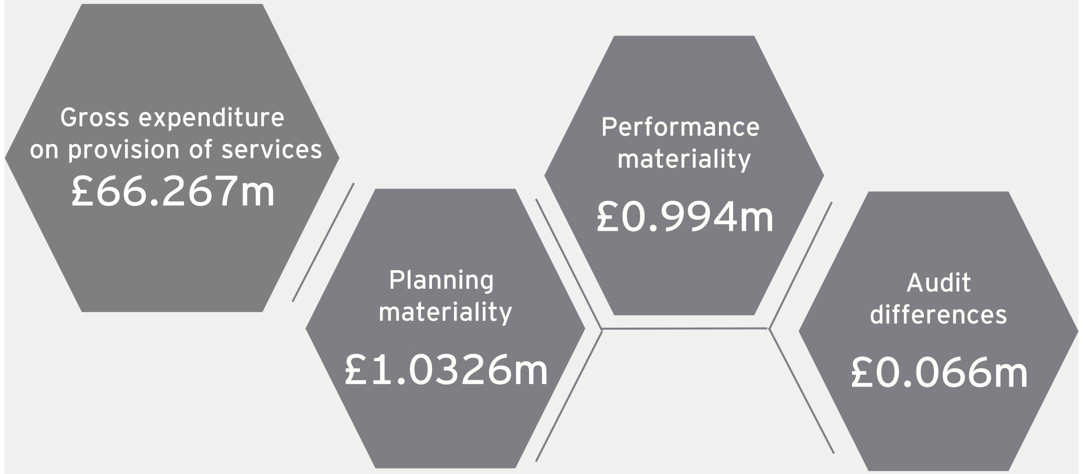
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Delivery of a sustainable medium term financial strategy		
The Council's "Medium Term Financial Strategy 2017/18 to 2020/21", presented to Council in October 2017, sets the context for the Council Plan, including its "8 point plan" which is the Council's delivery mechanism for financial sustainability. The MTFS recognises the key risks and considerations around financial planning including cuts in government funding, fluctuations in income through the business rates retention scheme, uncertainties around the New Homes Bonus, increasing revenue cost of borrowing and the acheivement efficiency savings required through transformational change. Transformational change is required to deliver the level of savings needed for a sustainable funancial future. The Council has a projected funding gap of £2.2 million by 2020/21, but this is after its use of £1.6 million of the Council's Stability and Resilience Reserve and £500k of General Fund balances. We need to review the Council's Medium Term Financial Strategy to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.	Deploy resources in a sustainable manner	Our approach will focus on: ► Reviewing the progress made in achieving the planned budget and transformational change savings for 2017/18. ► Assessment of whether the Council has good systems and processes in place to manage their financial risks and opportunities effectively. ► Assessing the robustness of the Council's Medium Term Financial Strategy 2017/18 to 2020/21.
Effectiveness of the Council's risk management framework		
The Council's Risk management framework was identified as a significant governance issue in both the 2015/16 and the 2016/17 Annual Governance Statements. In 2017/18, the Council has been updating the Corporate Risk Register, risk policies and practice through its re-invigoration of the Risk Management Group so that it may better embed risk management and align it to risks around the delivery of its strategic objectives in the Council Plan and its "8 point plan". Our review of the Council's Licensing and General Purposes (L&GP) Committee during 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committees which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) a production of an annual report of its achievements for Cabinet. As the L&GP Committee is a key component of Council's assurance over its risk management arrangements and will be receiving its first risk update report at its January 2018 meeting, we will follow-up on the above issues as part of our VFM work for this year.	Take informed decisions	Our approach will focus on: ► Review of the adequacy of the Council's risk management arrangements underpinning the Council's 2017/18 Annual Governance Statement. ► Assess the progress made by the L&GP Committee in aligning its practices to CIPFA's guidance for Audit Committees.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.0326m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Licensing and General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.994m which represents 75% of planning materiality. The rationale for using 75% is that we anticipate finding few or no errors during the audit. This expectation arises from our experience of the Council in the previous year.

Audit difference threshold – we propose that misstatements identified below this threshold are clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cash flow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Licensing and General Purposes Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1,000 for remuneration disclosures , related party transactions, members' allowances and exit packages. This is because these areas are perceived to be more sensitive to users of the financial statements.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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 also 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;
- Significant disclosures included in the financial statements;
- Council-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 Licensing and General Purposes Committee.

Internal audit:

We will review the internal audit plan 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 where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Andrew Brittain
Associate Partner

Justine Thorpe
Manager

Ben Cooper
Lead Senior

Audit seniors and associates

Pensions Specialist

EY Actuaries

Property Specialist

EY Valuations

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
Valuation of Land and Buildings	Wilkes, Head and Eve – RICS Registered Valuers EY Property specialists
Pensions disclosure	EY Actuaries PWC Actuary commissioned by NAO Aon Hewitt- Actuary

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 business 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 specialist 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.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Licensing and General Purposes Committee and we will discuss them with the Committee Chairman as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Licensing and General Purposes Committee meeting	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	**December 2017**	January 2018	Audit Planning Report
Interim audit testing	**January to March 2018**	March 2018	Interim audit progress report
Year end audit Audit Completion procedures	**May to June 2018**	July 2018	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	**August 2018**	September 2018	Annual Audit Letter
Housing Benefit Claim	**April to November 2018**	January 2019	Certified Claim
Reporting on Certification work	**December 2018**	January 2019	Annual certification work report

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08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you promptly on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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**
▸ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ Any 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.	▸ In order for you to assess the integrity, objectivity and independence of the firm and Andrew Brittain, Associate Partner, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, 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 for them; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

During the audit we are also required to communicate with you whenever we make any significant judgements about threats to objectivity and independence, and the appropriateness of safeguards, e.g. 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 that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

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. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non – audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified. We therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

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

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken. No additional safeguards are required.

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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 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 the Council. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2017

Ernst & Young (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 in place 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 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

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.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	49,838	49,838	49,838
Additional fee for work on PPE	0	0	3,791
Other non-audit services not covered above (Housing Benefits)	7,511	7,511	7,511
Total fees	**58,490**	**58,490**	**62,281**

All fees exclude VAT

The audit fee covers:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government Accounts.

For Rushmoor Borough Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk for the audit of the financial statements is not significantly different from the previous year;
- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion is unqualified;
- Appropriate quality documentation is provided by the Council;
- There is an effective control environment;
- Prompt responses are provided to our draft reports.

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.

Appendix B

Regulatory update

In previous reports to the Licensing and General Purposes Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Rushmoor Borough Council	These changes provide challenges for both the preparers and the auditors of the financial statements. We held faster close workshops for clients in December 2017 and January 2018 to facilitate early discussion and sharing of ideas and good practice. We are working with the Council on ideas arising from the workshop, for example: • Streamlining the Statement of Accounts, removing all non-material disclosure notes; • Bringing forward key externally provided information such as IAS 19 pension information, asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Rescheduling substantive testing to earlier phases of the audit to reduce year-end pressure; • Establishing and agreeing working materiality amounts with the Council.

Appendix C

Required communications with the Licensing and General Purposes Committee

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We have detailed the communications that we must provide to the Licensing and General Purposes Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Licensing and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	▸ 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	Audit results report

Appendix C

Required communications with the Licensing and General Purposes Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including: ▸ 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	Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report
Fraud	▸ Ask the Licensing and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ 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
Related parties	▸ Significant matters arising during the audit in connection with the Council's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations	Audit results report

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Appendix C

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Required communications with the Licensing and General Purposes Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on the objectivity and independence of EY and all audit team members Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ Any 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	Audit Planning Report and Audit Results Report
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	▶ 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 Licensing and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Licensing and General Purposes Committee may be aware of	Audit results report
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we request from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▶ Key audit matters included in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit planning report and Audit results report
Certification work	Summary of certification work undertaken	Certification report

Appendix D

Additional audit information

Other required procedures during the course of the audit	
As well as the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline these below.	
Our responsibilities as required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements (either from fraud or error), design and perform audit procedures considering those risks, and obtain enough appropriate audit evidence to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining enough appropriate audit evidence on the financial information of the services provided by the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, whether the Licensing and General Purposes Committee reporting appropriately addresses matters communicated by us and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, we cannot anticipate all the circumstances that may influence our judgement about materiality. At the end of the audit we will form our final opinion by considering all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Certification of claims and returns annual report 2016-17

Rushmoor Borough Council

15 December 2017

Ernst & Young LLP

Building a better working world

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30 January 2018
Ref: HB1

Direct line: 07976 515115
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Dear Members

Certification of claim annual report 2016-17 Rushmoor Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Rushmoor Borough Council's 2016-17 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 2016-17, 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 2016-17 certification work and highlights the significant issues. We checked and certified the housing benefits subsidy claim with a total value of £36,777,346. We met the submission deadline. We issued a qualification letter; details of the qualification matters are included in section 1. It was not necessary to amend the claim.

Fees for certification work are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 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 Licensing and General Purposes Committee on 30 January 2018.We would like to thank the Council's officers for their help. The certification process requires considerable input from them to be carried out efficiently and we are most grateful for their assistance.

Yours faithfully

Andrew Brittain
Associate Partner

Ernst & Young LLP
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Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£36,777,346
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17 Fee – 2015-16	£7,511 £8,652

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. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. We found errors and carried out extended testing in two areas.

We reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Cell 11: Rent Rebates – Total Expenditure (Benefit Granted)

- Cell Total: £18,958
- Cell Population: 68
- Headline Cell: £18,958

Testing of the initial sample identified no errors.

Cell 94 Rent Allowances – Total expenditure (Benefit Granted)

- Cell total: £36,867,592
- Cell population: 7,550
- Headline Cell: £36,867,592

Testing of the initial sample identified:

- 2 cases where benefit was overpaid (£187.96 and £5.51) due to incorrect rent figures; and
- 1 case was overpaid (£65.81) due to incorrect earnings figures.

In view of this an additional random sample of 40 cases was selected from the sub-populations of rent and earnings cases in 2016/17. Testing of the additional sample identified 4 cases where benefit had been overpaid as a result of earned income errors and 4 where the benefit was underpaid as a result of earned income errors. In line with the guidance the error was extrapolated and the value of the total extrapolated error was found to be £29,726.70. No adjustments to the claim have been made in respect of these findings. The percentage error rate in our sample reflects the individual cases selected. Given the nature of the population it is unlikely that even significant additional work would result in an amendment to this cell that will allow us to conclude it is fairly stated.

We have reported these observations to the DWP in a qualification letter. There is no impact on the claim but a total extrapolation of £29,726.70 which the DWP may decide to claw back from the Council.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	7,511	7,511	8,652

No changes to the 2016-17 fees are proposed.

3. Looking forward

2017/18

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 2017/18 is £8,652. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:
https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

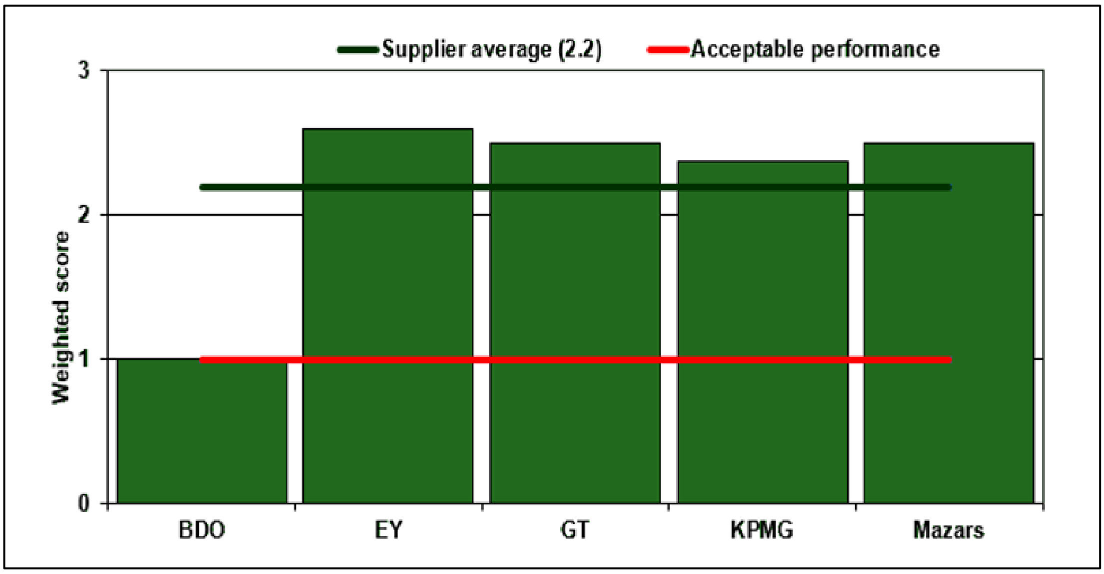
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Financial Services before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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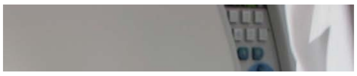
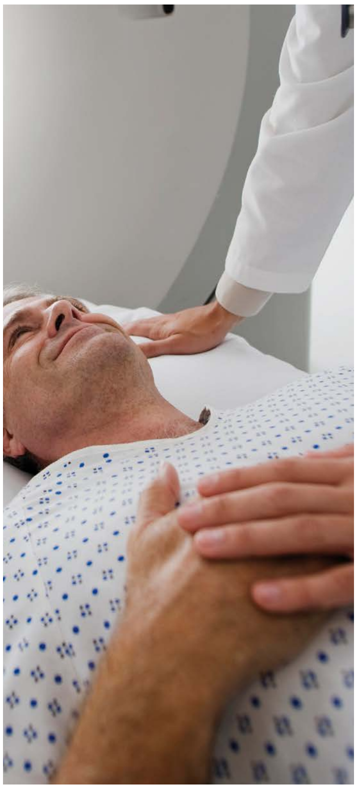
Local Government Audit Committee Briefing

Building a better working world



Contents at a glance



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY Item Club forecast

The latest EY Item Club forecast highlights how this year's general election result has increased political uncertainty and hindered the Article 50 EU exit negotiations, but that it could lead to a more business-friendly Brexit (with agreement on transition arrangements and to a comprehensive free trade agreement).

In terms of the economy itself, the surge in inflation has slowed consumption which, combined with investment and exports failing to offset this effect, meant GDP growth fell back to 0.2% quarter-on-quarter in the first three months of 2017. The outlook for the rest of the year remains poor, and the April forecast of 1.8% for GDP growth in 2017 has been revised down to 1.5%. Conversely, the growth forecast for next year of 1.2% has been revised up to 1.3%.

Consumer spending grew by just 0.4% quarter-on-quarter in Q1 of 2017, down from 0.7% in Q4 of 2016 and 0.8% in each of the previous quarters. This is a reflection that household savings are already very stretched, wage growth remains low, whilst inflation is picking up faster than expected. When wages fail to keep pace with price rises, inflation reduces the strength of consumption and pushes down demand. With the economy slowing it seems unlikely that falling unemployment could now trigger a significant increase in wage inflation. In terms of Consumer Prices Index (CPI) inflation, it is expected to move above 3% by July and reach 3.2 to 3.3% in the autumn, maintaining the pressure on households.

Returning to Brexit, a transition agreement with talks on a free trade agreement under way, should stimulate investment, especially in sectors like the motor industry where it has been held back by Brexit uncertainty. As a result the EY Item Club medium-term forecasts have been revised upwards. April's GDP growth forecast of 1.5% for 2019 is raised to 1.8%, whilst expected growth rates of 1.8% for 2020 and 2021 have moved up to 2.0% and 2.2% respectively.

2018–19 local government settlement: consultation

During September and October 2017 DCLG embarked on a consultation process for the 2018–19 finance settlement, which will be the third year of the multi-year settlement that was accepted by 97% of local authorities. The main themes of the consultation were:

- **Business rate retention** – the 100% retention of business rate income scheme was piloted by five regions in 2017/18. Central government is committed to giving local government greater control over the money they raise and so they have invited interested local authorities to apply to participate in a new wave of pilot schemes for 2018/19. The Spring Budget 2017 announced that authorities in London were working with Government to explore piloting the scheme for 2018/19. However, independent research commissioned by the County

Council Network has identified that 100% business rate retention could actually increase the funding gap for county authorities by £700mn by 2029. The analysis indicated that there would be a divergence between future business rate growth and demographic cost pressures.

- **New homes bonus** – since its inception the New Home Bonus has allocated £6bn to local authorities to encourage the building of over 1.2mn new homes. As part of the 2017/18 financial settlement Government reduced the number of years for legacy payments from six to four starting in 2018/19, and also set a national baseline for housing growth to incentivise local authorities to build more new homes. The national baseline (below which no bonus will be paid) was set at 0.4% for 2017/18, which is significantly below average past growth rates. The 2018/19 baseline is yet to be confirmed; however, will be calculated based on additional housing stock as reported through council tax base figures.
- **Council tax referendum principles** – government is considering whether to retain the core principle that increasing council tax demands by greater than 2% would require a local referendum. In addition, Government is considering whether this 2% core principle should also apply to Mayoral Combined Authorities.
- Continuation of the Adult Social Care Precept principle of a 2% increase, with the additional flexibility in 2018/19 to increase this precept by an additional 1% to 3%, provided that the total increase between 2017/18 and 2019/20 does not exceed 6%.

Planning fees

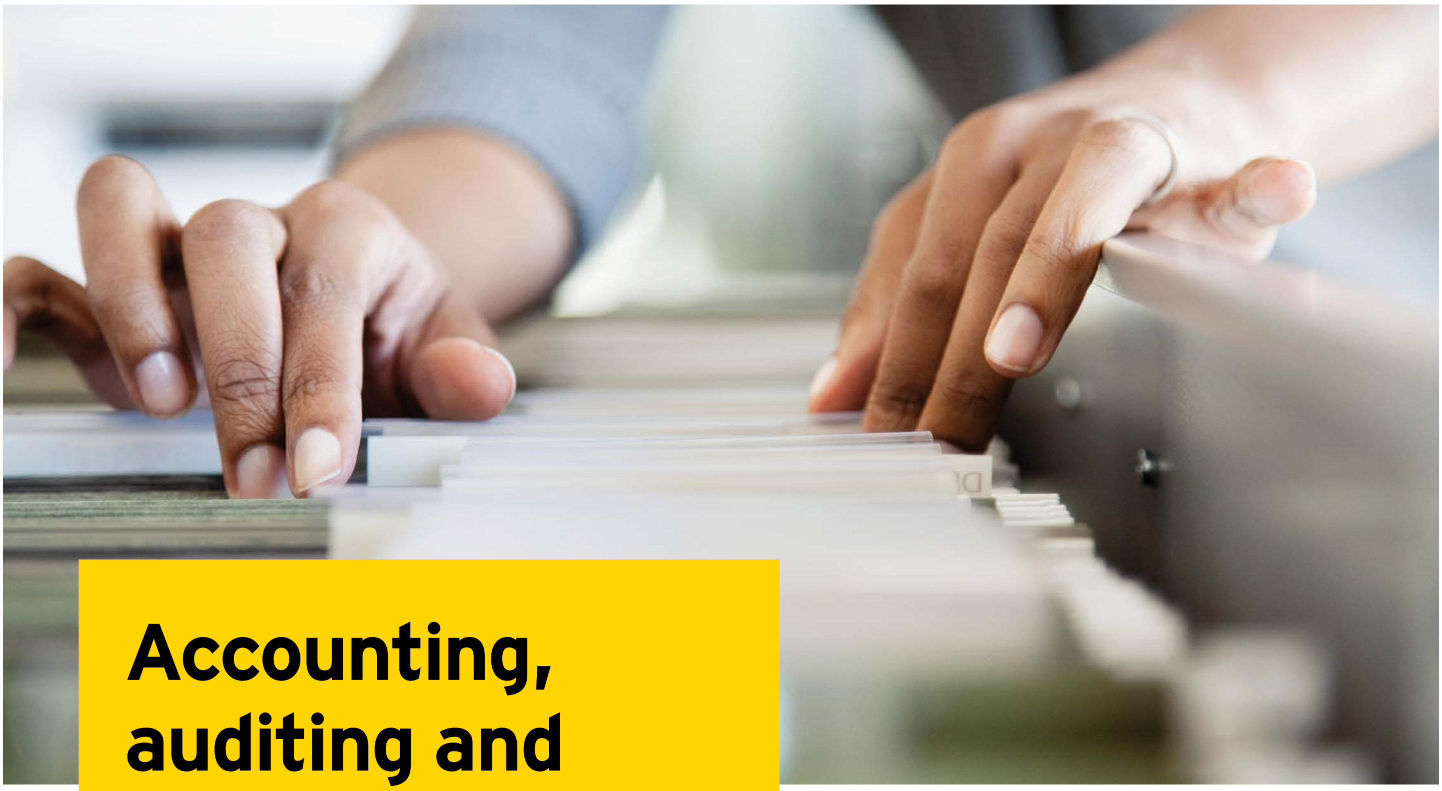
A government white paper published in February 2017 set out plans to allow local authorities to increase planning permission fees by up to 20% from July 2017; however, this increase has not been implemented and it is unclear whether it will in the future. This has put £1bn of potential future funding up to 2022 at risk according to the Local Government Association (LGA).

The LGA has estimated that the average council receives 486,500 planning applications per year with council tax funds being used to fund approximately one third of applications. Planning permission fees are set nationally so that applicants have certainty of cost throughout the country. Often individual householder applications will result in an overall loss for councils due to the small size of the application and corresponding fee, the cost of which is picked up by the taxpayer.

Adult social care

The DCLG 2017/18 Budget indicated that total local authority expenditure on adult social care is expected to rise by 8.6% in 2017/18 from £14.4bn to £15.6bn. Government has assisted local authorities to finance this increased expenditure through both the £2bn of extra funding for adult social care announced back in Spring 2017, of which £1bn will be available for 2017/18, and the adult social care precept first introduced in 2015/16 at a rate of up to 2%.

Given the increasing aging population throughout the UK there are still concerns that even this increased funding is not sufficiently sustainable to meet the future demand for adult social care services. A study published in the Lancet has found that the demand for high dependency adult care places is expected to increase by 86% by 2035, therefore the long term sustainable funding of adult social is critical. A green paper from Government is expected to be published shortly that will discuss the options for shaping the future of social care, including how it will be funded.



Accounting, auditing and governance

Commercialisation: local authority owned companies

Over 60% of local authorities currently own at least one trading company and this figure is expected to increase significantly by 2020 as councils seek efficiencies and innovations to generate extra income to bridge future funding gaps. Therefore, irrespective of type or purpose of newly established trading companies, governance and the interface between the local authority and their owned companies is critical to the commercial success of the trading enterprise.

Mike Birch, the CEO of a £300mn turnover wholly owned local authority company, said at CIPFA's annual conference that "the presence of too many members on executive boards could hamper the agility that a small and focused board needed to efficiently deliver services in a commercial environment ... You cannot run a business by committee; it has to have a degree of focus and agility."

Having too many members on the Board of a council owned company may not be in the best interests of either the company or the council. Therefore when establishing (or reviewing) the governance arrangements of council owned companies it is important that the appropriate framework is put in place to operate effectively for both entities. There are many complex issues that require careful consideration, for example, minimisation of conflicts of interest for key individuals of both entities and the balance of sufficient oversight by the council whilst not hindering the operations of the trading company.

EY think piece: 2017/18 early accounts closure

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The new timetable for preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of audited accounts by 31 July. These reporting deadline changes will provide a challenge for both preparers and auditors of local authority financial statements.

The EY Think Piece on 'Accelerating your financial close arrangements' has identified several areas of consideration that may assist in the achievement of the challenging accelerated deadlines. These include:

- **Revisit the current closure timetable.** The robustness of project timetables and the management of bottlenecks in the closure process will be critical to achieve the new deadline.
- **Format of your accounts.** Are there superfluous notes in the financial statements that could be streamlined or removed on the basis of materiality? Discuss with auditors what would be considered material.
- **Review year-end journal process.** Do year end journals actually have to be done at year end? Could journals be made throughout the year, and then adjusted at year end for material changes.
- **Manage Members' Expectations.** A 31 July audit deadline will mean rescheduling your Audit Committee (or equivalent body who perform the duties of 'those charged with governance') before the deadline.

Key questions for the Audit Committee

How is the impact of Brexit being factored into the authorities MTFP projections?

Has your local authority considered the impact of the proposed financial settlement for 2018/19?

How has the uncertainty around future charges for planning applications affected your council?

How does your council ensure that it has a sustainable financial plan for the increasing demand for adult social care?

What assurance do you have that your council's owned trading companies have effective governance arrangements in place?

What actions has your local authority taken to ensure that it is best place to achieve the financial accounts early closure timetable of 31 July 2018?

Find out more

EY Item Club forecast

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

2018-19 local government financial settlement: consultation

https://www.gov.uk/government/consultations/local-government-finance-settlement-2018-to-2019-technical-consultation

Planning fees

http://www.publicfinance.co.uk/news/2017/08/governments-failed-planning-fees-promise-leaves-councils-ps1bn-bill

Adult social care

http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/the-road-ahead-for-managing-social-care

Commercialisation: local authority owned companies

http://www.publicfinance.co.uk/news/2017/07/local-authority-run-companies-should-avoid-too-many-council-board-members

EY Think Piece: 2017/18 early accounts closure

http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf

EY client resources and information

http://www.ey.com/gl/en/industries/government---public-sector/ey-citizen-today#recent-content

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LICENSING AND GENERAL PURPOSES COMMITTEE
29th January 2018

AUDIT MANAGER
REPORT NO. AUD1801

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:
This report describes the work carried out by Internal Audit for quarter 3 and the proposed work to be delivered for quarter 4.

RECOMMENDATION:
Members are requested to:

i. Note the audit work carried out in quarter 3.
ii. Note the update to the expected deliverables for quarter 4.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work completed by Internal Audit to date for quarter 3.
- An update of the progress made and any changes required for the expected deliverables for quarter 4, as approved by the Committee on the 25th September 2017.

2 Resources

2.1 The resources within the internal audit team currently remain the same as reported at the September meeting. Since this meeting, an appointment has been made to the role of Audit Manager. The newly appointed Audit Manager is currently on maternity leave and interim cover for this position is in place. Contractors continue to be utilised to provide assistance for the delivery of the Internal Audit Plan.

3 Audit Plan Summary 2017/18

3.1 An overview of the audit plan and status of audits included is shown below:

Work completed to date:

Audit	Opinion
Parking Machine Income	Reasonable
Heating Payments	Limited
Capital Programme: Activation Aldershot	Reasonable
Card Payments (Unplanned)	Reasonable
Transparency Code	Limited
Cyber Security	Reasonable
Contract Letting & Tendering	Reasonable
Purchase of Property	Limited

Follow Up	Opinion
External Tenants	Reasonable
Capital Projects	Reasonable
Aldershot/Farnborough Markets	Substantial
HMRC Requirements/Tax Requirements	Limited

Work in progress (wip)/to be started in quarter 4:

Audit	Status
Key financial system – FMS & Bank Reconciliation	Quarter 4
Key financial system – Purchase Ledger	wip
Key financial system – NNDR Billing Collection & NNDR Hardship Reliefs/Exemptions	wip
KFS – Payroll/Pay	wip
Capital Programme: Depot	Quarter 4
Portable IT Equipment (Unplanned)	wip

Follow Up	Status
IT Network Security	Quarter 4
Community Assets	wip
Parking Machine Income	Quarter 4

Unallocated work potentially to be dropped from the plan (per September committee update):

Audit
Planning Applications
Weekly Refuse & Recycling Collection Contract
Financial Borrowing

4 Audit reviews completed since September 2017

4.1 Cyber Security

The threat of cyber-attack is an increasing risk for all organisations with the consequences of such attacks leading in some cases to significant business disruption and loss of confidential or valuable data. The objectives of the audit were to evaluate; the level of preventative technical measures in place, arrangements for training staff in data protection and cyber security risks and the management of server patching to address security vulnerabilities on the network.

The report concluded a reasonable level of assurance and basic controls are in place to prevent an attack. Recommendations have been made to:

- Document policy and processes that address the arrangements in place to address security vulnerabilities.
- Deliver user education on data protection and security
- Update and revision of the Security Incident Response Plan
- GDPR preparatory activities should be quantified and key roles understood as a matter of priority.

The Council demonstrated a strong management system to deploy patches and has recently procured a tool to aid the identification and remediation of security vulnerabilities on the network. This continues to be a key preventative defence measure.

4.2 Contract Letting & Tendering

The scope of the audit review was to assess whether contracts were being awarded in accordance with financial regulations and contract rules, whilst ensuring value for money in the provision of goods and services.

The report concluded a reasonable assurance opinion although a number of recommendations were made to improve the control environment. Audit found only partial compliance with regards the retention of documentation being held to support procurement decisions and compliance with the Contract Standing Orders. Where the Procurement section had actively been used, controls were operating effectively with good documentation trails and complete recording on the Council's contract register. Key findings made in the review included:

- The Procurement Strategy had not been updated for a number of years.
- The Contracts Register was incomplete and information recorded inconsistent.
- Supplier frameworks set up by the Procurement section were not being fully utilised.
- A number of contracts reviewed were being rolled on without extension approval.
- As per the Contract Standing Orders, financial checks of contractors had not been undertaken for all contracts with a total value in excess of £50,000. This included on-going contracts where 'aggregation' had not been taken into account at the outset.

Overall, whilst there was a structured procurement framework in place, in order for the Council to achieve value for money going forward, the focus on compliance and financial savings needs to be driven by the Heads of Service with the robust support of senior management.

4.3 Purchase of Property & Land

An audit review of the purchase and sale of land and property was included as part of the approved Internal Audit plan. Subsequently, due to the timing of the review, the scope of the audit was reduced to exclude the sale of property and land. During the previous year, there had been very few property and land sales. This area will be reviewed separately when it is considered that the risk merits such work.

The overall audit opinion was Limited Assurance. The reason for this opinion was that a proposed Asset Management Strategy has yet to be implemented which should include the governance and parameters for investment property decisions. Recommendations were also made to:

- Improve the structure of record keeping, providing ease of review that key diligence checks and approvals are observed;
- Improve performance reporting to assess the success of investments made.
- Develop policies and procedures for acquisitions.

4.4 Aldershot/Farnborough Markets Follow Up

Audit work issued in March 2015 identified that the process for taking payment from market traders was a labour intensive manual process. As a result, adequate documentation was not held electronically to show the payments that had been made by each market trader. Findings also concluded that appropriate reconciliations were not being carried out.

A follow up of these findings revealed that four out of the five recommendations made have been implemented. The outstanding recommendation relates to holding the new stallholders contracts electronically. Implementation is planned at the end of the financial year. *(Opinion upgraded from reasonable to substantial assurance).*

4.5 HMRC Requirements & Tax Requirements

A follow up was undertaken to review arrangements in place to ensure that the Council had a robust mechanism for checking the employment status of workers before making payments through the purchase ledger.

The review found evidence that the HMRC tool for assessing employment status to comply with tax regulations (IR35) was now being used, however it was not clear that this was being routinely utilised by Managers and there was not always a sufficiently detailed explanation as to why an assessment had not been undertaken.

Recommendations have been made to detail procedures in place in Finance to collate information and reference checks that have been carried out more clearly as well as documenting Managers reasons why it was felt use of the HMRC tool was not required. Further audit review of compliance with IR35 regulations will be added to cyclical audit coverage of the purchase ledger key financial system.

4.6 *Other deliverables:*

Internal Audit have provided input and advice as part of the Risk Management Group which is overseeing the reconstitution of the Council's risk management processes and development of strategic and operational risk registers.

Input has also been provided to continuing work to ensure that the Council is set up to comply with the new General Data Protection Regulations (GDPR), which replaces the existing Data Protection Act from May 2018.

5. Changes to scheduled audit work

Since the previous internal audit update report in September, an additional review has been added to the audit plan in respect of portable IT equipment. The Head of Financial Services requested work to review controls in place particularly in respect of employees returning equipment when they leave employment. Work is currently underway and will be completed shortly.

Follow up of previous audit recommendations relating to IT network security has been added to the schedule and a follow up of recommendations made concerning the Parking Machine income review is being deferred, as these are reliant on the introduction of new parking machines, which had been delayed.

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HEAD OF SERVICE: Amanda Fahey

References: *Internal Audit – Audit Plan* report, presented to the Committee on the 27th March 2017
2017/18 Internal Audit Plan

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LICENSING & GENERAL PURPOSES COMMITTEE **AUDIT MANAGER**
29th January 2018 **REPORT NO. AUD1802**

INTERNAL AUDIT – AUDIT PLAN

Overview:
This report is to set out the annual plan for 2018/19.

Action required:
Members are required to:
- Agree to the annual plan, which will be monitored and updated on a rolling quarterly basis.

1 Introduction

1.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources. It is a yardstick for measuring audit performance ensuring that resources are focused on activity that will make the most difference to securing the objectives of the council.

2 Mission of Internal Audit

2.1 Internal Audit aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. This is achieved through Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

2.2 The role of internal audit is defined within the Public Sector Internal Audit Standards, as an: *'independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.*

3 Basis of Audit Opinion

3.1 Internal Audit is required to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance. With the exception of consultancy work, all audit reports issued include an assurance rating based on the definitions shown below. Individual assurance ratings help determine the overall audit opinion at the end of the financial year.

Definitions of audit assurance

- **Full** – A comprehensive system of internal controls is in place designed to achieve the system/function/process objectives. These controls are operating effectively and are being consistently applied.

- **Substantial** – Key controls designed to achieve the system/function/process objectives, are in place. There are opportunities to enhance/strengthen these controls.

- **Reasonable** – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.

- **Limited** – Minimal controls designed to achieve the system/function/process objectives, are in place. Significant improvements are required if key controls are to be established.

- **No assurance** – No controls that achieve the system/function/process objectives, are in place.

3.2 The annual audit opinion provided by the Audit Manager for 2018-19 will be based upon:

- Reviews undertaken during 2018-19.
- Follow up of actions against audit recommendations made.
- Management responses to findings and recommendations.
- Effects of significant changes to the financial systems.
- Assurances received from other sources.
- The extent of resources available to deliver the audit plan.

3.3 The annual opinion will be reported to this Committee following the end of the financial year.

3.4 All internal audit work is undertaken in accordance with the Public Sector Internal Audit Standards.

4 Methodology for compiling audit coverage

Risk Universe and Criteria

4.1 The risk universe has been updated to show auditable areas as at January 2018. This will be reviewed as appropriate.

4.2 The risk criteria have been to ensure they capture all relevant areas to be considered in determining the level of risk exposure within an auditable area.

4.3 The risk criteria includes the following areas:

- **Corporate priority**
  This looks at the Council's corporate plan and assesses to what level the auditable area contributes to the corporate plan. This is included so that areas of high corporate priority are considered more highly than areas of low corporate importance, which are not deemed to risk the Council achieving its overall objectives.

- **Impact on reputation**
  This looks at the potential impact on the Council's reputation if a risk within the auditable area was to transpire. This is included so that areas of high reputational impact are considered more highly for a review to ensure that the reputation of the Council is maintained.

- **Assurance from others**
  This considers whether another body either externally (e.g. external audit) or internally (e.g. systems thinking) have reviewed the area. This is included so that if assurance can be provided by others then Internal Audit would not need to also review the same area.

- **Concerns raised**
  This looks at any concerns raised by Managers or employees, any previous frauds identified and any previous poor controls identified by Internal Audit. This is included as if concerns are raised then this could highlight control weaknesses impacting on the Council in various ways.

- **Laws or Regulations**
  This looks at if the auditable area is enshrined by Laws or regulations or not. A requirement for high levels of compliance with Laws and Regulations will result in a higher risk to the Council if these are not adhered to.

- **Financial transactions total**
  This looks at the financial value of transactions in the auditable area, as the higher the value of the transactions the more risk of financial loss to the Council. This also looks at the number of transactions, as a small financial value but high frequency of transactions opens the auditable area up to a bigger risk of fraud and error.

- **Vulnerability**
  This looks at whether the area is completely new to the Council or not or if it's a constantly evolving area e.g. IT. New and evolving areas will present a higher vulnerability than an area that has not changed.

Developing the Audit Plan

4.4 Internal Audit strategy is to review key financial systems on a 3-year rolling basis adjusted for any significant system developments or identified weaknesses. Additionally, all other areas of coverage are based on various risk factors developed by Internal Audit described in section 4 of this report.

4.5 The Council's approach to risk management has been identified as an area where improvement is required. Once robust systems are operating effectively, then this will enable audit focus to be aligned to key strategic and significant operational risks.

4.6 The first 6 months of work will be established based on the auditable areas with a view to risk, suitability of timing and availability of audit resource. This will be agreed with CLT and the Licencing & General Purpose Committee. The work for the following quarters will be established at subsequent CLT and Committee meetings, as laid out in 4.5 table 1 below. This will allow Internal Audit to react more effectively to the needs of the Council when required throughout the year.

4.7 Cyclical coverage of key financial systems has been discussed with External Audit who expressed no concerns providing that coverage is reviewed should identified concerns warrant it.

Communication and monitoring of the plan

Table 1

Date	**Meeting**	**Details**
16th January 2018	CLT	• Set the work for quarter 1 & quarter 2 (subject to change if required for the needs of the organisation.)
29th January 2018	L&GP Committee	
8th May 2018	CLT	• Present the audit opinion for 2017/18. • Give an overview of the work completed in 2017/18.
24th May 2018	L&GP Committee	
10th July 2018	CLT	• Report on the work carried out to date for quarter 1. • Report any changes required for the rest of quarter 1 or quarter 2 and the reason for these changes. • Set the work for quarter 3.
30th July 2018	L&GP Committee	
13th November 2018	CLT	• Report on the work carried out to date for outstanding work in quarter 1, and quarter 2. • Report any changes required for the rest of quarter 3 and the reason for these changes. • Set the work for quarter 4.
26th November 2018	L&GP Committee	

January 2019	CLT	• Report on the work carried out to date for quarter 3, and outstanding work for quarter 4. • Report any changes required for the rest of quarter 4 or for quarter 3 and the reason for these changes.
January 2019	L&GP Committee	

4.8 A rolling programme means that the plan can be set for each quarter allowing for greater flexibility of audit coverage to meet the changing environments faced by the Council.

5 Resources

5.1 Internal Audit resourcing requirements will be reviewed on an annual basis as part of the audit strategy that will match the audit needs assessment against available internal audit resource. Where there is a significant imbalance, the Committee will be informed and appropriate solutions agreed.

5.2 The 2018/19 plan will be undertaken by the Audit Manager and bought in contractor resource and is sufficient to enable a meaningful annual audit opinion on the control and risk environment.

6 2018/19 audit plan

6.1 The first 6 months work, as set out in Appendix A, has been selected from the higher risk areas detailed in Appendix B. The list of audits is subject to review due to the changing needs of the organisation or resource availability. An update will be provided at the committee meeting in July.

Gavin Jones
Interim Audit Manager

Contact Details: 01252 398596
gavin.jones@rushmoor.gov.uk

References:

- *Public Sector Internal Audit Standards (2017)*
  http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

Appendix A

Table of Audits expected deliverables for Quarters 1 & 2

CLT	Corporate governance
Community	Weekly refuse and recycling contract
CLT	Improvement programme
CLT	Capital programme management
IT & Facilities	IT application access control
Environmental, Health & Housing	Disabled facilities grants

Follow up of previous audit reviews

Legal/Various	Follow Up - Contract letting & tendering
CLT	Follow Up – Transparency code
IT & Facilities	Follow Up – Cyber security
Community	Follow Up – Card payments

Provisional forward programme of audit work

Legal	General Data Protection Regulation (GDPR)
CLT	Risk management
Finance	Key Financial System - Benefits overpayments (Quarter 3/4)
Finance	Key Financial System – Sales ledger (Quarter 3/4)
Finance	Key Financial System – NNDR & council tax recovery (Quarter 3/4)
CLT	Regeneration programme - consultancy
Legal/Various	Contract management & monitoring
Planning	Planning applications
Finance	Financial borrowing
Various	Follow Up of previous Internal Audit reports

RISK UNIVERSE SCORING - JANUARY 2018

Appendix B

AUDIT AREA	Total risk score	Notes
Capital programme and accounting	29	Capital programme management 2018/19 plan
Purchase of property and land	29	2017/18 Audit Plan – follow up 2018/19
Contract letting and tendering	28	2017/18 Audit Plan – follow up 2018/19
Improvement programme	27	2018/19 Audit Plan
Contract management/monitoring	26	2017/18 Audit Plan
General Data Protection Regulation (GDPR)	26	2018/19 Audit Plan
Transparency code	26	2017/18 Audit Plan – follow up 2018/19
Risk management	25	2018/19 Audit Plan
Benefits overpayments	24	2018/19 Audit Plan - Key financial system
HMRC requirements	24	2017/18 Audit Plan
NNDR billing and collection	24	2017/18 Audit Plan – Key financial system
Planning enforcement	24	Covered by Investigation Team
Sundry debtor recovery	24	2018/19 Audit Plan - Key financial system (sales ledger)
Taxation and returns	24	See HMRC requirements – 2016/17 Audit Plan
Aldershot and Farnborough Markets	23	2016/17 Audit Plan
Car boot sales	23	2015/16 Audit Plan
Corporate governance	23	2018/19 Audit Plan
Council tax billing and collection	23	Key financial system next due 2019/20 Audit Plan
Council tax recovery	23	2018/19 Key financial system
Ethical governance	23	2018/19 Audit Plan (may cover as part of corporate governance)
Disabled facility grants	23	2018/19 Audit Plan
Financial borrowing	23	Slipped from 2017/18 plan
NNDR recovery	23	2018/19 Key financial system
Planning applications	23	Slipped from 2017/18 plan

RISK UNIVERSE SCORING - JANUARY 2018

Appendix B

AUDIT AREA	Total risk score	Notes
Sale of property and land	23	2019/20 – related issues property acquisitions
Weekly refuse and recycling collection contract	23	2018/19 Audit Plan (slipped from 2017/18 plan)
Application access control	22	2018/19 Audit Plan
Constitution	22	Included in corporate governance at a high level
Cyber security	22	2017/18 Audit Plan – follow up 2018/19
Performance management	22	
Digital advertising boards	22	
Payroll/ Pay	22	2017/18 Audit Plan – Key Financial System
Regeneration projects	22	2018/19 Audit Plan
SANGS	22	
S106	22	

Key

	Significant governance issue per AGS 2017/18
	Inclusion in 2018/19 plan
	Possible inclusion in 2018/19 plan

LICENSING & GENERAL PURPOSES COMMITTEE
29 JANUARY 2018

DIRECTORATE OF COMMUNITY AND ENVIRONMENT
ENVIRONMENTAL HEALTH & HOUSING
REPORT No: EHH 1802

FEES AND CHARGES (ENVIRONMENTAL HEALTH)

1.0 INTRODUCTION

1.1 This report seeks Committee approval for revised fees for certain licensing functions provided by the Environmental Health service, to come into effect on 1st April 2018.

2.0 BACKGROUND

2.1 The Local Authority (Functions & Responsibilities) (England) Regulations 2000 place responsibility for the determination of these fees and charges on the Licensing & General Purposes Committee.

2.2 A review of the work time required to deliver various activities has been carried out and, based on the principle of full cost recovery, the following fees are proposed. This effectively delivers the requirement to set a “reasonable fee”.

2.3 The table at Appendix 1 provides an analysis of the fees currently charged by a selection of our neighbouring authorities. The proposed new fees, whilst rightly based on our analysis of the work involved, are comparable with other local authorities.

3.0 PROPOSAL

3.1 It is proposed the following fees (New licence/Renewal) are set as of 1st April 2018:

Licence	Existing Fee	**Proposed Fee**
New Animal Boarding Est. Licence/Renewal	£142/£142	£242/£143
New Pet Shop Licence/Renewal	£142/£142	£271 /£171
New Dog Breeder Licence/Renewal	£160/£160	£271/£171
New Dangerous Wild Animals (2yr)/Renewal	£280/£280	£399/£399

4.0 RECOMMENDATIONS

4.1 Members are recommended to approve the revised fees as set out in this report, to take effect on 1 April 2018.

QAMER YASIN
HEAD OF ENVIRONMENTAL HEALTH AND HOUSING SERVICES

Contact: Colin Alborough, Food and Health & Safety Manager (01252 398169)

Appendix 1 - Fee comparison with a selection of neighbouring local authorities

Borough	New Animal Boarding Est. Licence	Animal Boarding Est. Licence Renewal	New Pet Shop Licence	Pet Shop Licence Renewal	New Dog Breeder Licence	Dog Breeder Renewal	New Dangerous Wild Animals (2yr licence)	Dangerous Wild Animals Renewal (2yr licence)	
Hart DC	Home boarding £90.50 No home boarding £181	£90.50 £181	£181	£181	£181	£181	£314*	£181*	* "Additional veterinarian fee is also payable after site visit."
Bracknell Forest BC	£384	£225	£463*	£209*	£463	£209	£451	£261	* "Before granting a licence we must be satisfied that satisfactory arrangements are in place. We may require specialist advice of a vet. You must pay any costs of this."
Guildford BC	£231	£207	£250	£212	£145	£123	£139	£139	
Surrey Heath DC	£375	£125	£360	£120	£180*	£90**	£1,938	£969	This fee is for a licence for 3 breeding bitches. Each stud dog or additional breeding bitch will be charged at £17* or £8.50**
Waverley DC	Home boarding £190* No home boarding £270*	£190 £270	£210**	£210**	£290**	£290**	£200***	£200***	*If a vet inspection is necessary, you will need to pay the associated vet fees **You may also need to pay for a vet inspection if this is required ***You will also need to pay for the 2 yearly vet inspections.
Rushmoor Existing	**£142**	**£142**	**£142**	**£142**	**£160**	**£160**	**£280**	**£280**	
Rushmoor Proposed	**£242**	**£143**	**£271** †	**£171** †	**£271** †	**£171** †	**£399** †	**£399**†	† If it is determined that a veterinary inspection is necessary you will also need to pay the associated costs prior to the inspection being carried out.
	No veterinary inspection required	No veterinary inspection required	Premises **may require** veterinary inspection	Premises **may require** veterinary inspection	Premises **must have** veterinary inspection	Premises **may require** veterinary inspection	Premises **must have** veterinary inspection	Premises **must have** veterinary inspection	

LICENSING AND GENERAL PURPOSES COMMITTEE
29 JANUARY 2018

AMENDMENT OF STANDING ORDERS - NOTICES OF MOTION AND QUESTIONS

1. Purpose

1.1 A potential amendment to Standing Orders was first raised at the Committee meeting on 27th November 2017 at the request of Cllr John Woolley. Following discussion, it was agreed that before any recommendation was made to full Council, Cllr Woolley would compile this short report to set out the current situation and potential amendment options.

1.2 The report provides material for further discussion at the meeting and recommends that an amendment is made to the Council Procedure Rules (Standing Orders) relating to Notices of Motion.

2. Background

2.1 The full Council meets on a limited number of occasions during the year and the meetings generally last for between one and two hours; time spent sitting as a full Council is therefore valuable. The agenda for an ordinary meeting of the full Council is set out in accordance with the Council Procedure Rules and consists of opening prayers by the Mayor's Chaplain, the Mayor's announcements, motions, questions and the presentation of reports by the Cabinet, committees and panels. Of these activities, debating motions can occupy a significant proportion of the meeting.

2.2 The Standing Order relating to notices of motion (Standing Order 9(6)), is currently worded as follows:

"Every motion shall be relevant to some matter in relation to which the Council has powers or duties or which affects the Borough directly."

2.3 It was suggested at the last meeting that the clause be amended, perhaps by deleting the final words "or which affects the Borough directly" in order to ensure that all motions debated by the Council are relevant to topics over which the Council has some control.

2.4 It has also been suggested that a similar amendment be made to paragraph 8(3)(a) regarding questions, which currently is as follows:

"A Member of the Council may… (a) if ten clear working days' notice in writing has been given to the Head of Democratic and Customer Services, ask the Mayor, a Chairman or a Cabinet Member any question on any matter in relation to which the Council has powers or duties or which affects the Borough."

2.5 In the case of Standing Order 8 questions, very few are submitted. There is no debate so they are dealt with quickly. Standing Order 8 questions are there to give Members the opportunity to raise issues, which might otherwise not be raised through the agenda.

3. Motions Debated by Rushmoor Borough Council

3.1 The following are examples of motions, the subject matter of which Rushmoor Borough Council has no powers or duties.

Meeting and Topic	Motion
Oct 2014 **Tax Avoidance by Multi-national Companies**	Motion moved by Cr. A.M. Ferrier. “This Council expresses concern that some multinational companies are avoiding billions of pounds of tax from a tax system that fails to make them pay their fair share and, therefore, calls on the Government to act to end the injustice of aggressive tax avoidance by large multinational companies so that the revenue raised can be used to assist the improvement of public services, including those provided by local authorities such as Rushmoor.”
July 2010 **VAT**	Motion moved by Cr. K. Dibble. “This Council resolves: (1) to write directly to the Chancellor of the Exchequer raising concerns about the impact of the proposed VAT increase on pensioners, other vulnerable groups and businesses in Rushmoor; and (2) to call on the Member of Parliament representing Aldershot and Farnborough to stand up for Rushmoor’s pensioners, businesses and wider community, to voice their opposition to this unfair increase in VAT and to vote against it in Parliament.” Amendment moved by Cr. G.B. Lyon and agreed by the Council: “This Council resolves to write directly to the former Prime Minister, Gordon Brown, raising concerns about the impact of the necessary VAT increase on pensioners, other vulnerable groups and businesses in Rushmoor resulting from his mismanagement of the economy”
Feb 2011 **Sale of Public Forests**	Motion moved by Cr. M.J. Roberts. “This Council believes that, given the impact on Rushmoor’s residents, the Government’s intention for public bodies to sell off up to 100% of England’s public forestry is fundamentally unsound, flies in the face of public views, ecosystems, carbon reduction and calls on Government to rethink its decision to protect it for future generations.”

	Amendment moved by Cr. Roberts and rejected by the Council "This Council notes that Government, in response to its earlier proposal has modified its intentions but it still proposes to sell 100,000 hectares, it still proposes to make the Forestry Commission staff redundant and it still proposes to abolish the Forestry Commission Therefore, this Council wishes to record its dissatisfaction with the overall strategy as known."
Dec 2013 **Armed Forces Pension Scheme**	Motion moved by Cr. Jennifer Evans. "This Council considers that those military personnel who have been made redundant just before their pension rights would become operational have suffered a grave injustice. Bearing in mind the Rushmoor Military Covenant, we call upon the Government and the Ministry of Defence to compensate those servicemen and women who have lost out by being made redundant close to a pension point." [NB The scope of the RBC Armed Forces Community Covenant does not include redundancy selection criteria or pension policy.]
Feb 2015 **VAT**	Motion moved by Cr. G.B. Lyon. "Whilst the Council recognises that Rushmoor is working on proposals to provide greater protection for public houses through the planning system, it is concerned that pubs in Aldershot and Farnborough and throughout the country are under threat and therefore calls on the Government to play their part by levelling the playing field between pubs and supermarkets by reducing the VAT pubs pay on food and drink to that paid by supermarkets."
Feb 2011 **EU Budget**	Motion moved by Cr. G.B. Lyon. "The Council notes, due to the financial mess which the Westminster Government inherited, Rushmoor needs to play its part in balancing the books by making massive savings in its budget. This Council notes, despite opposition of some MPs and MEPs, the Government is likely to agree a further 2.9% increase in the overall EU budget. This Council believes the EU should be treated like other tiers of Government and should share responsibility, with central and local Government, for making savings in public spending. This Council therefore urges the Government and MEPs not to support an increase in the EU budget."

3.2 A significant amount of time is spent by the full Council discussing Motions.

4. Other Local Authority Rules

4.1 Some local authorities have a similar scope for motions as Rushmoor, but others take a different approach by focussing on issues on which the Council has a direct role.

Authority	Scope for Notices of Motion
Portsmouth	As long as the Notice of Motion is received before the 12 days [notice] it will be placed on the agenda unless… it is not a matter within the jurisdiction of Council.
Thurrock	A notice of motion must relate to a matter which affects the authority or the authority's area and must relate to a matter in respect of which the authority has a relevant function.
Kirklees	Every motion shall be relevant to some matter in relation to which the Council has powers or duties and which affects the area of Kirklees.
Waltham Forest	Motions must be about matters for which the Council has statutory responsibility and that affect the community.

5. Conclusion

5.1 This report provides the background information regarding the relevance of Motions. I believe the following change to Standing Order 9 (6) will encourage a focus on local issues on which the Council may be able to take action:

"Every motion shall be relevant to some matter in relation to which the Council has powers or duties~~ or which affects the Borough directly~~."

5.2 If the Committee agrees the proposal it will be recommended to full Council on 23rd February, 2018. If agreed, the change in Standing Orders will stand adjourned without discussion until the meeting on 19th April.

6. Recommendation

6.1 The Committee is asked to recommend approval of the change to Standing Orders set out above.

CLLR JOHN WOOLLEY
VICE-CHAIRMAN
LICENSING AND GENERAL PURPOSES COMMITTEE

**LICENSING AND GENERAL PURPOSES COMMITTEE
29TH JANUARY 2018**

**HEAD OF DEMOCRATIC AND CUSTOMER SERVICES
REPORT NO. DEM1802**

APPOINTMENT OF HONORARY ALDERMEN

SUMMARY AND RECOMMENDATIONS:
A review has been carried out of the role and appointment process for Honorary Aldermen. As a result some changes are proposed to the criteria for appointment and the representative role for the Council and their role at meetings.

The Committee is asked to recommend the Council to approve the changes set out in this report and the attached protocol for inclusion in the Council's Constitution.

1. INTRODUCTION

1.1 The current arrangements for appointing Honorary Aldermen have been in place for over ten years. It has always been the intention to review the arrangements and this has now been carried out. The review has taken account of the comments made by some Members and an assessment of the practice in some other authorities.

1.2 As a result of the review, some changes have been made to the protocol set out in the Constitution. The main changes involve a reduction in the period of eligible service with the Council and its constituent authorities from 25 to a total of 16 years (i.e. four full terms) and inclusion of a provision that Aldermen should normally be Borough residents. In addition, there is now recognition that Aldermen could ask to speak at meetings, subject to agreement by the relevant Council body. This arrangement is the same as that which is currently afforded to elected Members who are not already Members of that body. At Council Meetings each Alderman will be able to speak on one agenda item at a meeting subject to the other rules of debate set out in Standing Orders.

1.3 Whilst Aldermen can currently be appointed to represent the Council on many outside bodies, a provision has now been included in the protocol. It is sometimes difficult to fill appointments on outside bodies and Aldermen will be able to bring knowledge and experience to many of the outside bodies.

2. NEXT STEPS

2.1. If the Council agrees to the changes they will be implemented from the start of 2018/19 Municipal Year.

Andrew Colver
Head of Democratic and Customer Services
January 2018

APPOINTMENT OF HONORARY ALDERMEN

The Council has established criteria for the appointment of Honorary Alderman. The criteria takes account of Section 249 of the Local Government Act 1972 and local practice.

- The title ‘Honorary Alderman’ can be conferred on someone no longer a Member of the Council who has “in the opinion of the Council rendered eminent services to the Council”.

- The Council resolution requires a two-thirds majority of those voting at a meeting specially convened for the purpose.

- Nominees should be former councillors and have not less than 16 years’ service (normally this would mean re-election on at least four occasions) with the Council or its constituent authorities and should normally be a resident of the Borough.

- There should be no specific criteria for offices held with the Council.

- The Extraordinary Meeting to bestow the honour should not be on the same day as the Annual Council Meeting.

- Honorary Aldermen may attend and take part in civic events but shall not have the right to claim allowances. Whilst an Alderman does not have the right to attend meetings of the relevant bodies set out in the Council’s Constitution, an Alderman may ask the relevant body to attend and address the meeting on an item of business included on the agenda. At council meetings an Alderman may ask to speak on only one item per meeting, subject to the other rules of debate set out in the Council’s Procedure Rules.

- Honorary Aldermen may be selected by the Council to represent it on outside bodies to which it is asked to make nominations.

LICENSING AND GENERAL PURPOSES COMMITTEE

REPORT NO. DEM1801

DEMOCRATIC AND CUSTOMER SERVICES LEGAL SERVICES

29TH JANUARY 2018

APPOINTMENT OF INDEPENDENT PERSON

1. INTRODUCTION

1.1 This report recommends an appointment to the role of Designated Independent Person (DIP) for Rushmoor Borough Council, as part of the regime on Members' Standards which was introduced by the Localism Act 2011.

2. SUMMARY OF ROLE

2.1 Under the provisions of the Localism Act 2011, the Council is required to appoint at least one "Independent Person" to assist the Council in promoting and maintaining high standards of conduct amongst its elected Members. The previously appointed DIP is no longer available to the Council and it is necessary to re-appoint to the role. A copy of the role description is attached as Appendix 1.

2.2 The Statutory functions of the DIP are:-

- They must be consulted by the Authority before it makes a finding as to whether a Member has failed to comply with the Code of Conduct or decides on action to be taken in respect of that Member.
- They may be consulted by the Authority in respect of a standards complaint at any other stage; and
- They may be consulted by a Member or co-opted member of the Council against whom a complaint has been made.

2.3 A person is considered not to be "Independent" if:-

- He/she is, or has been within the last five years, an elected or co-opted member or an officer of the Council.
- He/she is, or has been within the last five years an elected or co-opted member of any Committee or Sub-Committee of the Council; or
- He/she is a relative or close friend of a current elected or co-opted member or officer of the Council.

2.4 There is no payment for the role. However, it is proposed that a small annual retainer allowance be paid to the post-holder equivalent to the amount allowed for a co-opted committee member (£480 per annum). This reflects the need for the Independent Person to maintain up to date knowledge, attend training and be available to the Council as and when required by the Solicitor to the Council and/or Members.

2.5 Since the adoption of the current standards regime arising from the Localism Act and the revised Code of Conduct for Members there have been very few complaints and the call on the DIP has been very minimal.

3. APPOINTMENT PROCESS

3.1 In accordance with the requirements, applications for the position of Independent Person were invited by public advertisement through the Council's website and social media, and with additional assistance from Rushmoor Voluntary Services, during October/November 2017. Three eligible candidates were invited to an interview in December. With the support of the Chairman of the Licensing and General Purposes Committee, the Interview Panel comprised the Vice-Chairman of the Licensing and General Purposes Committee, the Head of Legal Services (Monitoring Officer) and the Democratic Services Manager.

3.2 Further to the interviews, it is proposed that Mrs Mary Harris be recommended for appointment as the Designated Independent Person for a three year term, subject to the approval of this Committee and the Council.

Candidate Details

3.3 Mary Harris is a resident of the Borough, with an MBA in Public Policy and substantial experience in parish and town clerk roles with Proper Officer responsibilities. This includes responsibilities for advising on, and experience of working within, the current standards regime. She is currently Parish Clerk in a neighbouring Hampshire District. Mary Harris has also held a number of senior executive positions for Housing Associations and served in a number of community voluntary roles bringing experience of dealing with difficult and contentious issues and complaints.

4. RECOMMENDATION

It is proposed that the Committee recommend the appointment of Mrs. Mary Harris as the Council's Designated Independent Person (DIP) to full Council for approval. The appointment to be made for a three-year term.

ANN GREAVES
SOLICITOR TO THE COUNCIL

ANDREW COLVER
HEAD OF DEMOCRATIC AND CUSTOMER SERVICES

Contact: Jill Shuttleworth, Democratic Services Manager Ext: 8822

APPENDIX 1

ROLE OF INDEPENDENT PERSON – RUSHMOOR BOROUGH COUNCIL

ROLE DESCRIPTION

Responsible to:	The Council
Liaison with:	Monitoring Officer, members of the Licensing and General Purposes Committee, officers and members of the Borough, key stakeholders within the community.

1. To assist the Council in promoting high standards of conduct by elected and co-opted members of Rushmoor Borough Council and in particular to uphold the Code of Conduct adopted by the Council and the seven principles of public office, namely selflessness, honesty, integrity, objectivity, accountability, openness and leadership.

2. To be consulted by the Council through the Monitoring Officer and/or the Licensing and General Purposes Committee before it makes a decision on an investigated allegation and to be available to attend meetings of the Hearing Panel of the Licensing and General Purposes Committee for this purpose.

3. To be available for consultation by the Monitoring Officer and/or the Licensing and General Purposes Committee before a decision is taken as to whether to investigate a complaint or to seek local resolution of the same.

4. To be available for consultation by any elected member, who is the subject of a standards complaint.

5. To develop a sound understanding of the ethical framework as it operates within Rushmoor Borough Council.

6. To participate in training events to develop skills, knowledge and experience and in networks developed for Independent Persons operating outside the Borough Council's area.

7. To attend training events organised and promoted by the Council's Licensing and General Purposes Committee.

8. To act as advocate and ambassador for the Council in promoting ethical behaviour.

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LICENSING & GENERAL PURPOSES COMMITTEE
29 JANUARY 2018

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1802

ANNUAL TREASURY MANAGEMENT STRATEGY 2018/19 AND PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The Council is required to approve a Treasury Management Strategy for 2018/19 before 1 April 2018.

CIPFA has conducted reviews of the "Prudential Code" and the "Treasury Management Code of Practice" in 2017, and the Ministry of Housing, Communities and Local Government (MHCLG) has also recently undertaken consultation on treasury management issues. However, at the current time neither of these institutions have produced additional definitive new reference and guidance. The attached Treasury Management Strategy Statement (TMSS) for 2018/19 at Appendix A is therefore prepared in accordance with the existing 2011 CIPFA Treasury Management Code of Practice and the 2010 MHCLG Investment Guidance.

RECOMMENDATION:

Members are requested to recommend to Cabinet:

(i) Approval of the Treasury Management Strategy, Annual Borrowing Strategy and Annual Investment Strategy attached at Appendix A;
(ii) Approval of the Prudential Indicators set out in Appendix B; and
(iii) Approval of the Minimum Revenue Provision (MRP) Statement set out in Appendix C.

1. INTRODUCTION

1.1 This report sets out the proposed Treasury Management Strategy for the year 2018/19, including the borrowing and investment strategies and treasury management indicators, the Prudential Indicators for capital finance for 2018/19 and the Minimum Revenue Provision Statement.

1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.3 CIPFA has conducted reviews of the “Prudential Code” and the “Treasury Management Code of Practice”. These reviews have been particularly focused on ‘non-treasury’ investments, especially the purchase of investment property and other commercial activities that aim to generate income; but may require external borrowing (or the use of existing cash balances) to raise the cash to finance such activities. However, whilst CIPFA produced finalised codes in December 2017 associated guidance and explanatory advice remains outstanding. The MHCLG have also undertaken consultation on treasury management issues during 2017 but no definitive new guidance has been produced at the current time.

1.4 In the absence of detailed guidance and explanatory advice therefore the Treasury Management Strategy (TMSS) for 2018/19 at Appendix A is therefore prepared in accordance with the 2010 MHCLG Investment Guidance and the 2011 CIPFA Treasury Management Code of Practice.

1.5 It is expected that CIPFA and the MHCLG will provide further definitive guidance possibly within months. Should this be the case then revision and update to the Treasury Management Strategy for 2018/19 may be required during the year 2018/19.

2. PURPOSE

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council’s low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer term cash may involve the arrangement of long and/or short term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*

2.4 The purpose of Prudential Indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.5 The appendices (A to C) set out the Treasury Management Strategy and the Prudential Indicators for 2018/19 to 2021/22 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management Strategy** which sets out how the Council's treasury service will support capital decisions taken during the period, the day to day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The **Annual Borrowing Strategy** which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- **Annual Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with MHCLG Investment Guidance.

Appendix B

- The setting of **Prudential Indicators** and the expected capital activities for the period as required by CIPFA's Prudential Code for Capital Finance in Local Authorities.

Appendix C

- The Council's **Minimum Revenue Provision (MRP) Statement,** which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act 2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). It should be noted that Government guidance expected to be issued in the coming months is most likely to include a reference to the maximum useful economic life of 50 years for freehold land and 40 years for other assets. The Council's Minimum Revenue Provision (MRP) Statement is therefore suitably updated in expectation of this guidance.

2.6 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.

3. SCOPE

3.1 This report covers the Council's treasury management activities as set out in paragraphs 2.1 and 2.2 above. The funds invested consist of short-term cash available due to timing of income and expenditure i.e. from movements in working capital, or from reserves that need to be available in the short term, and potentially longer-term investment funds derived from the Council's capital receipts.

3.2 Arlingclose advice continues to indicate that the Council should diversify investment risk (spreading smaller amounts over an increasing number of counterparties) wherever possible. The Council is now progressively incurring further borrowing, and Arlingclose have advised that in the circumstances of some current specific investments reaching their maturity date(s) the Council should not replace them. This strategy allows for a natural reduction in overall investments balance during a period when borrowing is increasing.

3.3 The Council incurred prudential code borrowing in 2016/17 in the sum of £6.548m in relation to its capital expenditure. Further borrowing to support the financing of its approved capital programme in the year 2017/18 will also be required. It therefore commences the year 2018/19 in a position where its investment holdings continue to remain significant (although, less than in previous financial years) but it also carries some accumulating debt. There will be an inevitable requirement to incur some further borrowing to service capital expenditure in future years.

3.4 Careful observation of the Prudential Indicator "gross debt v capital financing requirement" will need to be undertaken progressively throughout the financial year. This means that the Council will may need to redeem an element of its core pooled fund investments at some time in the future in order to adhere to the requirements of this Indicator.

AMANDA FAHEY **HEAD OF FINANCIAL SERVICES**

Background papers:
1. Treasury Management in the Public Services (CIPFA)
2. The Prudential Code for Capital Finance (CIPFA)
3. SI 2003/3146 - Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. SI 2004/3055 - Local Authorities (Capital Finance and Accounting) (Amendment)

APPENDIX A

TREASURY MANAGEMENT STRATEGY 2018/19

1. INTRODUCTION

1.1 This strategy has been prepared in accordance with CIPFA's Treasury Management in the Public Sector: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

1.2 In addition, MHCLG issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

1.3 The Council approves an annual strategy to be prepared in advance of the year, a mid-year review and an annual report after its close. The Licensing and General Purposes Committee is the nominated Committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.

1.4 The Council has invested sums of money and is therefore exposed to financial risks including loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.5 This strategy covers:

- External context
- Current borrowing and investment portfolio position
- Annual Borrowing Strategy
- Annual Investment Strategy
- Specified & Non-specified Investments
- Performance Indicators

2. EXTERNAL CONTEXT (commentary provided by Arlingclose)

2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remains relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

2.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

2.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

2.4 **Credit outlook**: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

2.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

2.6 The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.7 **Interest rate forecast**: The Bank of England raised the UK base rate to 0.5% in early November 2017. Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.5% during 2018/19**.** The risk of a cut to zero or negative rates has diminished and there is now a chance that rates will rise despite the economic fundamentals.

2.8 Longer-term interest rates have risen in the past year, reflecting the possibility of increasing short-term rates. Arlingclose forecasts these to remain broadly constant during 2018/19, but with some volatility as interest rate expectations wax and wane with press reports on the progress of EU exit negotiations.

3. CURRENT BORROWING & INVESTMENT PORTFOLIO POSITION

3.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles. The Council continues to follow Arlingclose advice in the knowledge that whilst long-term interest rate forecasts remain low it should generate enhanced returns with counterparties other than banks and to invest across a diverse investment portfolio.

3.2 During 2017/18 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's investment portfolio. The Council held the following investments at 31st December 2017:

- £19.6m in pooled funds (providing a balance across a range of 5 different types of fund).
- £1 million Yorkshire BS at a fixed rate of 1.33% (until Apr 18)
- £1 million Yorkshire BS at a fixed rate of 1.18% (until Apr 18)
- £2 million Leeds BS at a fixed rate of 1.47% (until Dec 18)
- £1 million Leeds BS at Libor + 0.27% (until Feb 18)
- Various temporary investments of minor amounts held in Money Market funds all for durations of 6 months or less

3.3 An interpretation of IFRS 9 for the future may mean that under-performing pooled fund marginal losses may have to be recorded in the General Fund Revenue Account. In the light of this potential accounting requirement (even though the Council's pooled fund holding in Aberdeen Absolute Fund was providing regular yield returns in accordance with expectations) its capital value was under-performing. A decision was therefore taken in during December 2017 to redeem the entire holding and an element of the CCLA holding and purchase a pooled fund holding in M & G Investment Strategic Corporate. The result of the decision produced a favourable revenue effect of £28,000 in 2017/18. The graph below has been produced by Arlingclose and demonstrates that during the nine months to 31 December 2017 the Council's income (only) returns on its total investment portfolio was 1.5**%**. Total Return (income and capital) was 2.5%.

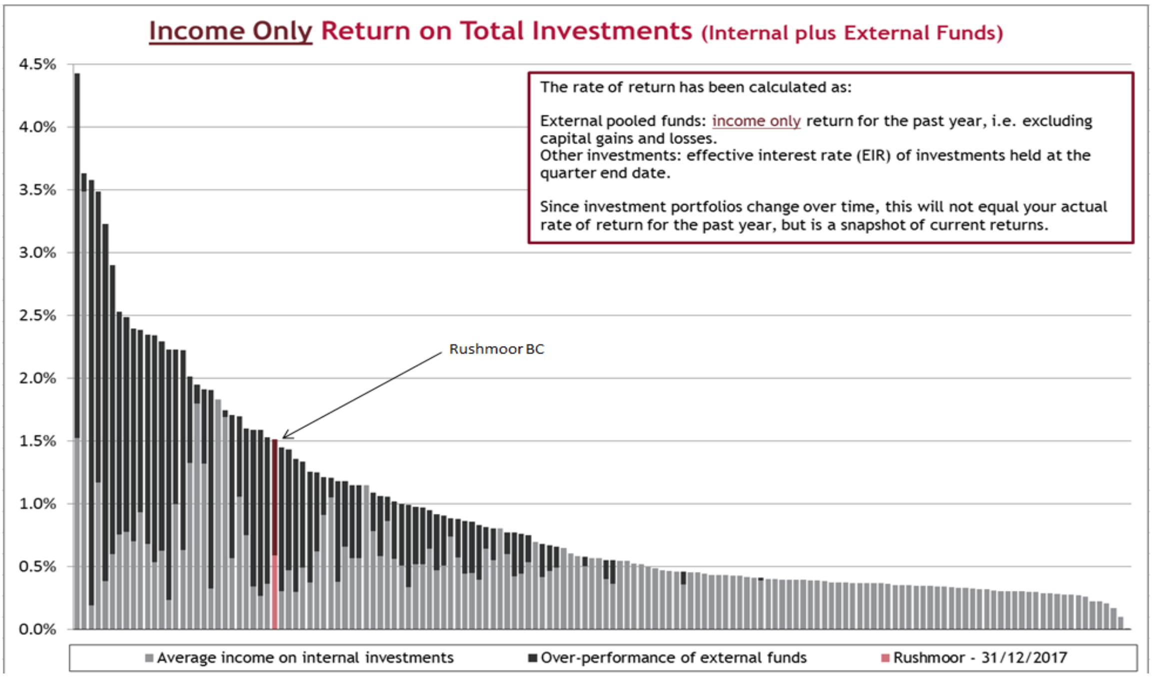

Table 1: – Existing Investment & Debt Portfolio Position

	Actual Portfolio at 31st Dec 17 £m	Average Rate %
Total External Borrowing		
Borrowing from the M3 LEP	2.1	0.0
Borrowing from other Local Authorities	12.0	0.53
Other external Borrowing	-	
Total Gross External Debt	14.1	0.45
Investments:		
Managed in-house:		
Short-term investments	-	-
Long Term Investments	5.5	1.2
Money Market Funds	13.2	0.3
Call accounts	-	-
Managed externally:		
Pooled Funds:		
Payden & Rygel's Sterling Reserve	5.0	0.66
CCLA LAMIT Property Fund	3.6	4.75
M&G Investments Strategic Corporate Bond Fund	4.0	3.22
UBS Multi Asset Fund	5.0	4.01
Threadneedle Investments	2.0	3.64
Total Investments	38.3	1.92

Table 1 Illustrates the Council's investment and debt portfolio position as at 31st December 2017.

4. ANNUAL BORROWING STRATEGY 2018/19

4.1 The Council has made use of funds from the Enterprise M3 (LEP) by borrowing £3 million in an earlier year to progress the Aldershot regeneration schemes. External contributions will be received over a seven-year period to fully finance this amount. At the commencement of 2018/19 £2.1m of this borrowed amount remains outstanding.

4.2 Capital expenditure in the previous financial year (2017/18) is programmed to be substantial, including a significant amount for investment property acquisitions, property purchases in Union Street Aldershot and the continuation of the new Council Depot construction. Capital expenditure in relation to the Farnborough International Loan will be concluded within 2017/18 utilising a significant proportion of the Council's remaining available capital receipts. Prudential code borrowing will therefore be required in order to achieve overall financing. The Council will incur some further borrowing during 2018/19 in order assist in the financing of its capital programme.

4.3 **Objectives**: The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Sources: The approved sources of long-term and short-term borrowing are detailed within TMP 4 (Approved Instruments, Methods and Techniques), and are summarised below:

- Public Works Loan Board (PWLB)
- Money market loans (long term & temporary)
- Any bank or building society authorised to operate in the UK
- UK Local Authorities
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
- Lottery monies

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative

5. ANNUAL INVESTMENT STRATEGY 2018/19

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Advice was received during 2017/18 from Arlingclose that as the Council is now progressing further into the use of borrowing to finance capital expenditure, that in the circumstances of an investment maturity date arising the Council should not seek to replace the investment. This allows for the natural reduction in overall investment holding whilst the Council incurs increasing elements of borrowing. Market investments are expected to further decline in 2018/19. These reductions are mainly due to the Council's capital expenditure requirements linked to the Prudential Code requirement to ensure that Gross Debt does not exceed the Capital Financing Requirement.

5.2 **Objectives**: Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy**: The Council continues to maintain a diverse range of secure and/or higher yielding asset classes during 2018/19, whilst retaining short-term accessibility.

5.4 Table 2 outlines the approved investment counterparties with whom the Council may invest its surplus funds, subject to the cash, investment and time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 2: Approved Investment Counterparties

Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit †**
Banks Unsecured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£20m in total	5 Years*
	AA+	£2m		5 Years*
	AA	£2m		4 years*
	AA-	£2m		3 years*
	A+	£2m		2 years
	A	£2m		13 months
	A-	£2m		6 months
	BBB+	£1m		100 days
Banks Secured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	20 years
	AA+	£4m		10 years
	AA	£4m		5 years
	AA-	£4m		4 years
	A+	£4m		3 years
	A	£4m		2 years
	A-	£4m		13 months
	BBB+	£2m		6 months
	BBB or BBB-	£2m		100 days
Government whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	50 Years
	AA+	£4m		25 Years
	AA	£4m		15 Years
	AA-	£4m		10 Years
	A+	£2m		5 Years
	A	£2m		5 Years
	A-	£2m		5 Years
	BBB+	£1m		2 Years
	None	£4m		25 Years

Counterparty		Cash limit per counterparty	Investment Limit (per type of counterparty)	Time limit †
Corporates whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£6m in total	20 Years
	AA+	£2m		10 Years
	AA	£2m		10 Years
	AA-	£2m		10 Years
	A+	£2m		5 Years
	A	£2m		2 Years
	A-	£1m		13 months
	BBB+	£1m		6 months
	none	£0.5m		5 Years
Registered Providers whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	£10m in total	20 Years
	AA+	£4m		10 Years
	AA	£4m		10 Years
	AA-	£4m		10 Years
	A+	£4m		5 Years
	A	£4m		5 Years
	A-	£4m		5 Years
	BBB+	£4m		5 Years
	None	£4m		5 Years
The Council's current account bank if it fails to meet the above criteria		£2m	£2m	next day
UK Building Societies without credit rating		£1m	£4m	1 Year
Money market funds		£5m	£20m in total	n/a
Collective Investment Schemes (pooled funds)		£5m per fund	£20m in total	These funds do not have a defined maturity date

* *no longer than 2 years in fixed-term deposits and other illiquid instruments*

5.5 Investments may be made with banks or any public or private sector organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

5.6 Further information as to why certain counterparties have been included in Table 2 is set out below:

- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

  Investments in unrated small businesses may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

- **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. We will continue to use funds that offer same-day liquidity as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

- **Other Pooled Funds**: The Council will continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.7 **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made with that entity
- we will recall or sell any existing investments with that entity where we can do so at no cost
- due consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.8 **Other Information on the Security of Investments**: The Council will also take account of other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The Council will not proceed with an investment with an organisation if it has doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6. SPECIFIED AND NON-SPECIFIED INVESTMENTS

6.1 **Specified Investments**: The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government
  - a UK local authority, parish council or community council
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

6.2 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classified as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure e.g. company shares.

Non-specified investments at the Council are limited to longer term investments e.g. pooled funds, or other long-term (12 months +) investments with other LAs, banks or building societies, and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in Table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£30m
Total non-specified investments	£40m

6.3 **Approved Instruments**: The Council may lend or invest money using any of the instruments detailed in Treasury Management Practice (TMP) 4, held within Financial Services. The approved instruments are summarised as follows:

- interest-bearing bank accounts

- fixed term deposits and loans
- callable deposits and loans where the Council may demand repayment at any time (with or without notice)
- callable deposits and loans where the borrower may repay before maturity
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments
- shares in money market funds and other pooled funds
- reverse repurchase agreements (repos)

Investments may be either made at a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

6.4 **Liquidity management**: The Council produces cash flow forecasts to determine the maximum period for which funds may be committed. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

7. TREASURY MANAGEMENT INDICATORS

7.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance, which have been set out below at paragraphs 7.3 to 7.5. The Council has also adopted a voluntary measure for credit risk as set out in paragraph 7.2

7.2 **Credit Risk (Credit Score Analysis)**: Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

The advice from Arlingclose is to aim for an average A-, or higher, average credit rating, with an average score of 7 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

	Target
Portfolio average credit rating	A-
Portfolio average credit score	7.0

7.3 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Upper limit on fixed interest rate exposure	35	55	85	100
Upper limit on variable interest rate exposure	-50	-50	-50	-50

It is expected that for most Councils the interest rate exposure calculation would result in a positive figure. As the Council has more funds available to invest than it intends to borrow, the calculation has resulted in a negative figure for variable rate funds.

7.4 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.5 **Principal Sums Invested for Periods Longer than 364 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21	2021/22
Limit on principal invested beyond year end at any one time	£40m	£40m	£40m	£40m

8. OTHER ITEMS

8.1 There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

8.2 **Policy on Use of Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk, and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment Training**: The needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, discussed as part of the staff appraisal process and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment Advisers:** The Council jointly tendered the treasury management service together with three other District Councils located within the Hampshire area, and appointed Arlingclose Limited for a further 3 year contract in April 2016. This contract enables the Council to receive specific advice on investment, debt and capital finance issues. The quality of this service will be reviewed on an ongoing basis as part of the process of monitoring the Council's investment portfolio.

8.5 **Investment of Money Borrowed in Advance of Need**: The Council may, from time-to-time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £63 million during 2018/19. The maximum period between borrowing and expenditure is expected to be two years.

8.6 **Financial Implications -** Investments**:** The budget for investment income in 2018/19 is £846k (gross of borrowing interest), based on an average investment portfolio of £30 million at interest rates ranging from 0.4% liquid MMF and other short-term investments to 5% on the highest yielding long-term pooled property investment fund.

Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process. The investment income will reduce depending on the pace and size of capital expenditure that arises from the 8-Point Plan work and strategic projects.

8.7 **Financial Implications -** Borrowing**:** The budget for interest costs in relation to borrowing in 2018/19 is £296k (not including IFRIC 4 lease accounting interest). It is determined using estimated short-term interest rates. The Council's actual borrowing at the end of 2018/19 is estimated to be in the region of £52 million.

8.8 **Other Options Considered:** The HLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer continues to believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. An alternative strategy might be to invest in a narrower range of counterparties and/or for shorter periods. The likely impact of this alternative would be lower interest income alongside a reduced risk of loss from credit-related defaults. Investing in a wider range of counterparties and/or for longer periods would result in the opposite impact i.e. interest income would be higher but there would be a greater risk of loss. When final guidance becomes available from the HLG and CIPFA (discussed in paragraph 1.3 of this report) consideration will be made on how to incorporate changes to the Council's strategy

APPENDIX B

PRUDENTIAL INDICATORS

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1 **Estimates of Capital Expenditure:** The Council's planned core capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
General Fund	32.401	28.718	35.123	16.093	30.543
TOTAL EXPENDITURE	**32.401**	**28.718**	**35.123**	**16.093**	**30.543**
Capital Receipts	5.325	0.733	0.885	-	-
Capital Grants & Contributions	2.189	7.646	5.478	1.078	1.078
Revenue (related to utilisation of earmarked reserve introduced in GF revenue account)	0.261	-	-	-	0.750
Borrowing	24.626	20.339	28.760	15.015	28.715
TOTAL FINANCING	**32.401**	**28.718**	**35.123**	**16.093**	**30.543**

2 **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes.

Capital Financing Requirement	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**
General Fund	30.9	39.3	67.1	80.1	105.8
Adjustment ref IFRIC 4 lease accounting	3.2	2.9	2.6	2.3	2.0
Total CFR	**34.1**	**42.2**	**69.7**	**82.4**	**107.8**

Grants and external contributions are expected to be received for some specific capital schemes, but the Council will need to borrow to finance a significant element of its core capital expenditure. This is in addition to the existing use of Local Enterprise Partnership funding for which borrowing is incurred but repayment of the borrowing is achieved by the receipt of external contributions.

3 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Gross Debt and the Capital Financing Requirement	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Capital Financing Requirement (measured in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years)	69.7	82.4	107.8	127.5	147.2
Total Gross Debt	34.3	52.1	81.1	95.5	123.6
Difference	35.4	30.3	26.7	32.0	23.6

4 **Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst-case) scenario for external debt. It links directly to the Council's estimates of core capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	40.0	58.0	87.0	102.0	130.0
Total Debt	**40.0**	**58.0**	**87.0**	**102.0**	**130.0**

5 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with Section 3(1) the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing,

overdrawn bank balances and long-term liabilities. This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management Policy Statement and practices. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	44.0	62.0	91.0	106.0	134.0
Other long-term liabilities	1.0	1.0	1.0	1.0	1.0
Total Debt	**45.0**	**63.0**	**92.0**	**107.0**	**135.0**

6 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed core capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Revised %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Fund	**-5.2**	**2.8**	**7.1**	**20.5**	**34.4**

7 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**	**2021/22 Estimate £**
General Fund - increase in annual band D Council Tax	**-**	**(29.43)**	**(67.18)**	**(86.84)**	**(87.94)**

Adoption of the CIPFA Treasury Management Code: The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear & integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

APPENDIX C

MINIMUM REVENUE PROVISION STATEMENT

1.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

1.2 The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2012.

1.3 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. This statement only incorporates options recommended in the Guidance.

1.5 For any unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure for all other assets or on capital expenditure not related to fixed assets but which has been capitalised by regulation or direction (revenue expenditure financed by capital under statute), will be charged over 40 years.

1.6 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be aside to repay debt instead.

1.8 It should be noted that the Council continues to make use of two revolving infrastructure funds from the Local Enterprise Partnership (LEP). The related capital expenditure does not however give rise to MRP as a contract of structured external repayments will eliminate the need to incur MRP.

1.9 At the commencement of 2017/18 the Council had, a Capital Financing Requirement (CFR) of £6.548m in relation to a specific elements of capital expenditure incurred in the previous financial year (2016/17). The Council has incurred further amounts of capital expenditure in 2017/18 and will need to engage in an element of Prudential Code borrowing in that financial year to achieve total financing of its capital programme. It is inevitable therefore that the borrowing that is required in 2017/18 will require MRP to be charged to the Council's General Fund Revenue Account in 2018/19 and future years.

1.10 The implementation of International Financial Reporting Standards (IFRS) has meant that the accounting treatment for assets used within major contracts may result in embedded finance leases appearing on the Balance Sheet, leading to a requirement for MRP. This is purely an accounting requirement and does not give rise to any requirement to borrow to fund these assets.

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AGENDA ITEM No. 14

LICENSING AND GENERAL PURPOSES COMMITTEE | **HEAD OF FINANCIAL SERVICES**

29 JANUARY 2018 | **REPORT NO. FIN1806**

CORPORATE RISK MANAGEMENT UPDATE

SUMMARY:
The purpose of this paper is to provide an update to the Licensing and General Purposes Committee on the Council's approach to corporate risk management.

RECOMMENDATIONS:
Members are requested to

- (i) consider the policy and processes being established and endorse the new approach, and
- (ii) approve the Risk Management Policy and Procedures set out at Appendix A and the draft Risk Register at Appendix B

1. INTRODUCTION

1.1 Risk management is of vital importance to all organisations to enable them to continue to be effective, sustainable and successful.

1.2 A corporate risk, in the context of this management process, is considered to be a risk where the potential consequences may prevent the Council from meeting its core objectives or functioning effectively. Examples range from the effects of a flu pandemic on staffing levels, to the maintenance of the Council's financial position.

1.3 There is also the potential for risk to present the opportunity for benefit as well as threats to success. An example of this may be the Council's approach to the acquisition of commercial properties for investment purposes where greater risk may be sought out, or tolerated, for the potential of greater reward.

1.4 Effective corporate risk management will allow the Council to manage and take risks and seek benefit whilst appropriately mitigating against the potential negative outcomes.

1.5 This paper sets out the new processes being established to manage corporate risk within the organisation.

2. BACKGROUND

2.1 Following the departure of the then Director of Resources in 2014, responsibility for corporate risk management was passed to the Head of

Financial Services. At that time, a Corporate Risk Register was in place but had not been updated for some time and a review of the effectiveness of risk management within the organisation was proposed. Responsibility for Business Continuity was separated out from Risk Management and initially moved to the Director for Community and Environment and, subsequently, to the Head of IT & Facilities and this was where initial work was focused.

2.2 Subsequently, the Head of Financial Services began to re-form and re-focus a Corporate Risk Management group to take forward the review and update the risk register. This has led to the establishment of the new arrangements throughout 2017. These revised arrangements are considered in this report.

3. DETAILS OF THE NEW POLICY AND PROCESSES

Risk Management Group

3.1 The new corporate risk management arrangements have required the formation of a corporate Risk Management Group (RMG), a working group made up of Officers from across the Council, each with a key role in the management of specific risks or specialist technical knowledge across a range of areas.

3.2 The purpose of the RMG is to provide the Council with a structured, methodical means of identifying and overseeing significant risks and their management. This is to ensure the continued operation of the Council in meeting its core objectives and mitigating against significant risks, particularly those that may be a single point of failure for the Council.

3.3 This group brings together a summary of the work of other teams within the Council within a risk register, in order to provide a holistic overview of those risks, and determine whether further mitigation or resources are required. This summary will then be monitored by the Corporate Leadership Team (CLT) quarterly. It is important to note that while the RMG collates the information required to update the actions within the risk register and have played a key role in formulating the procedures and pulling together a draft for consideration, the risk register is owned at a senior level by officers (CLT) and Members (Licensing and General Purposes Committee).

3.4 The full risk management policy and procedures are attached at Appendix A, detailing the process being established.

Risk Register

3.5 In order to ensure that key risks are assessed, managed and recorded appropriately, a risk register will be updated and maintained for the Council by the RMG. The draft register has been attached as Appendix B.

3.6 This register is a living document receiving regular ongoing updates from Officers. As such further actions may have taken place since the time of printing that are not reflected in the version provided.

3.7 In order that matters can be prioritised, the register is split into three parts, as follows:

Primary Risk Register

- This contains the key risks to the Council that are generally considered as current issues or of high significance in terms of risk.

- It contains risks such as those that, by virtue of the severity of the potential outcome and/or inadequate controls may be considered a single point of failure for the Council. The Primary Register also contains those risks that are newly identified and have little or no mitigation or control in place e.g. new legislation.

- Once satisfactory mitigation is in place and ongoing controls are well established it is possible to move risks from here into the secondary risk register.

Secondary Risk Register

- This contains risks that are key to the organisation in terms of the potential severity of the outcome but that, in general, are managed, have established controls or mitigation in place, are of a lower overall risk or are long-term in nature.

- These risks may not be considered as priority issues in terms of risk, but will require ongoing operational oversight. To keep the register current and of value, those that are subsequently deemed irrelevant, or those that are wholly managed to a satisfactory level in day-to-day operations will not remain on the register and are archived.

Archived Risk Register

- All risks removed from the register will be stored in the archive. These risk register entries will be retained to demonstrate a complete picture of the risks identified and managed by the Council, including those wholly managed or not considered current.

Governance and Targets

3.8 The Head of Financial Services will report the risk register to CLT every three months to ensure Heads of Service and Directors remain aware of the key risks to the Council and the measures being put in place.

3.9 The Head of Financial Services will report the risk register at least annually to elected members via the Licensing and General Purposes Committee and the appropriate Scrutiny Panel.

3.10 The risk management process is cyclical, running on an annual cycle to complement the existing business planning processes in place, particular those that also identify risk and affect resources.

Embedding Risk Management within the Organisation

3.11 The Head of Financial Services and the RMG will continue to develop the risk register and adapt the system being established to ensure it remains fit for purpose.

3.12 In order to ensure risks are effectively identified and managed into the future, work to embed these practices at all levels of the organisation will take place. Initially it is proposed that the cascade of this information is achieved through a workshop for CLT and middle managers, to take place in 2018.

3.13 The long-term goal of Council's Corporate Leadership Team and the RMG is to mature the corporate risk management system within the organisation to a position where effective risk management is recognised and actively promoted at all levels.

Consultation

3.14 The approach established has been subject to the scrutiny and approval of CLT.

3.15 Regular discussions have been held with Rushmoor's external auditors to validate and improve our approach and to respond to recommendations in the Audit Results Report/Annual Audit Letter. The Council will continue to work closely with them to develop the register. In addition, the Council's insurers are actively engaged and will be assisting with a workshop on risk management issues.

4. CONCLUSIONS

4.1 The Risk Register is a live document, subject to on-going update and is a tool to assess and mitigate risk to the organisation. It is essential that a proactive approach to risk is maintained to safeguard the Council. The Committee are recommended to review and endorse the approach being proposed and review the priority risks to the Council at this time.

BACKGROUND DOCUMENTS:

Appendix A – Risk Management Group Policy and Procedures
Appendix B – Risk Register

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Rushmoor Borough Council
Corporate Risk Management Group
Risk Management Policy and Procedures

1. Introduction and Overview

This document details Rushmoor Borough Council’s policy and procedures for the management of corporate risk.

What is Risk?

Corporate risk can be defined as the combination of the probability of an event occurring and its potential consequences, normally where they may prevent the Council from meeting its core objectives.

There is however the potential for risk to present the opportunity for benefit as well as threats to success.

Why we need to manage risk?

We manage risk daily without describing this as “risk management”. We consider what might go wrong and take steps to reduce the impact if things do go wrong. However, Rushmoor cannot rely entirely on informal processes. As a public body, we must provide assurance that we are managing risk effectively.

Who Manages Risk at Rushmoor?

Everyone at Rushmoor is responsible to some degree in the management of risk, from front line staff to Heads of Service.

Rushmoor Borough Council oversees the management of risk through its Corporate Risk Management Group (RMG), a working group made up of Officers from across the Council, each with a key role in the management of specific risks or specialist technical knowledge across a range of areas.

The RMG will work closely with other teams involved with the identification and mitigation of key risks and use/share information wherever possible.

2. Scope

The purpose of the RMG is to provide the Council with a structured, methodical means of identifying and overseeing significant risks and their management. This is to ensure the continued operation of the Council in meeting its core objectives and mitigating against significant risks, particularly those that may be a single point of failure.

This group will bring together a summary of the work of other teams within the Council in order to provide a holistic overview of those risks and determine whether further mitigation or resources are required. This summary will then be monitored by CLT.

The RMG will liaise with risk ‘owners’ and managers regarding risk status and mitigating actions in order to give an overview to the organisation.

3. Leadership and Membership

The RMG is led and managed by the Head of Financial Services.

The day-to-day management of the RMG, including the maintenance of a risk register (see section 5), is the responsibility of the Risk Register Manager, currently the Corporate Health & Safety Adviser.

The core members of the group will be:

Risk Management Group Lead – Head of Financial Services
Risk Register Manager – Corporate Health & Safety Advisor
Strategy, Performance and Partnerships Manager
IT Technical Services Manager
Payments and Insurance Manager
Legal Services Property Surveyor
Legal Services Manager
Contracts Manager
Principal Engineer
Human Resources Manager
Auditor

On occasion it is likely that others will be invited to the RMG meetings, particularly if they own a specific risk or are assisting in the management of a current issue.

4. Meetings and Minutes
Meetings will be organised by the Risk Register Manager and take place quarterly – at the key times indicated in the table at the end of this document.

In the case where Officers/representatives are unable to attend, a substitute representative must attend in their place wherever possible.

Minutes from each meeting will be circulated amongst the group, stored on SharePoint for all members to access, made available to Directors and will be retained by the Risk Register Manager.

5. Method

Risk Recording

In order to ensure that key risks are assessed, managed and recorded appropriately, a risk register will be updated and maintained for the Council by the RMG.

In order that matters can be prioritised, this register will be split into three parts. Risks that are ‘corporate’, ‘operational’ or ‘strategic’ in nature can be located in any part of these registers, their location is based solely upon the risk they pose to the organisation, as follows:

I. **Primary Risk Register**
   This contains the key risks to the Council that are generally considered as current issues or of high significance in terms of risk.

   It is likely to contain risks such as those that by virtue of the severity of the potential outcome and/or inadequate controls may be considered a single point of failure for the Council, or those that are newly identified and have little or no mitigation or controls in place.

   Once satisfactory mitigation is in place and ongoing controls are well established it is possible to move risks into the secondary risk register.

   All entries on the primary risk register will be discussed and reviewed by the RMG at each meeting.

II. **Secondary Risk Register**

This contains risks that are key to the organisation in terms of the potential severity of the outcome, but that in general are managed, have established controls or mitigation in place, or are long term in nature e.g. new and emerging risks highlighted during horizon scanning that are not yet considered a single point of failure.

These risks may not be considered as priority issues in terms of risk, but will require ongoing operational oversight. To keep the register current and of value it is important that lower risks such as those that are now deemed irrelevant, or those that are wholly managed to a satisfactory level in day to day operations do not remain on the register and are archived.

Each entry on the secondary risk register will be discussed and reviewed by the RMG at least once each financial year.

III. **Archived Risk Register**

All risks removed from parts I or II of the register will be stored in part III. These risk register entries will be retained to demonstrate a complete picture of the risks identified and managed by Rushmoor, including those wholly managed or not considered current. This may be required to demonstrate compliance at a later date and may be required again should the risk entries again be considered current.

This register will not be reviewed routinely by the RMG but the Risk Register Manager will maintain it.

To ensure that the role of the risk management group does not fall disproportionately upon any one member of the RMG, each risk area identified will have a ‘risk lead’ from the group assigned to it and identified within the register. This will allow any additional work, including that which must take place outside of the group meetings directly with the risk ‘owner/manager’, to take place.

To ensure independence under review, the risk lead may have some knowledge of the area being scrutinised, but will not be the risk owner or line managed by the risk owner.

An appropriate method of version control will be kept to ensure that the most up to date register is in use and that older versions of the register remain accessible.

Risk Identification

Risks will be identified by a number of methods, including:

- PESTLE analysis

A PESTLE is a strategic analysis tool used to identify and analyse the current status and position of an organisation and the environment in which it operates. The PESTLE analysis is used to provide a context for the organisation’s role in relation to the external environment and the impact of external issues. It covers Political, Economic, Social, Technological, Legal and Environmental factors.

This analysis is currently carried out by the Strategy, Performance and Partnerships team as part of the business planning process for the Council.

- Business Planning

Heads of Service will identify any threats to their service during the business planning process, including ongoing issues and new and emerging threats.

- Audit

Risk identification and analysis work takes place routinely within the Councils' Audit team. As an RMG member, any new/emerging or increased risks can be brought to the attention of the group immediately.

- Horizon Scanning – new and emerging risks

In order to ensure that the Council remains fit to operate the Corporate Health & Safety Adviser will ensure that industry publications are reviewed to identify any new and emerging risks that may affect the Council. Such publications will include:

I. Allianz Risk Barometer: Top Business Risks (annual)
II. Hampshire County Council: Community Risk Register
III. Cabinet Office: National Risk Register of Civil Emergencies
IV. World Economic Forum: The Global Risks Report (annual)

Any risks that are significant to the Council will be discussed by the RMG and added to the register if appropriate.

Risk Assessment

Each risk will be assessed and given a risk category based upon the probability of the risk actually arising and the impact on the Council if a risk does actually arise. This will allow for the prioritisation of resources.

A traffic light indicator is used to show the risk category. A risk matrix is contained within the register to provide guidance on assessing probability and impact.

Three assessments of risk category are needed:

- Risk category before mitigation – an assessment of the risk happening and its impact if no action is taken.

- Risk category after existing mitigation – an assessment of the risk happening and its impact, taking into account existing actions aimed at reducing the risk.

- Target risk category – where we aim to be at the end of the process.

If, after existing mitigation, we think the risk status is acceptable then the risk should be tolerated; there is nothing more to do. However, if the status remains unacceptable we must identify further mitigating actions.

Risk Mitigation Methods

There are various options for dealing with risk, often referred to as the four Ts:

- **Tolerate** – if we cannot reduce a risk (or if doing so is out of proportion to the risk) we can tolerate the risk; ie do nothing further to reduce the risk.

- **Treat** – if we can reduce the risk by identifying mitigating actions and implementing them, we should do so. For many of the risks on the corporate risk register this is what we are likely to do.

- **Transfer** –risks can be transferred to other organisations, for example by use of insurance, shared services with other Authorities or by contracting out an area of work.

- **Terminate** – this applies to risks we cannot mitigate other than by not doing work in that specific area. If a particular project is very high risk and these risks cannot be mitigated we may decide to terminate the project.

It is important to note that the Council's appetite to risk may vary over time and by work area, in some circumstances risk may be sought out for gain e.g. enterprise risk, property portfolio expansion etc.

6. Governance and Targets

The Head of Financial Services will report the risk register to CLT every six months to ensure Heads of Service and Directors remain aware of the key risks to the Council and the measures being put in place.

This register does not form part of the line management process for mitigation works, but as a method of collating the key risks/information in one place.

The Head of Financial Services will report the risk register annually to elected members via the Corporate Services Scrutiny Panel and the Licenses and General Purposes Committee.

The risk management process is cyclical, running on an annual cycle to complement the existing processes in place, particular those that also identify risk and effect resources – e.g. the business planning process. It is key that these processes work together to produce the greatest benefit for the Council.

The table below illustrates the approximate annual cycle of work and the key times for each part of the risk management process:

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
RMG Process	**RMG Meeting** RMG begins risk ID and horizon scanning process	RMG Report to L&GP		**RMG Meeting** RMG feeds risk register into business planning process			**RMG Meeting**			**RMG Meeting** RMG reviews and updates risk register based on risks in BPs and PESTLE RMG Report to L&GP		
Business Planning (BP) Process	New BPs and budgets in place for financial year	.				BP process for following year begins: PESTLE analysis takes place				PESTLE analysis and key risks identified in BP process provided to RMG	Budget approval provided for following year BPs	
L&GP Cycle	L&GP Committee meeting	L&GP Committee meeting	L&GP Committee meeting			L&GP Committee meeting		L&GP Committee meeting		L&GP Committee meeting	.	
Audit Cycle		Audit Opinion presented to CLT & L&GP. Risks to the organisation considered Provided to RMG	Audit work for the next quarter set New and emerging risks considered			Audit work for the next quarter set New and emerging risks considered			Audit work for the next quarter set New and emerging risks considered		Annual audit plan set	Audit work for the next quarter set New and emerging risks considered

Likelihood of Occurrence / Vulnerability (L)	Severity of Threat / Consequence of Outcome (S)
4 = **Very likely** (Very likely to occur and may be experienced frequently)	**4** = **Major** (e.g. Total loss of service/multiple litigation)
3 = **Likely** (Likely to occur at some point)	**3** = **Significant** (e.g. Significant loss/adverse publicity)
2 = **Unlikely** (Unlikely but may occur at some point in the future)	**2** = **Moderate** (Small fine/short service loss/moderate effect on reputation etc.)
1 = **Very unlikely** (Very unlikely to occur, no history or near misses etc)	**1** = **Minor** (Brief disruption/minor disturbance etc.)

↑ Severity of Outcome (S)					
	4				
	3				
	2				
	1				
		1	2	3	4

Likelihood of Occurrence (L) →

Risk Category & Action Required (Likelihood x Severity: See Table)	4 T'S
	1 TERMINATE e.g. eliminate risk
HIGH = Strongly consider top 3 of 4Ts, tolerating risk is unlikely to be acceptable	**2 TRANSFER e.g. share the risk, involve others, contract etc.**
MEDIUM = Tolerable if risk/exposure is calculated and acceptable at senior level	**3 TREAT e.g. put in mitigation to reduce risk, controls**
LOW = Additonal action may not be necessary to manage risk	**4 TOLERATE e.g. risk acceptable, take no further action**

Corporate Risk Codes			
Legal Action (LA)	*Reputational Risk (RR)*	*Financial Loss (FL)*	*Asset Risk (AR)*
Security Risk (SR)	*Public Risk (PR)*	*Org. Objective Risk (OR)*	

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Primary Risk Register Number	Specifiy Linked Corp. Objective	Risk	Initial Risk Category	Existing controls and/or Mitigation	Residual Risk Category	Further Action Planned	By Who?	Deadline	Target Risk Category
		Heading Risk Owner and Service/Team *Risk Code(s)* Overview/Description of risk(s) Include any financial Implications £	Without controls L x S	Documents, Policies, controls etc. currently in place	With controls L x S	What further action is proposed/necessary to control the risk? Include costs/resources required if known £.			L x S
1	**All Objectives**	**Property Management / Investment** Ann Greaves Legal & Estate Services *LA, FL, RR, AR, OR, RR* Empty property management Managing commercial / leased properties In-house property construction / refurbishment projects Significant financial risk Retaining adequate specialist property expertise in order to support this and regen programme	4 x 4	Empty Property Procedure (informal) Specialist contractor employed to manage empty properties Policy to bring empty properties back into use Managing agents contracted in for commercial premises Formal leases in place for all tenants Small scale projects being tested before expansion Property expertise aquired through agency arrangements	2 X 3	Asset Management Strategy under development - to include action plan, incorporating construction projects and management Budget review following completion of projects To ensure investment strategy clearly includes: market knowledge/skills when assessing acquisitions, assessment of short & long term risks, not taking on undue or disproportionate risk in aggregate, continual monitoring of risks, ensuring a balanced investment portfolio - spreading risk, following CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Required to review process of property valuation, to ensure correct insurance cover Work programme to be developed to embed the revised Codes of Practice and outcome of DCLG's consultation exercise carried out during December. Results of the consultation and updated Cipfa guidance is awaited. To consider how to secure and retain permanent property expertise/resource.	AG AG AG AG AF AG	Date to be agreed as part of finalising the action plan from the recent internal audit in this area - meeting to take place w/c 22/01/18 30/09/2017 TBC 30/06/2018 TBC on receipt of updated guidance Q1 2018/19	1 X 3
2	**Digital Strategy + All Objectives**	**Information Assurance / Security** Nigel Swan IT *LA, RR, FL, SR* Public Services Network Standards Sanction - risk of being disconnected from network able to process benefit claims etc Risk of system compromise / data breach / data loss and service loss. Loss of digital services. Risk of unannounced site audit, compliance with gaps identified ove	4 x 4	Data/system access controls Acceptable Use Policy Annual penetration testing Perimeter firewalling Patch management Annual security elearning training for all staff Annual gap analysis audit In-house technical expertise Internal system audits	3 x 4	Review security measures such as encyption/pseudonymisation Corporate data classification/handling procedure/policy required Security incident test required Information asset register initial work completed, incorporates base line information for data classification. Information to be risk rated for priority. MDM workstream - to increase security in use of Council and personal mobile devices. Email protective marking, software to be purchased and procedures implemented	TBC NS RS / NS DM NS NS	Following GDPR working group work To follow assey review. Combine with Business Continuity exercise and breach procedures test by end Q4 2017/18 In progress, risk rating to be completed by 2nd Feb 18 01/04/2018 To follow asset review.	2 X 4
3	**All Objectives**	**Information Governance** Diane Milton Legal Services *LA, RR, FL, SR* Data Protection Act General Data Protection Regulations, Law Enforcement Directive, E Privacy Regulations Reuse of Public Sector Information Regulations Max fine 20 million euros (following GDPR May 2018 Euro 20'000'000) Evidence of data loss within organisation Absence of training throughout organisation Poor contract procedures	4 x 4	Data Protection Policy Acceptable Use Policy Physical security of servers Annual penetration testing Document strong room with restricted access Internal system audits Secure disposal of confidential waste In-house competent legal advice Retention guidelines Secure door entry system CCTV Policy / Procedures	3 x 4	Address concern of physical confidential information e.g. waste bags prior to disposal not being secured, public accessing secure parts of building etc. To review and investigate inclusion in existing policies. Retention guidelines to be reviewed/updated and to include electronic data. Identify the legal basis for data processing. Third party tenants located within RBC Offices, access to confidential data and information. To review and include in an existing policy Evaluate methods of effectively deleting personal data upon request (all systems). Develop Council-wide system - for multiple systems. Review and update Data Protection Policy To put in place robust training scheme for all members of staff/members Privacy notices/online content/fstationary to be designed/put in place for all services. Amanda Fahey appointed as SIRO, DPO appointment to be confirmed. Data Governance Policy / Procedures to be put in place. Including rights of individuals, data breach handling, data sharing etc.	DM DM DM DM DM/NS DM DM DM DM DM	As part of GDPR working group. May 2018 Following asset review. Deadline TBC To follow asset review. As part of GDPR working group. May 2018 As part of GDPR working group. As part of GDPR working group. As part of GDPR working group. My 2018 As part of GDPR working group. May 2018 01/05/2017 As part of GDPR working group. May 2018 for priority areas following asset review.	1 x 4

4	**All Objectives**	**Failure to maintain Financial Position** Amanda Fahey Financial Services *LA, RR, FL, PR, OR* Financial - Effect on property market of Brexit Cost of borrowing increase, future of business rates retention scheme Interest rate crash, external audit by 'value for money conclusion' Further changes/reductions in Central Government funding - business rates retention scheme, fair funding review, new homes bonus, Legislative requirement to set a balanced budget, risk of step in from Central Government Risk to service delivery - particularly statutory services Capacity to resource transformation programme & major projects	4 x 4	Medium term financial strategy in place Financial forecasting reports Treasury management policies Transformation programme / Steering group Income Generation Organisational Redesign Customer & Digital Strategy Dedicated project accoutant appointed to support Transformation Monitoring programme in place to ensure saving delivery.	2 x 4	Improvement plan to go to cabinet for consideration.	PS	03/04/2018	1 x 4
5	**Link to Objectives TBC**	**Large Regeneration Projects** Karen Edwards DMB - via Regen Hub *LA, RR, FL, OR* Risk to financial viability of schemes - external influences such as market values Affordability to Authority Holding costs during assembly of project Partner commitment e.g. other landowners & competing priorities Risk of legal challenge during compulsory purchase Risk of further decline in town centres, effecting local economy	4 x 4	Using RegenCo to establish robust programme and deliver Farnborough Civic Quarter Master Plan Budgets established to enable access to external expertise. Regen team evolving, project accountant role established a Regular oversight meetings with Elected Members Investigating short term use/income opportunities from aquired assets Bids being made for external funding Investigating sharing risk through partnership with private developers MOU with other public bodies/landowners Legal advice sought on CPO	2 x 3	Robust regeneration functyion with access to appropriate levels of expertise and resource to be fully established c Follow through actions arising from January Cabinet Report. Regular communication with residents and public engagement around major projects.	KE/PS KE KE	Q4 2018/19 Q1 2018/19 Ongoing, as part of setting robust programme.	2 x 2
6	**None specific**	**Safeguarding Arrangements** Caroline Ryan Community *LA, RR, PR, OR* Safeguarding duties under Children's Act - adults and children, PREVENT etc. Rushmoor and all of its Contractors / funded orgs. Potential for serious injury, death etc. Would lead to inquest/investigation/bad publicity etc.	3 x 3	200 Staff trained in safeguarding Champions being provided enhanced training Referral process in place Safeguarding Children's Board return completed Policy in place approved by CLT and Members Inform site & champions posters in place	2 x 3	Staff training scheduled to take place Q4 2017/18 - ongoing refresher training thereafter To define commissioned services and put in place audit process via Service Champions & Audit E-learning module to be developed for staff Safeguarding to be included in staff contracts (new & renewed) Safeguarding to be included in Induction Process - elearning module.	CR CR CR HR CR	By the end of March 2018 Q1/2 2018/19 Q1/2 2018/19 TBC - Post policy Q1/2 2018/19	2 x 2
7	**None specific**	**Insurance Risks** Morag McVey Payments & Insurance *FL, LA, RR, AR* **A** Discount rate on claims changing. Interest rate changes, potential for claim payouts to be significantly higher. Premium increases. Risk contractors may have insufficient cover. **B** Insurance Act 2015. Requirement to update insurer of material changes that are known or should be known by Senior Management. Risk of loss of insurance cover. **C** Undervaluing of Council Property. Risk of insufficent insurance cover.	3 x 3	**A** Increased level of insurance to cover to £40M. **B** Reported to CLT in Q3 2017/18 - for cascading to staff **C** Third party evaluations carried out November 2016. Some accuracy concerns raised by Auditors.	2 x 2 3 x 3 3 x 3	**A** Corporate response required to ensure all contractors have minimum insurance coverage, related to role and responsibilities/risks. Scoping works to identify main contractors required. **B** Workshop to be arranged for middle managers to assist cascade of information. **B** To investigate utilising insurer risk management training days. **C** Insurer affiliated third party company to be instructed to re-evaluate a selection of properties in order to assess general accuarcy of all.	TBC AF MM MM/AS	Jun-18 Jun-18 Mar-18 Jun-18	1 x 1 2 x 3 1 x 1
		T19 HCC Transformation Programme - Significant Risks to RBC Peter Amies Community *RR, PR, FL, OR* **A** Civil Parking Enforcement of on-street parking no longer carried out by RBC. Potential loss of jobs in back office (TUPE), possible downsize of support services and parking revenue surplus - circa £200k annually.	3 x 4	**A** Meetings held with other LAs and HCC in December 2017. Ongoing meetings planned.	3 x 3	2 year notice period for termination - beginning March 2018. Ongoing meetings planned to influence HCC decision. Potentially amend agency agreements rather than total loss.	Peter Amies	Next meeting end of January 2018	2 x 2

		B Agency agreements with RBC ending. Potential loss of traffic management agency work and posts (TUPE). No financial impact - major loss in control/influence.	3 x 2	**B** Meetings held to discuss proposals in December 2017. Considered exemplary in Hampshire. Ongoing meetings planned.	3 x 2	1 year notice period for termination - beginning March 2018. Ongoing meetings planned to influence HCC decision. Potentially amened agency agreements rather than total loss.	Peter Amies	Next meeting end of January 2018	2 x 2
8	**Pledge on maintaining weekly collection. Cleaner, greener Rushmoor.**	**C** Changes in waste disposal contract, 5 year+ programme. Potentially significant impact on the RBC waste contract. Requirement for new disposal site may require significant capital support. Given RBC position on collections financial impact is likely to be minimal on contract. Possible Political considerations..	3 x 3	**C** Meetings held by IH with HCC to discuss proposals. Long-term minimum 5 year project.	3 x 3	Ongoing meetings being held by IH, long-term project with no immediate effects. Until such time as further detail on proposals are made, further mitigation is not possible.	Ian Harrison	Quarterly meetings planned	2 X 2
	A cleaner, greener and more cultural Rushmoor	**D** Household waste recycling centres, risk of reduced service or closure. Increased waiting times on already stretched services will result in increase in fly-tipping incidents, contamination of waste streams or littering. May also result in positive impact - increase demand for paid garden waste service. 2 year programme of change.	3 x 3	**D** Currently RBC not taking action to mitigate but actively keeping watching brief on proposals as made. Supportive of options that do not reduce service.	3 x 3	Plan to keep watching brief until such time as proposals become clearer, to then take action to mitigate impact on RBC if possible	Peter Amies	TBC	2 x 1
	Supporting and empowering our communities and meeting local needs	**E** Changes to social inclusion service funding. Potential risk of reduction in support services for vulnerable homeless. In particular for stage 1 and stage 2 housing. Potential risk of incerase in homelessness and associated temporary accomodationcosts.	4 x 3	**E** Meetings held with HCC, awaiting draft proposals for services ending in March 2019, HCC working group established. Influencing outcome.	4 x 2	Seeking advice from LGA on provision of temporary accomodation for homeless people and exploring other housing options with regen and assets team, third party partners etc.	Qamer Yasin	Recommendations to be brought forward to CLT for consideration April 2018	4 x 2

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Secondary Risk Register Number	Specifiy Linked Corp. Objective	Risk **Heading** Risk Owner and Service/Team *Risk Code(s)* Overview/Description of risk(s) Include any financial Implications £	Initial Risk Category Without controls L x S	Existing controls and/or Mitigation Documents, Policies, controls etc. currently in place	Residual Risk Category With controls L x S	Further Action Planned What further action is proposed/necessary to control the risk? Include costs/resources required if known £.	By Who?	Deadline	Target Risk Category L x S
1	None	**Vehicle Management** Roger Sanders Corporate Health & Safety Adviser *LA, RR, FL, AR, PR* Poor vehicle management could lead to risk of; void insurance, claims against the Council, personal injury to employees or other road users/members of the public. Risk to Council assets e.g. vehicles. Links with insurance risks.	3 x 3	Workplace Transport Code of Practice Annual license/MOT/insurance checks Working closely with Insurance team to incorporate requirements.	1 x 3	To investigate means of recording annual checks on MYHR to ensure diarised/prompting managers	RG	01/06/2018	1 x 2
2	TBC	**Workplace Health & Safety** Roger Sanders Corporate Health & Safety Adviser *LA, RR, FL, AR, PR* Major non-compliance with H&S Legislative. Risk of majory injury/death. Legal action - both civil and criminal. Unlimited fines, jail sentences. Corporate Manslaughter. Fee for intervention - HSE. Reputational risk as enforcing authority and community leader.	3 x 4	In-house competent H&S adviser available 24/7 Corporate H&S Policy - reviewed minimum annually. H&S Codes of Practice for key legislative risks & common approaches Ongoing annual Corporate audit programme Service H&S risk/COSHH/MH assessments 6 monthly Corporate H&S Reports Mandatory e-learning training Corporate Health, Safety & Welfare Group Accident reporting, monitoring and iunvestigation processes in place	2 x 3	Review codes of practice to ensure Service changes are reflected. Formal review process for CoP to be implemented. Ensure H&S representatives are appointed as per Corporate Policy.	RS RS RS	21/03/2017 21/03/2017 21/03/2017	2 X 3
3	TBC	**Civil Emergency - Civil Contingencies Act** Jon Rundle Emergency Planning *Risk Code(s)* Risk to life and property due to major incident Failure to meet shared duty to plan for and repond to civil emergencies (duty shared with HCC) Significant reputational risk resulting from inadequate response to incident Complete loss of multiple services	3 x 4	Generic (mulit-agency) Emergency Plan in place (Hampshire-wide approach to plan Role specific training provided by HCC Annual tabletop exercise to test plan Four yearly full training exercise Ability to share staff due to generic plan across authority boundaries	2 x 3	Plan to be updated due to changes in personnel at RBC Senior staff to be trained Training for members Focus training onto the recovery phase and preparedness Exercise Control Centre Training Loggist recruitment and training Revised plan	JR HCC HCC/JR JR CE Plan Team HCC	Completed Dates being considered 05/02/2018 To feed into training 28/02/2018 Completed by 1/03/18 Within 12 mths	2 x 2
4	TBC	**Business Continuity Arrangements** Nick Harding IT & Facilities *Risk Code(s)* Head of I.T & Facilties *Risk Code(s)* *LA,RR,FL,OR* Event that could negatively impact Council operations such as interruption of services, loss or damage to critical infrastructure (e.g. assets/resources/network)	3 x 4	Business Continuity Plan in place including: Business Impact Analysis - Critical Systems defined Communications - plans & strategy Accountabilities/ownership understood Crisis Management Command Structure Data Back Ups - primary & secondary sites	2 x 2	Need to develop & include pandemic plan Contractor dependancy & business continuity plans need clarifying Develop scenario planning and testing schedules Carry out scenario based test/review subject to IT cloud solution with supplier Test restoration of key IT applications from back up - awaiting changes to cloud based solution	RS RS RS RS NH	31/06/2018 31/06/2018 31/06/2018 31/12/2018 30/09/2018	1 x 2
5	TBC	**SANGS** Keith Holland Planning *Risk Code(s) TBC* Attribution to continued lack of local affordable housing.	TBC	TBC	TBC	TBC			
	TBC	**Contractor Taxation / PAYE Rules** Rachel Gray HR *FL, RR* IR35 Contractor employment & taxation liability Change in HMRC requirements and IR35 tax rules. Previous suspended penalty based on compliance / action plan Updated HMRC guidance indicates potential corporate criminal offence for failing to prevent tax evasion	3 x 3	Management procedure for all new and existing contractors Currently no contractors in scope Finance request confirmation of contractors status before payment HR to periodically remind HoS / MMs to use ESS check tool on all new contractors Internal compliance audit carried out Q3 2016/17	3 x 3	Audit follow up review (23/11/17) found that assesssments were being used but couldn't gain assurance that this was systematic. Provisional findings (Limited Assurance Opinion) - Improvements in record keeping, written procedures and providing justification where it was deemed that ESS check was	HR/RG	Q3/4 2017/18	1 x 1

	TBC	**Enforcement / Governance of mandatory training completion** TBC RISK OWNER *TBC RISK CODES* TBC TBC TBC	TBC	TBC	TBC	TBC			TBC
8	**TBC**	**Lack of Equalities Act Policy** TBC RISK OWNER *TBC RISK CODES* TBC TBC TBC	TBC	TBC	TBC	TBC			TBC

Archived Risk Register Number	Specifiy Linked Corp. Objective	Risk	Initial Risk Category	Existing controls and/or Mitigation	Residual Risk Category	Further Action Planned	By Who?	Deadline	Target Risk Category
		Heading Risk Owner and Service/Team *Risk Code(s)* Overview/Description of risk(s) Include any financial Implications £	Without controls L x S	Documents, Policies, controls etc. currently in place	With controls L x S	What further action is proposed/necessary to control the risk? Include costs/resources required if known £.			L x S
1				.		.			

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LICENSING & GENERAL PURPOSES **HEAD OF FINANCIAL SERVICES**
29 JAN 2017 **REPORT NO. FIN1805**

CONSULTATION ON SCALE AUDIT FEES FOR 2018/19

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report is a response to the Public Sector Audit Appointments Limited (PSAA) consultation on scale fee setting for 2018/19 for opted-in local government and police bodies.

RECOMMENDATION:

(i) Licensing and General Purposes Committee note the consultation response on 2018/19 fee setting as issued in Appendix 1.

1 INTRODUCTION

1.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

1.2 In 2015, the Secretary of State for Communities and Local Government (Now Ministry of Housing, Communities & Local Government (MHCLG)) delegated a number of statutory functions (from the Audit Commission Act 1998) to PPSA on a transitional basis by way of letter of delegation issued under powers contained in the Local Audit Accountability Act 2014.

1.3 Due to delegations, for 2017/18 the PSAA is responsible under transitional arrangements for appointing auditors to local government and police bodies and for setting fees.

1.4 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulation 2015.

1.5 From 2018/19, PSAA is responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme.

1.6 Rushmoor Borough Council has opted in to the national scheme. The consultation response relates to the setting of scale fees in the first year (2018/19) of the new arrangements and covers the following areas:

- Scale fee
- Work programme
- Audit quality
- Fee variation

Appendix 1 provides detail of the consultation response.

2 CONCLUSION

2.1 This report informs members of changes in audit fees for 2018/19 and the basis on which they are set.

AMANDA FAHEY **HEAD OF FINANCIAL SERVICES**

Appendix 1

Rushmoor Borough Council
PSAA Scale of audit fees for 2018/19
Local Audit and Accountability Act 2014
Consultation issued December 2017

Introduction

The Public Sector Audit Appointments Limited (PSAA) is consulting on the scale of audit fees for 2018/19.

This paper sets out Rushmoor Borough Council's response to the consultation

Scale fee setting

Rushmoor Borough Council welcomes the opportunity to consult on proposed scale fees for 2018/19. A 23% fee reduction in 2018/19 provides an audit fee saving of £11,462. On first inspection, this is of great benefit with the continued financial pressure within the local government sector. A stable fee proposal across a three-year period is also favourable over a one off reduction in 2018/19 as this will allow greater certainty over fee levels.

However, the basis of using the favourable prices secured from the latest procurement round may overestimate the saving where bids have been loss led to fill order books.

With significant reduction in fees in 2018/19 there is greater pressure on auditor to look for opportunities to raise fee by alternative methods to offset losses.

Work programme

Note that the scale fee is tied into the Code and National Audit Office (NAO) guidance. There is no material change due in 2018/19. The next change in the Code of audit practice is due in 2020/21.

Audit quality

Rushmoor Borough Council supports continued review of audit quality and receiving communication via reports on progress in the audit market.

Fee variation

Fee variation may be targeted as a potential for fee increase. Auditors are able to raise fee variations above scale fee where substantially more work is required that envisaged by the scale fee. For example, where the risk profile of the client changes from year to year and additional audit work is required to address the risk presented. As PSAA clearly outlines such scale fee variations should occur where factors are significantly different from those identified and reflected in the prior year scale fee.

The potential for auditors to obtain additional fees arises due to the auditor being able to make a request to the PSAA for a fee variation. In theory, the auditor needs to agree fees with audited bodies. In practice, there are limited discussions, with the additional charge presented as part of final reports to committees, leaving little room for review.

Auditors supply information to PSAA that portrays their perspective of “additional work” undertaken. However, the evidence presented can often demonstrate the desired outcome rather than a balances appraisal meeting the PSAA definition of a significant change from the prior year scale fee. For example, in 2017/18 a new value for money risk has been raised for Rushmoor Borough Council. There has been no change in the risk profile to facilitate this risk, yet the audit provider is using a standard risk across all audited bodies on value for money. This risk should not attract a fee variation and will be monitored by the council, yet could be presented as a significant variance from the prior year scale fee.

To avoid miscommunication of a fee variation a robust consultation process including the audited body, auditor and PSAA needs establishing with an iterative progressive resolution process.

LICENSING & GENERAL PURPOSES
29 JANUARY 2018

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1807

REPORT ON THE RESULTS OF AUDITORS' WORK 2016/17

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report summarises the results of audit work performed on Local Government bodies in 2016/17 audit cycle.

RECOMMENDATION:

(i) Licensing and General Purposes Committee to note the audit result report issued by the Public Sector Audit Appointments Limited (PSAA) on 2016/17 financial year as issued in Appendix 1.

3 INTRODUCTION

1.1 Up to and including 2017/18 audit of accounts the Public Sector Audit Appointments Limited (PSAA) is responsible for delivering a statutory function delegated on a transitional basis by the Secretary of state for Communities and Local Government (CLG) (now Ministry of Housing, Communities & Local Government (MHCLG)). Under these arrangements, put in place in 2015, PSAA is responsible for appointing auditors to local government and police bodies, for setting and producing an annual report on the results of auditor's work at local government. The annual report on results of auditor's work focuses on the following:

- Timeliness of issuing audit opinions,
- Results of audit work

1.2 PSAA will continue to publish the annual report on the results of auditor's work on local government bodies. An understanding of the annual report will help the committee assess the performance of Rushmoor Borough Council auditors.

2 TIMELINESS OF AUDIT OPINIONS

2.1 For financial year 2016/17, the statutory deadline for issuing opinions of the accounts for local government bodies was 30 September 2017. For financial year 2017/18, the statutory deadline has moved forward by two months to 31 July 2018. To model the shorter period in 2017/18 the auditors' result report has recorded the percentage of unqualified opinions issued at 31 July and 30 September for 2016/17 and 2015/15 financial year as shown in table 1 below.

Table 1: Local government issued accounts for 2016/17 and 2015/16

Financial year	Number of bodies	Number issued by 31 July	Percentage issued by July	Number issued by 30 September	Percentage issued by 30 September
2015/16	490	49	10	470	96
2016/17	357	83	17	331	92

2.2 Auditors were unable to issue opinion on 27 bodies by the statutory deadline in 2016/17 for the following reasons:

- Draft accounts submitted late for audit
- Various errors identified during the audit
- Insufficient availability of staff at the audited body to support the audit; and
- Technical accounting issues

3 AUDIT RESULTS – FINANCIAL STATEMENTS

3.1 Auditors can issue five types of audit opinion (Table 2) on financial statements. Opinions other than unqualified are known as a non-standard opinion.

Table 2: Type of audit opinion

Type of conclusion	Description
Unqualified	Financial statement give a true and fair view, in all material respects, in accordance with the identified financial reporting
Non-standard conclusions	
Qualified “except for” – limited scope	Financial statements give a true and fair view, except for the effect of a matter where the auditor is unable to obtain sufficient evidence.
Qualified “except for” – disagreement	Financial statements give a true and fair view, except for the effect of a matter where there is material disagreement between the auditor and audited body about a matter is treated in the financial statements.
Adverse opinion	A disagreement that is so material, or pervasive, the financial statements as a whole are misleading or incomplete
Disclaimer of opinion	Audit not able to express an opinion, as they cannot obtain evidence to such an extent that the financial statements as a whole could be misleading or incomplete.

3.2 In the financial year 2016/17, no non-standard reports were issued at local government bodies.

4 AUDIT RESULTS – VALUE FOR MONEY

4.1 Auditors can issue three types of conclusions (Table 3) on the arrangements to secure value for money.

Table 3: Types of conclusion on the arrangements to secure value for money

Type of conclusion	Description
Unqualified	Auditor is satisfied they have sufficient evidence the body made proper arrangements in all significant respects to secure economy, efficiency and effectiveness in use of resources.
Non-standard conclusions	
Qualified except for	Auditor is satisfied that the body made arrangements to secure economy, efficiency and effectiveness in use of resources, in all significant respects excess for weakness(es) that are significant to warrant reporting but limited to specific issues or areas.
Adverse	Auditor is not satisfied that the body has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Weaknesses identified are significant in terms of impact or numerous in terms of number of different aspects of proper arrangements affected.

4.2 In the financial year 2016/17, 30 non-standard conclusions were reported at audited bodies. The most common reasons for issuing a non-standard conclusion in 2016/17 were:

- Impact of issues identified in the reports of statutory inspectorates
- Corporate governance issues
- Financial stability

5 AUDIT RESULTS – WIDER SCOPE

5.1 Schedule 7 of the Local Audit and Accountability Act 2014 sets out two requirements for auditors to considers:

- Public interest reports
- Statutory recommendations

5.2 Public interest reports should be raised on matters that relate to the audited body or entity connected with the audited body, coming to the auditors' attention during the audit that requiring bringing to the public's attention. No public interest reports were raised in 2016/17.

5.3 Auditor may make a written recommendation to an audited body or entities connected to the audited body so that the recommendation can be considered within the requirements of schedule 7. Three Councils received recommendations in the financial year 2016/17

Appendix 1 contains the PSAA report on the results of auditors' work 2016/17 – Local government bodies.

6 CONCLUSION

6.1 This report informs members of the results of audits in the financial year 2016/17 and the types of audit opinion that can be issued.

AMANDA FAHEY **HEAD OF FINANCIAL SERVICES**

Report on the results of auditors' work 2016/17

Local government bodies

December 2017

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In 2015, the Secretary of State for Communities and Local Government delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

As a consequence of these delegations, for 2017/18 the company is responsible under transitional arrangements for appointing auditors to local government and police bodies and for setting audit fees.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

From 2018/19, PSAA is responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme.

Contents

Summary

Compared with 2015/16, the number of principal bodies[1] that received an unqualified audit opinion by 31 July showed an encouraging increase. In contrast, auditors were unable to issue the opinion by 30 September at a greater proportion of councils. In all other respects, the timeliness and quality of financial reporting for such bodies for 2016/17, as reported by auditors, remained broadly consistent with the previous year. For small bodies[2] there was a disappointing increase in the number of qualified opinions issued by auditors.

This will be the final year that the results of auditors' work at small bodies will be included in the report published by PSAA, as responsibility for appointing auditors to small bodies passed to a new organisation, Smaller Authorities' Audit Appointments Limited, for the accounts from 2017/18.

Table 1 summarises the key results for principal bodies and small bodies for 2016/17 and compares them with the results for 2015/16.

Table 1: **Key results for 2016/17 and 2015/16**

	Principal bodies 2016/17	Principal bodies 2015/16	Small bodies 2016/17	Small bodies 2015/16
Opinions on the accounts				
Opinions issued by 31 July	17% (83)	10% (49)	N/a	N/a
Opinions issued by 30 September	95% (470)	97% (481)	97% (9,417)	97% (9,452)
Non-standard opinion	0%	0%	23% (2,215)	14% (1,347)
Conclusions on the arrangements to secure VFM				
Non-standard conclusion	7%[3] (33)	8%[4] (39)	N/a	N/a
Statutory reporting powers				
Public interest report	0	2	15	13
Statutory recommendations	3	1	N/a	2

Source: PSAA

[1] Principal bodies include councils, fire and rescue authorities, police bodies and other local government bodies.

[2] Small bodies include parish councils and internal drainage boards with annual turnover below £6.5 million.

[3] Auditors at 24 bodies have yet to issue their 2016/17 conclusion.

[4] Auditors at three bodies have yet to issue their 2015/16 conclusion.

Introduction

1 In December 2016, Public Sector Audit Appointments Limited (PSAA) published its second report on the results of auditors' work at local government bodies, covering the 2015/16 financial year. This is the third report and summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17.

2 Auditors' work on the 2016/17 accounts for local government bodies was carried out under the provisions of the Local Audit and Accountability Act 2014 and the Code of Audit Practice prepared by the National Audit Office (NAO)[5].

3 Audited accounts[6] are the principal means by which public bodies discharge their accountability for the stewardship of public money. Publishing timely audited accounts, with an unqualified audit opinion, reflects well on bodies' financial reporting and financial management arrangements and is a fundamental feature of good governance.

4 The audit process also provides assurance to the accounting officers of relevant government departments that the funds distributed to local public bodies have been safeguarded and accounted for properly.

5 The report is presented in two sections. The first section covers the results of auditors' work on the 2016/17 accounts at principal local government bodies. The second section covers the results of auditors' work on the 2016/17 annual return for small bodies.

6 This report includes the names of principal bodies where one or more of the following apply. The appointed auditor:

- was able to issue the opinion on the accounts by 31 July 2017;
- was unable to issue the opinion on the accounts by 30 September 2017;
- issued a non-standard accounts opinion or non-standard conclusion on the arrangements to secure value for money; or
- issued a public interest report or made statutory recommendations.

7 The report includes the names of small bodies where the auditor issued a public interest report. A list published alongside the report on the PSAA website also includes the names of small bodies that received a qualified opinion on their annual return for 2016/17 and identifies those which also received a qualified opinion for 2014/15 and/or 2015/16.

Local audit from 2018/19

8 Up to and including the audits of accounts for 2017/18, PSAA has been responsible for delivering statutory functions delegated on a transitional basis by the Secretary of State for Communities and Local Government. Under these arrangements, put in place in 2015, PSAA is responsible for appointing auditors to local government and police bodies, for setting audit

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[5] The Code of Audit Practice is available on the NAO website.

[6] The terms 'accounts', 'financial statements', and 'accounting statements' are used in this report to refer to the annual statement of accounts that bodies are required to prepare in accordance with relevant regulations and proper practices.

fees and for making arrangements for the certification of housing benefit subsidy claims. Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

9 In July 2016, the Secretary of State specified PSAA as an appointing person under the Local Audit and Accountability Act 2014. This means that for audits of accounts from 2018/19, PSAA will appoint an auditor to relevant principal local government and police bodies that have chosen to opt into its national auditor appointment scheme.

10 In October 2016, PSAA formally invited all eligible principal local government and police bodies to become opted-in authorities for a five-year period commencing on 1 April 2018. Out of a total of 493 bodies eligible to join the scheme at that time, 484 (98 per cent) took the decision to opt in. Following a successful procurement process, PSAA awarded contracts in June 2017 to six audit firms. PSAA subsequently consulted opted-in bodies on new auditor appointments from 2018/19 and has confirmed the appointments ahead of the statutory deadline of 31 December.

11 Given the high level of opt-in achieved, PSAA takes the view that there is value in continuing to publish an annual report on the results of auditors’ work for 2018/19 and subsequent years.

Principal bodies

Background

12 This section of the report summarises the results of auditors' work for 2016/17 at:

- 357[7] councils;
- 30 fire and rescue authorities;
- 76 police bodies; and
- 34 other local government bodies[8].

13 Auditors' work included:

- the audit of the financial statements;
- a review of arrangements to secure value for money; and
- any exercise of the auditor's statutory reporting powers.

Responsibilities of principal bodies and auditors

14 The principal bodies covered by this section of the report were required to prepare and publish their annual accounts for 2016/17 in accordance with:

- statutory requirements and timetables as set out in the Accounts and Audit Regulations 2015; and
- the CIPFA/LASAAC Code of Practice on local authority accounting in the United Kingdom 2016/17.

15 Auditors were required to undertake their work on the 2016/17 accounts in accordance with the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

16 The Code of Audit Practice requires auditors to:

- give an opinion on the financial statements, stating whether they:
  - give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
  - have been prepared properly in accordance with the relevant reporting and accounting framework as set out in legislation, applicable accounting standards or other direction;
- give an opinion on other matters, stating whether:
  - other information published together with the audited financial statements is consistent with the financial statements;
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework;

[7] This number includes the functional bodies of the GLA.

[8] A breakdown of the types of principal bodies covered in the report is available at Appendix 1.

- provide a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period; and
- consider the need to exercise their additional powers and duties.

Opinions on the accounts

Timeliness of issue

17 For 2016/17, auditors aimed to issue their opinion on the accounts by the statutory accounts publication date of 30 September 2017, to enable bodies to publish their accounts with the auditor's report.

18 Appendix 2 lists 83 bodies (17 per cent) that received an unqualified opinion on the accounts on or before 31 July 2017. This suggests that these bodies will be well prepared to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

19 In comparison, for 2015/16 auditors were able to issue an unqualified opinion by 31 July 2016 at 49 bodies (10 per cent).

20 Table 2 shows there were 27 bodies (5 per cent) where the auditor was unable to issue the opinion on the 2016/17 accounts by the statutory accounts publication date of 30 September 2017. Given the earlier publication timetable that will apply for 2017/18 accounts, it is disappointing that performance has deteriorated compared to 2015/16.

Table 2: **When auditors issued the opinion on the 2016/17 and 2015/16 accounts**

Type of body	2016/17 Number of bodies	2016/17 Number issued by 30 September	2016/17 Percentage issued by 30 September	2015/16 Percentage issued by 30 September
Councils	357	331	92	96
Fire	30	29	97	100
Police	76	76	100	100
Other LG bodies	34	34	100	100
Total	**497**	**470**	**94**	**97**

Source: PSAA

21 Appendix 3 lists the 27 bodies where the auditor was unable to issue the opinion on the 2016/17 accounts by the statutory accounts publication date of 30 September 2017, with the reason for the delay. Where the auditor has now issued the opinion, the date of issue is provided.

22 The most common reasons for delays in issuing the opinion on the 2016/17 accounts were:

- draft accounts submitted late for audit;

- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit; and
- technical accounting issues.

Non-standard opinions on the accounts

23 Auditors may issue five possible types of audit opinion on the financial statements (Table 3). An opinion other than unqualified is known as a 'non-standard' opinion.

Table 3: **Types of audit opinion**

Type of opinion	Description
Unqualified opinion	The financial statements give a true and fair view, in all material respects, in accordance with the identified financial reporting framework.
Non-standard opinions	
Qualified 'except for' opinion – limitation of scope	The financial statements give a true and fair view, except for the effect of a matter where the auditor was unable to obtain sufficient evidence. For example, the auditor considers the accounting records for a material transaction or balance in the accounts to be inadequate.
Qualified 'except for' opinion - disagreement	The financial statements give a true and fair view, except for the effect of a matter where there was a material disagreement between the auditor and audited body about how the matter was treated in the financial statements.
Adverse opinion	There was a disagreement that was so material, or pervasive, the financial statements as a whole were misleading or incomplete.
Disclaimer of opinion	The auditor was not able to express an opinion, because they could not obtain evidence to such an extent that the financial statements as a whole could be misleading or incomplete.

Source: PSAA

24 At the date of preparing this report, no non-standard opinions have been issued on the 2016/17 accounts at principal bodies.

25 No non-standard opinions were issued on the 2015/16 accounts at principal bodies.

Follow-up of 2015/16 outstanding opinions

26 PSAA's *Report on the results of auditors' work 2015/16: local government bodies*, published in December 2016, reported that the 2015/16 opinion had not been issued at 12 councils at the time the report was published. Auditors have now issued unqualified opinions at nine of these councils. The opinion at the remaining three councils has still not been issued.

Conclusions on the arrangements to secure value for money

Background

27 For 2016/17, auditors had a duty under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy themselves that the authority made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In discharging this duty, auditors were required to carry out their work in accordance with the Code of Audit Practice. The Code requires auditors of local government bodies to provide a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

28 Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal. As part of the material published with its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement (AGS). For local government bodies there is a requirement to provide commentary in the AGS on their arrangements for securing value for money from their use of resources.

29 For 2016/17, auditors of local government bodies were required to reach their statutory conclusion on arrangements to secure value for money based on the following overall evaluation criterion specified by the NAO:

- 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.

Non-standard conclusions on the arrangements to secure value for money

30 Auditors could issue three types of conclusion (Table 4). A conclusion other than unqualified is known as a non-standard conclusion.

Table 4: **Types of conclusion on the arrangements to secure value for money**

Type of conclusion	Description
Unqualified	The auditor is satisfied that they have sufficient evidence that, in all significant respects, the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.
Non-standard conclusions	
Qualified except for	The auditor is satisfied that the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017, in all significant respects, except for weakness(es) that are sufficiently significant to warrant reporting but are limited to specific issues or areas.

Type of conclusion	Description
Adverse	The auditor is not satisfied that the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017, as the weaknesses identified were significant in terms of their impact, or numerous in terms of the number of different aspects of proper arrangements affected.

Source: PSAA

31 Of the 2016/17 conclusions issued at local government bodies at the date of preparing this report, auditors had issued a non-standard conclusion at 30 councils, two fire and rescue authorities, and one other local government body.

32 Adverse conclusions were issued to:

- Avon Fire Authority
- Birmingham City Council
- Bristol City Council
- Northamptonshire County Council.

33 'Qualified except for' conclusions were issued to:

- Barnet London Borough Council
- Bolton Metropolitan Borough Council
- Bromsgrove District Council
- Buckinghamshire County Council
- Cheshire East Council
- Cumbria County Council
- Dudley Metropolitan Borough Council
- Exeter City Council
- London Borough of Bromley
- London Borough of Croydon
- London Borough of Tower Hamlets
- Manchester City Council
- Middlesbrough Council
- Northumberland Council
- Redditch Borough Council
- Somerset County Council

- South Derbyshire District Council
- South Gloucestershire Council
- South Oxfordshire District Council
- South Ribble Borough Council
- South Yorkshire Fire and Rescue Authority
- South Yorkshire Passenger Transport Executive
- Sunderland City Council
- Surrey County Council
- Tameside Metropolitan Borough Council
- Torbay Council
- Vale of White Horse District Council
- Wirral Metropolitan Borough Council
- Worcestershire County Council.

34 The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

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

35 For 2015/16, non-standard conclusions were issued to 33 councils, one fire and rescue authority, three police bodies and one other local government body.

36 At the date of preparing this report, the 2016/17 value for money arrangements conclusion for 24 councils had not been issued.

Follow-up of 2015/16 outstanding conclusions

37 PSAA's *Report on the results of auditors' work 2015/16: local government bodies*, published in December 2015, reported the 2015/16 value for money arrangements conclusion for 12 councils had not been issued.

38 Two of these councils subsequently received an unqualified conclusion. Derby City Council, London Borough of Tower Hamlets and Reading Borough Council received an adverse conclusion. Copeland Borough Council, Luton Borough Council, Slough Borough Council, and South Ribble Borough Council received a qualified 'except for' conclusion. The value for money arrangements conclusion has still not been issued at three councils.

Auditor reporting

Public interest reports

39 Schedule 7 of the Local Audit and Accountability Act 2014 requires auditors to consider whether, in the public interest, they should make a report on any matter that relates to the authority or an entity connected with the authority coming to their notice during the audit, so it can be considered in accordance with the requirements set out in schedule 7 or brought to the public's attention. Auditors may issue a public interest report during or after the end of the audit.

40 Since PSAA published its *Report on the results of auditors' work 2015/16: local government bodies* in December 2016, auditors have issued no public interest reports to principal local government bodies.

41 All public interest reports are available on the PSAA website.

Statutory recommendations

42 Under schedule 7 of the Local Audit and Accountability Act 2014, auditors may make a written recommendation to an authority relating to the authority or an entity connected with it, so that the recommendation can be considered in accordance with the requirements set out in schedule 7.

43 Since PSAA published its *Report on the results of auditors' work 2015/16: local government bodies* in December 2016, auditors have issued statutory recommendations to three principal bodies:

- Council of the Isles of Scilly. Recommendations relate to the council's current and forecast financial position.
- Derby City Council. Recommendations relate to weaknesses in the council's internal control environment and delays in the closedown of the accounts for 2015/16 and 2016/17.
- Reading Borough Council. Recommendations relate to the council's current and forecast financial position.

List of principal bodies

44 A list of the principal bodies included in the report and the reason for their inclusion is available at Appendix 4.

Small bodies

Background

45 This section of the report summarises the results of auditors' work for 2016/17 at local government bodies with annual turnover below £6.5 million, comprising 9,634 parish councils (also includes community councils, neighbourhood councils, village councils, town councils and parish meetings in parishes where there is no parish council) and 118 internal drainage boards (IDBs)[9]. Turnover is taken as the greater of gross annual income or gross annual expenditure. Together these bodies are classed as 'small bodies'. For 2016/17, auditors were required to undertake their work at small bodies under the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

46 Parish councils are elected bodies that represent their communities and provide or contribute to a range of services – for example, parks and open spaces, cemeteries, allotments and village halls. They serve about 15 million people in England and spend over £500 million of public money each year. This expenditure is funded mainly through an annual charge, known as a precept, set by the parish council and collected on its behalf as part of council tax.

47 IDBs are bodies that provide flood risk and water level management services in areas of special drainage need. They spend around £70 million of public money each year. This expenditure is funded mainly through drainage rates on land occupiers and special levies on the local authorities in each drainage area.

48 This will be the final year that the results of auditors' work at small bodies will be included in this report, as responsibility for appointing auditors to small bodies passed to Smaller Authorities' Audit Appointments Limited from 2017/18.

Responsibilities of small bodies and auditors

49 Small bodies included in this report were required to prepare their 2016/17 accounting statements in accordance with statutory requirements and timetables, as set out in the Accounts and Audit Regulations 2015, and proper practices in the form of the Practitioners' Guide[10] approved by the Joint Practitioners' Advisory Group and published jointly by the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities.

50 Small bodies complete their accounting statements in the form of an annual return. The annual return includes the:

- annual governance statement (AGS);

[9] There were also 32 other miscellaneous small bodies, including charter trustees and port health authorities. The results of auditors' work at these bodies are not included in this report.

[10] Governance and accountability for smaller authorities in England: A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounting and governance statements.

- accounting statements[11]; and
- external auditor's certificate and opinion.

51 Small bodies were required to publish on a website[12] the 2016/17 accounting statements, together with any certificate or opinion entered by the local auditor, and the AGS by 30 September 2017. In practice, small bodies fulfil this requirement by publishing the annual return.

52 The external auditor was required to review the 2016/17 annual return in accordance with chapter six of the Code of Audit Practice. This required external auditors of small bodies to undertake a smaller authority assurance engagement in accordance with procedures specified in guidance issued by the NAO. This is not an audit in accordance with professional auditing standards. Instead it provides a level of assurance proportionate to the amounts of public money managed individually by these small bodies. Auditors give a limited assurance opinion on the annual return and certify completion of their work. Auditors issue an unqualified opinion where they consider the annual return meets the specified requirements.

53 In addition, schedule 7 of the Local Audit and Accountability Act 2014 requires auditors to consider whether, in the public interest, they should make a report on any matter that relates to the authority or an entity connected with the authority coming to their notice during the audit, so it can be considered in accordance with the requirements set out in schedule 7 or brought to the public's attention. Auditors may issue a public interest report during or after the end of the audit. At a small body, this might include reporting on governance issues such as the failure to produce, or provide evidence to support, the annual return.

Accounting statements

Issuing the auditor's certificate and opinion

54 Auditors aimed to issue the opinion and certificate on the 2016/17 annual return by 30 September 2017, to enable small bodies to publish their annual return with an auditor's report by the statutory accounts publication deadline.

55 By 30 September 2017, auditors had issued the opinion and certificate on the 2016/17 annual return at 9,301 parish councils (97 per cent) and 116 IDBs (98 per cent). For 2015/16, auditors issued the opinion and certificate by 30 September 2016 at 97 per cent of parish councils and 98 per cent of IDBs.

56 PSAA has published on its website a list showing the current status of the 333 parish councils and two IDBs where an opinion on the annual return had not been issued by 30 September 2017.

57 Appendix 5 shows, by county area, the number of parish councils and IDBs where auditors issued the opinion and certificate on the 2016/17 annual return by 30 September 2017.

[11] The accounting statements are the annual income and expenditure account and statement of balances, or the receipts and payments account that a small body is required to prepare in accordance with proper practices.

[12] Parish meetings can meet the publication requirement by displaying the information in question in a conspicuous place in the area of the authority for at least 14 days.

Qualified opinions

58 Auditors issue an unqualified opinion where they consider the annual return is in accordance with the specified requirements. Where this is not the case, the auditor will qualify the opinion, setting out the reasons.

59 Auditors may qualify the opinion on the annual return because of issues identified in the accounting statements, the AGS, or both. A qualification on the AGS may relate to one or more of the assertions the small body is required to make. These assertions are listed in Appendix 6.

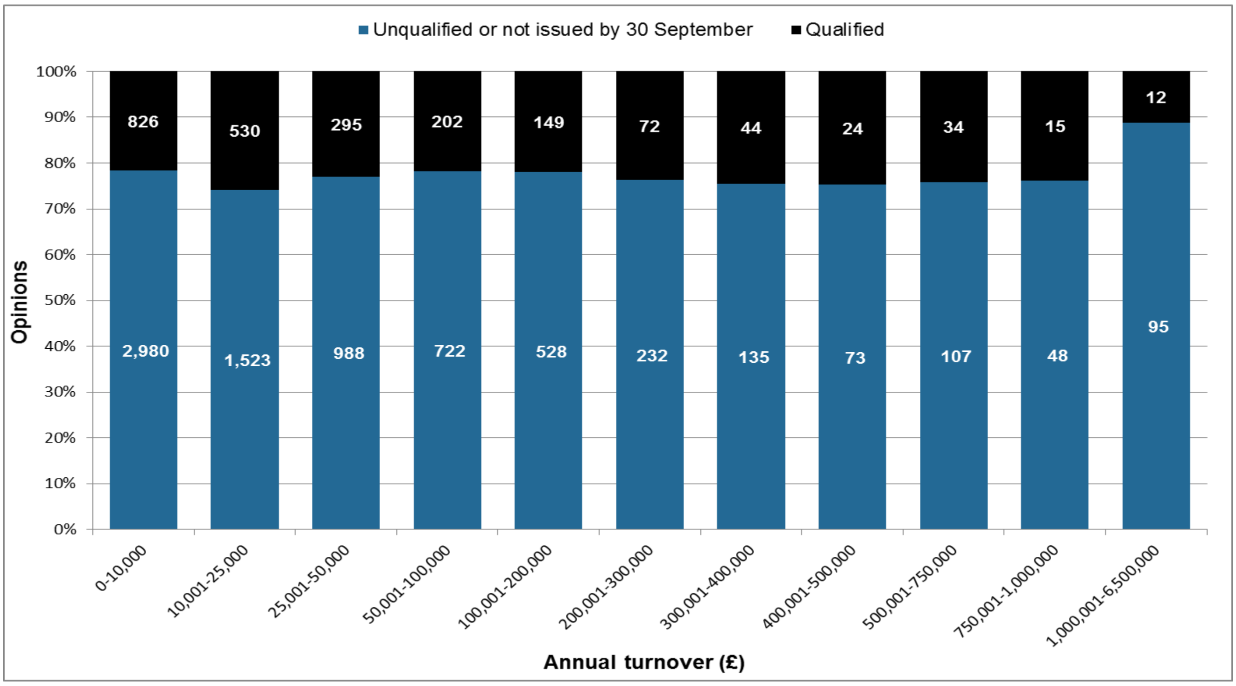
Number of qualified opinions

60 Auditors issued a qualified opinion on the 2016/17 annual return by 30 September 2017 at 2,203 parish councils (23 per cent) and 12 IDBs (10 per cent). For parish councils and IDBs the level of qualifications has increased compared with 2015/16. Of the 2,203 parish councils receiving a qualified opinion by 30 September 2017, 496 parish councils (23 per cent) had also received a qualified opinion for 2015/16 and 246 (11 per cent) had received a qualified opinion for three consecutive years (2014/15 to 2016/17).

61 PSAA has published on its website lists of those individual parish councils and IDBs where auditors issued a qualified opinion on the 2016/17 annual return by 30 September 2017. The lists show where the opinion was also qualified for either or both of the previous two years.

62 Figure 1 and Table 5 show the number and percentage of qualified opinions, by annual turnover, for parish councils and IDBs respectively.

Figure 1: **Qualified opinions at 30 September 2017 for parish councils by annual turnover**



Source: PSAA

Table 5: **Qualified opinions at 30 September 2017 for IDBs by annual turnover**

Annual turnover	Number of IDBs	Number of qualified opinions issued by 30 September 2017
£0 to £25,000	19	1
£25,001 to £200,000	42	5
£200,001 to £1 million	33	4
£1 million to £6.5 million	24	2
Total	**118**	**12**

Source: PSAA

63 Table 6 shows the number of bodies with a qualified opinion by annual turnover for parish councils and IDBs combined.

Table 6: **Number of small bodies with qualified opinions by annual turnover**

Annual turnover	Number of small bodies	Number of qualified opinions issued by 30 September 2017
£0 to £25,000	5,878	1,357
£25,001 to £200,000	2,926	651
£200,001 to £1 million	817	193
£1 million to £6.5 million	131	14
Total	**9,752**	**2,215**

Source: PSAA

64 Appendix 7 shows the number of qualified opinions for 2016/17 by county area, with comparative information for 2015/16.

Follow-up of 2015/16 opinions

65 PSAA’s *Report on the results of auditors’ work 2015/16: local government bodies*, published in December 2016, reported that auditors at 301 parish councils and two IDBs had not been able to issue an opinion on the 2015/16 annual return by 30 September 2016.

66 Table 7 shows the position for these 303 bodies at 30 November 2016 and at 30 November 2017.

Table 7: **Small bodies where the opinion on the 2015/16 annual return was not issued by 30 September 2016**

Outcome	Position at 30 November 2016	Position at 30 November 2017
Unqualified opinion	50	55
Qualified opinion	171	235
Public interest report	6	7
Opinion still outstanding	76	6
Total	**303**[13]	**303**[14]

Source: PSAA

Basis for qualified opinions

67 The main reason auditors qualified the opinion on the 2016/17 annual return at small bodies was because of failure to comply with the governance requirements set out in the AGS (Table 8).

Table 8: **Basis for qualified opinions on the 2016/17 and 2015/16 annual return at small bodies**

Basis for qualification	Number of bodies with a qualified opinion 2016/17	Number of bodies with a qualified opinion 2015/16
Accounting statements	120 (5%)	84 (6%)
AGS	964 (44%)	869 (65%)
Both accounting statements and AGS	1,131 (51%)	394 (29%)
Total	**2,215 (100%)**	**1,347 (100%)**

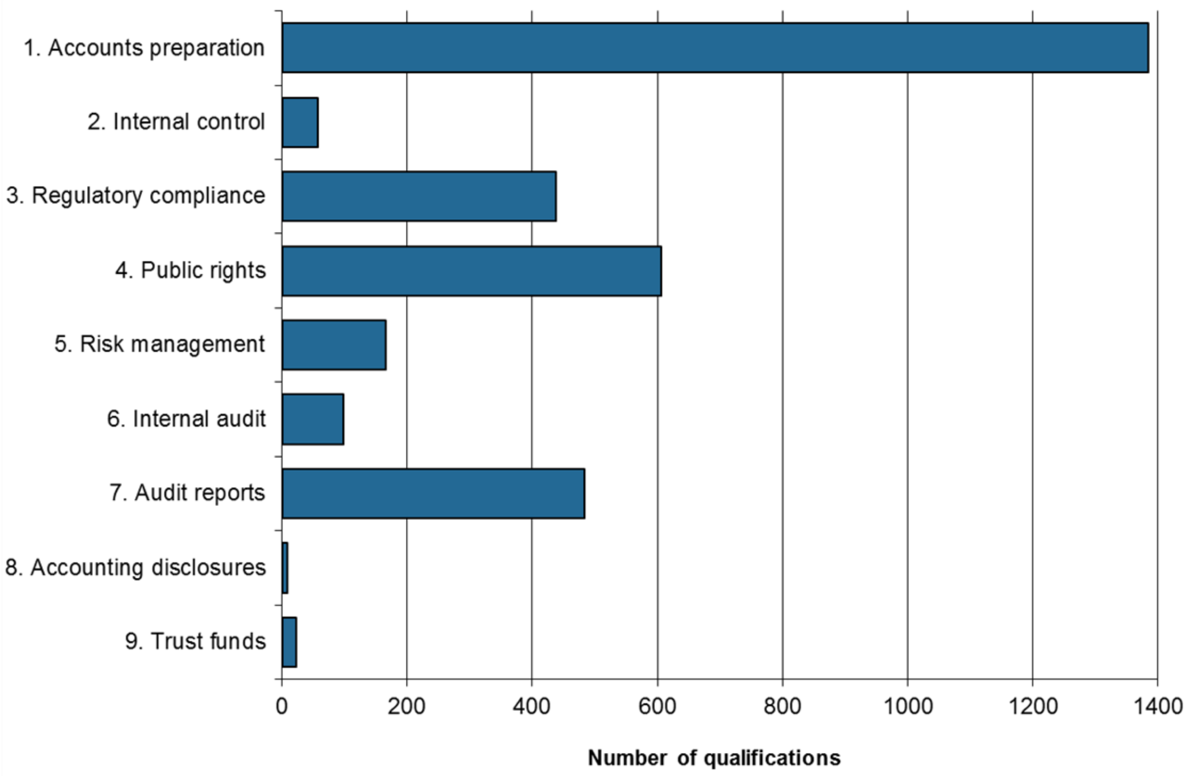
Source: PSAA

68 Figure 2 shows the number of qualifications relating to each of the nine assertions required in the AGS for small bodies. Some small bodies may receive a qualified opinion relating to more than one assertion.

[13] A list of these bodies was published on the PSAA website with the 2015/16 report.

[14] An updated list of these bodies was published on the PSAA website with the 2016/17 report.

Figure 2: **The number of small body qualifications relating to each AGS assertion**



Source: PSAA

69 The qualifications on the AGS for 2016/17 summarised in Figure 2 were issued to 2,095 small bodies. There were 861 small bodies where the auditor qualified two or more assertions in the AGS.

70 The most common reason for AGS qualifications at small bodies for 2016/17 related to accounts preparation, followed by arrangements for public rights and the response of small bodies to internal and external audit reports. For 2015/16, most qualifications related to accounts preparation, followed by risk management arrangements and the response of small bodies to internal and external audit reports.

Auditor reporting

Public interest reports

71 Schedule 7 of the Local Audit and Accountability Act 2014 requires auditors to consider whether, in the public interest, they should make a report on any matter that relates to the authority or an entity connected with the authority coming to their notice during the audit, so it can be considered in accordance with the requirements set out in schedule 7 or brought to the public's attention. Auditors may issue a public interest report during or after the end of the audit.

72 Auditors issued 15 public interest reports to small bodies covered by this report between December 2016 and November 2017. All reports related to the failure to produce, or provide evidence to support, the 2015/16 or 2016/17 annual return.

Failure to produce, or provide evidence to support, the 2015/16 or 2016/17 annual return

- Belvoir Parish Council (2015/16);
- Bromfield Parish Council (2016/17);
- Brookenby Parish Council (2016/17);
- Burton Hastings Parish Meeting (2016/17);
- Chirbury with Brompton Parish Council (2016/17);
- Clowne Parish Council (2016/17);
- Hardwick Parish Meeting (2016/17);
- Hooton Roberts Parish Meeting (2015/16);
- Little Ponton and Stroxton Parish Council (2015/16);
- Luddington Parish Council (2015/16);
- Markham Clinton Parish Council (2015/16);
- Pudding Norton and Testerton Parish Council (2016/17);
- Stretton Baskerville Parish Meeting (2016/17);
- Water Orton Parish Council (2016/17); and
- Wyville Cum Hungerton Parish Meeting (2015/16).

73 All public interest reports for small bodies are available on the archive PSAA website.

Appendix 1: Types of principal bodies covered by this report

Type and number of bodies	Composition
Councils (357)	Includes 27 county councils, 201 district councils, 33 London borough councils, 36 metropolitan district councils, 56 unitary councils, the Greater London Authority and its functional bodies (the London Legacy Development Corporation, Transport for London and Old Oak and Park Royal Development Corporation).
Fire and rescue authorities (30)	The analysis for fire and rescue authorities excludes the 15 county council fire and rescue authorities as they are part of the relevant county council for financial reporting purposes.
Police bodies (76)	Includes one police and crime commissioner (PCC) and one chief constable in each of the 37 local police areas in England outside London, and the Mayor's Office for Policing and Crime (MOPAC) and the Commissioner of Police of the Metropolis (CPM). The City of London Police Authority is included in the accounts of the City of London Corporation for financial reporting purposes.
Other local government bodies (34)	Includes nine combined authorities, three miscellaneous bodies, nine national park authorities, four passenger transport executives (PTEs), two pension authorities, six waste disposal authorities and one small body (an IDB) that elected to account as a larger relevant body for 2016/17.

Source: PSAA

Appendix 2: Principal bodies where the auditor was able to issue the 2016/17 opinion on or before 31 July 2017

Name of body	Name of body
Councils	
Ashford Borough Council	Dorset County Council
Basildon Borough Council	Dudley Metropolitan Borough Council
Bolsover District Council	Gateshead Metropolitan Borough Council
Borough Council of King's Lynn and West Norfolk	Gloucestershire County Council
Borough of Broxbourne Council	Horsham District Council
Bracknell Forest Council	Kent County Council
Breckland Council	London Borough of Hackney
Broadland District Council	London Legacy Development Corporation
Buckinghamshire County Council	Mansfield District Council
Burnley Borough Council	Mendip District Council
Bury Metropolitan Borough Council	Mid Devon District Council
Carlisle City Council	North East Derbyshire District Council
City of Westminster Council	Oldham Metropolitan Borough Council
Colchester Borough Council	Pendle Borough Council
Crawley Borough Council	Purbeck District Council

Name of body	Name of body
Ribble Valley Borough Council	Wiltshire Council
Rochdale Metropolitan Borough Council	**Fire and rescue authorities**
Royal Borough of Greenwich	Buckinghamshire and Milton Keynes Fire Authority
Sedgemoor District Council	Humberside Fire Authority
Selby District Council	Kent and Medway Fire and Rescue Authority
Somerset County Council	London Fire and Emergency Planning Authority
Southampton City Council	Stoke-on-Trent and Staffordshire Fire and Rescue Authority
South Norfolk District Council	Tyne and Wear Fire and Rescue Authority
South Somerset District Council	West Midlands Fire and Rescue Authority
Stockport Metropolitan Borough Council	**Other local government bodies**
Suffolk County Council	Broads Authority
Sunderland City Council	East London Waste Authority
Torbay Council	Greater Manchester Waste Disposal Authority
Tunbridge Wells Borough Council	New Forest National Park Authority
Uttlesford District Council	Peak District National Park Authority
Warrington Borough Council	South Downs National Park Authority
Waverley Borough Council	South Yorkshire Pensions Authority
Wealden District Council	Transport for Greater Manchester
Welwyn Hatfield Borough Council	

Name of body	Name of body
Police bodies	
Chief Constable for Avon and Somerset Police	Mayor's Office for Policing and Crime
Chief Constable for Cheshire Police	Police and Crime Commissioner for Avon and Somerset
Chief Constable for Cumbria Police	Police and Crime Commissioner for Cheshire
Chief Constable for Kent Police	Police and Crime Commissioner for Cumbria
Chief Constable for Lancashire Police	Police and Crime Commissioner for Kent
Chief Constable for Thames Valley Police	Police and Crime Commissioner for Lancashire
Chief Constable for Warwickshire Police	Police and Crime Commissioner for Thames Valley
Chief Constable for West Mercia Police	Police and Crime Commissioner for Warwickshire
Commissioner of Police of the Metropolis	Police and Crime Commissioner for West Mercia.

Appendix 3: Principal bodies where the auditor was unable to issue the 2016/17 opinion by 30 September 2017

Body	Reason why opinion could not be issued by 30 September	Date opinion issued
Councils		
Broxtowe Borough Council	Issues with the quality of the draft accounts and supporting working papers, and with staff capacity.	Not yet issued
Cambridgeshire County Council	Draft accounts submitted late for audit. Problems with completeness of supporting working papers. Issues with staff capacity. Consideration of the accounting treatment for a material item in the accounts.	12 October 2017
Cherwell District Council	Problems with the quality of the draft accounts and supporting working papers.	Not yet issued
Copeland Borough Council	Draft accounts submitted late for audit.	Not yet issued
Council of the Isles of Scilly	Draft accounts submitted late for audit.	Not yet issued
Derby City Council	Draft accounts submitted late for audit.	Not yet issued
Kirklees Metropolitan Council	Consideration by the auditor of objections to the 2016/17 accounts which might have a material impact.	Not yet issued
London Borough of Enfield	Resolution of issues identified in the accounts and group accounts.	24 October 2017
Luton Borough Council	Draft accounts submitted late for audit. Issues with staff capacity. Consideration of the accounting treatment for a material item in the accounts.	Not yet issued
Mole Valley District Council	Work required by the Council and audit team to resolve a potentially material uncertainty in the treatment of a lease disposal identified late in the audit.	23 October 2017

Body	Reason why opinion could not be issued by 30 September	Date opinion issued
Newham London Borough Council	Problems with the quality of supporting working papers. Consideration by the auditor of a number of objections to the 2016/17 accounts which might have a material impact.	Not yet issued
Northampton Borough Council	Problems with the quality of supporting working papers. Consideration by the auditor of an objection to the 2016/17 accounts and other matters brought to the auditor's attention which might have a material impact.	Not yet issued
Northumberland Council	Delay in the provision of evidence relevant to a subsidiary company which is consolidated into the Council's accounts.	23 November 2017
Portsmouth City Council	Resourcing challenges for the auditor led to delays in resolving issues identified towards the end of the audit.	Not yet issued
Reading Borough Council	Problems with the quality of the draft accounts and supporting working papers mainly caused by issues linked to staff capacity following the departure of some experienced finance officers.	Not yet issued
Rossendale Borough Council	Consideration of a legal and technical issue relating to a material item in the accounts.	Not yet issued
Royal Borough of Kensington and Chelsea	Resolution of reporting matters to ensure the accounts and annual governance statement reflect accurately the impact of the Grenfell Tower fire.	18 October 2017
Sandwell Metropolitan Borough Council	Consideration by the auditor of an objection to the 2016/17 accounts which might have a material impact.	Not yet issued
Scarborough Borough Council	Consideration by the auditor of objections to the 2015/16 and 2016/17 accounts which might have a material impact.	Not yet issued
Sheffield City Council	Consideration by the auditor of two objections to the 2016/17 accounts which might have a material impact.	Not yet issued

Body	Reason why opinion could not be issued by 30 September	Date opinion issued
Slough Borough Council	Delay in the preparation of group accounts.	Not yet issued
South Cambridgeshire District Council	Issues with continuity of staff supporting the accounts process. Work required to resolve a potentially material issue relating to the valuation of the council's housing stock identified late in the audit.	Not yet issued
South Northamptonshire Council	Problems with the quality of supporting working papers. Consideration of the accounting treatment for a material item in the accounts.	Not yet issued
Spelthorne Borough Council	Problems with the quality of the draft accounts and supporting working papers. Issues with staff capacity.	Not yet issued
Surrey Heath Borough Council	Delay in the provision of evidence relevant to a subsidiary company which is consolidated into the Council's accounts.	15 November 2017
Worcestershire County Council	Problems with the quality of the draft accounts and supporting working papers.	17 October 2017
Fire and rescue authorities		
Leicester, Leicestershire and Rutland Combined Fire Authority	Delay by the Authority in signing and dating the final accounts.	20 October 2017

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Appendix 4: List of principal bodies included in the report

(The 83 bodies included for early issue of the audit opinion are listed in Appendix 2)

Body	Late opinion	Non-standard conclusion on VFM arrangements	Public interest report	Statutory recommendation	2015/16 prior year issue
Councils					
Barnet London Borough Council		✓			
Birmingham City Council		✓			
Bolton Metropolitan Borough Council		✓			
Bristol City Council		✓			
Bromsgrove District Council		✓			
Broxtowe Borough Council	✓				
Buckinghamshire County Council		✓			
Cambridgeshire County Council	✓				
Cherwell District Council	✓				
Cheshire East Council		✓			
Copeland Borough Council	✓				✓
Council of the Isles of Scilly	✓			✓	✓
Cumbria County Council		✓			

Body	Late opinion	Non-standard conclusion on VFM arrangements	Public interest report	Statutory recommendation	2015/16 prior year issue
Derby City Council	✓			✓	✓
Dudley Metropolitan Borough Council		✓			
Exeter City Council		✓			
Kirklees Metropolitan Council	✓				
London Borough of Bromley		✓			
London Borough of Croydon		✓			
London Borough of Enfield	✓				
London Borough of Tower Hamlets		✓			✓
Luton Borough Council	✓				✓
Manchester City Council		✓			
Middlesbrough Council		✓			
Mole Valley District Council	✓				
Newham London Borough Council	✓				
Northampton Borough Council	✓				
Northamptonshire County Council					
Northumberland Council	✓	✓			

Body	Late opinion	Non-standard conclusion on VFM arrangements	Public interest report	Statutory recommendation	2015/16 prior year issue
Portsmouth City Council	✓				
Reading Borough Council	✓			✓	✓
Redditch Borough Council		✓			
Rossendale Borough Council	✓				
Royal Borough of Kensington and Chelsea	✓				
Sandwell Metropolitan Borough Council	✓				
Scarborough Borough Council	✓				
Sheffield City Council	✓				
Slough Borough Council	✓				✓
Somerset County Council		✓			
South Cambridgeshire District Council	✓				
South Derbyshire District Council		✓			
South Gloucestershire Council		✓			
South Northamptonshire Council	✓				
South Oxfordshire District Council		✓			
South Ribble Borough Council		✓			✓

Body	Late opinion	Non-standard conclusion on VFM arrangements	Public interest report	Statutory recommendation	2015/16 prior year issue
Spelthorne Borough Council	✓				
Sunderland City Council		✓			
Surrey County Council		✓			
Surrey Heath Borough Council	✓				
Tameside Metropolitan Borough Council		✓			
Torbay Council		✓			
Vale of White Horse District Council		✓			
Wirral Metropolitan Borough Council		✓			
Worcestershire County Council	✓	✓			
Fire and rescue authorities					
Avon Fire Authority		✓			
Leicester, Leicestershire and Rutland Combined Fire Authority	✓				
South Yorkshire Fire and Rescue Authority		✓			
Other local government bodies					
South Yorkshire Passenger Transport Executive		✓			

Appendix 5: Opinions issued by 30 September 2017 on the 2016/17 annual return by county area

County area	Number of parish councils	Opinions issued by 30 September 2017	Number of IDBs	Opinions issued by 30 September 2017
Avon	137	134	1	1
Bedfordshire	126	120	1	1
Berkshire	103	102	0	0
Buckinghamshire	218	211	1	1
Cambridgeshire	258	256	42	42
Cheshire	233	221	0	0
Cleveland and Durham	184	175	0	0
Cornwall	213	198	0	0
Cumbria	268	256	0	0
Derbyshire	256	250	0	0
Devon	401	383	1	0
Dorset	192	184	0	0
East Sussex	103	101	5	5
Essex	283	281	0	0
Gloucestershire	263	245	0	0
Hampshire and Isle of Wight	296	288	0	0
Herefordshire	137	131	1	1
Hertfordshire	124	118	0	0
Humberside	245	240	15	15
Kent	316	314	5	5
Lancashire	247	234	1	1
Leicestershire	281	269	0	0
Lincolnshire	473	453	9	9
London	1	1	0	0
Norfolk	527	510	13	13
North Yorkshire	602	598	8	8
Northamptonshire	263	249	0	0
Northumberland	156	151	0	0
Nottinghamshire	209	201	1	1
Oxfordshire	316	301	0	0
Shropshire	194	188	2	2
Somerset	316	306	2	1
South Yorkshire	91	85	2	2
Staffordshire	186	178	0	0
Suffolk	426	407	4	4
Surrey	87	85	0	0
Warwickshire	225	218	1	1
West Sussex	156	156	3	3
West Yorkshire	91	90	0	0
Wiltshire	269	257	0	
Worcestershire	162	156	1	1
Total	**9,634**	**9,301 (97%)**	**118**	**116 (98%)**

Source: PSAA

Appendix 6: Assertions in the annual governance statement for small bodies

AGS assertion	'Yes' means that the small body took the following action:
1 We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.	Prepared its accounting statements in accordance with the Accounts and Audit Regulations.
2 We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	Made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.
3 We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and proper practices that could have a significant financial effect on the ability of this smaller authority to conduct its business or on its finances.	Has only done what it has the legal power to do and has complied with proper practices in doing so.
4 We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.	During the year has given all persons interested the opportunity to inspect and ask questions about the authority's accounts.
5 We carried out an assessment of the risks facing this smaller authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Considered the financial and other risks it faces and has dealt with them properly.
6 We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.	Arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether these meet the needs of this smaller authority.
7 We took appropriate action on all matters raised in reports from internal and external audit.	Responded to matters brought to its attention by internal and external audit.
8 We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this smaller authority and, where appropriate have included them in the accounting statements.	Disclosed everything it should have about its business activity during the year including events taking place after the year-end if relevant.
For parish councils only	
9 Trust funds (including charitable) – in our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.	Has met all of its responsibilities where it is a sole managing trustee of a local trust or trusts.

Appendix 7: Qualified opinions for small bodies by county area

The number of qualified opinions issued by 30 September for each county area shown as a percentage of small bodies in that area.

County area	Parish council qualified opinions 2016/17	Parish council qualified opinions 2015/16	IDB qualified opinions 2016/17	IDB qualified opinions 2015/16
Avon	25 (18%)	8 (6%)	0 (0%)	0 (0%)
Bedfordshire	17 (13%)	15 (12%)	0 (0%)	0 (0%)
Berkshire	13 (13%)	10 (10%)	0 (0%)	N/A
Buckinghamshire	28 (13%)	25 (11%)	0 (0%)	0 (0%)
Cambridgeshire	73 (28%)	45 (17%)	2 (5%)	0 (0%)
Cheshire	62 (27%)	33 (14%)	0 (0%)	N/A
Cleveland and Durham	39 (21%)	20 (11%)	0 (0%)	N/A
Cornwall	37 (17%)	19 (9%)	0 (0%)	N/A
Cumbria	59 (22%)	24 (9%)	0 (0%)	N/A
Derbyshire	59 (23%)	38 (15%)	0 (0%)	N/A
Devon	81 (20%)	66 (16%)	0 (0%)	0 (0%)
Dorset	32 (17%)	19 (10%)	0 (0%)	N/A
East Sussex	27 (26%)	26 (25%)	0 (0%)	0 (0%)
Essex	87 (31%)	59 (21%)	0 (0%)	N/A
Gloucestershire	58 (22%)	49 (19%)	0 (0%)	N/A
Hampshire and Isle of Wight	51 (17%)	32 (11%)	0 (0%)	N/A
Herefordshire	26 (19%)	13 (9%)	0 (0%)	1 (100%)
Hertfordshire	36 (29%)	21 (17%)	0 (0%)	N/A
Humberside	95 (39%)	59 (24%)	5 (33%)	1 (7%)
Kent	97 (31%)	50 (16%)	1 (20%)	0 (0%)
Lancashire	37 (15%)	25 (10%)	0 (0%)	0 (0%)
Leicestershire	87 (31%)	52 (19%)	0 (0%)	N/A
Lincolnshire	99 (21%)	73 (15%)	1 (11%)	0 (0%)
London	0 (0%)	0 (0%)	0 (0%)	N/A
Norfolk	78 (15%)	28 (5%)	0 (0%)	2 (15%)
North Yorkshire	216 (36%)	139 (23%)	3 (38%)	0 (0%)
Northamptonshire	45 (17%)	21 (8%)	0 (0%)	N/A
Northumberland	42 (27%)	13 (8%)	0 (0%)	N/A
Nottinghamshire	57 (27%)	37 (18%)	0 (0%)	0 (0%)
Oxfordshire	65 (21%)	38 (12%)	0 (0%)	N/A
Shropshire	34 (18%)	20 (10%)	0 (0%)	1 (50%)
Somerset	53 (17%)	42 (13%)	0 (0%)	0 (0%)
South Yorkshire	23 (25%)	7 (8%)	0 (0%)	0 (0%)
Staffordshire	27 (15%)	26 (14%)	0 (0%)	N/A
Suffolk	99 (23%)	44 (10%)	0 (0%)	0 (0%)
Surrey	14 (16%)	5 (6%)	0 (0%)	N/A
Warwickshire	68 (30%)	44 (20%)	0 (0%)	0 (0%)
West Sussex	46 (29%)	24 (15%)	0 (0%)	0 (0%)
West Yorkshire	34 (37%)	14 (16%)	0 (0%)	N/A
Wiltshire	50 (19%)	39 (14%)	0 (0%)	N/A
Worcestershire	27 (17%)	20 (12%)	0 (0%)	N/A
Total	**2,203 (24%)**	**1,342 (14%)**	**12 (10%)**	**5 (4%)**

Source: PSAA

LICENSING & GENERAL PURPOSES
29 JANUARY 2018

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1809

ACCOUNTING POLICIES AND RELATED MATTERS FOR THE YEAR 2017/18

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report reviews the proposed accounting policies to be applied for the closure of the 2017/18 accounts. These are prepared in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2017/18 (the Code). Adopting the policies supports timely and robust production of a high-quality set of annual accounts. In addition, this report notifies members of the nature of updated disclosures required and reviews the internal level of materiality.

RECOMMENDATION:

(i) Licensing and General Purposes Committee adopt the accounting policies including the amendment disclosed at Appendix 1 for closure of the 2017/18 Accounts

(ii) The Committee notes the updated disclosures and internal level of materiality to be included within the statement of accounts for 2017/18.

1 INTRODUCTION

1.1 As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. This process is described in the Code as proper accounting practices and the Council has limited discretion. In relation to the financial year 2017/18 there has been no change in the requirements of the Accounting Policies, changes in accounting estimates and errors section of the Code since 2016/17 that are relevant to the Council. Accounting policies are discussed at Section 2 of this report.

1.2 Other items for the committee to note are provided at:

<u>Section of this report</u>

3 Materiality
4 Disclosure review

2 ACCOUNTING POLICIES

2.1 The accounting policies have not changed compared to the policies applied for the previous financial year (2016/17), other than for the following reasons:

(a) Cash and cash equivalents policy has been clarified to remove ambiguity with Investments.

(b) Introduction of new accounting policy related to the capitalisation of borrowing cost.

Appendix 1 provides detail of this updated accounting policy.

(c) Date references relating to the financial year 2017/18 applicable to some of the accounting policies have been updated

2.2 The entire set of accounting policies applied for the year 2017/18 remain as per the previous financial year, and apart from changes disclosed at paragraph 2.1 there are no other modifications of amendments required. These accounting policies do not depart from the provisions of the 2017/18 Code.

3 MATERIALITY

3.1 On 28th May 2015 the Licensing and General Purposes committee approved an agenda item entitled “Financial Statements – Decluttering the accounts”. This paper discussed that the majority of the existing disclosures are requirements laid down in the CIPFA Accounting Code of Practice (ACOP), but there remains some scope within the ‘decluttering’ agenda to rationalise what information is included in the statements.

3.2 In addition, the report discussed the internal level of materiality that members recommended for the preparation of each year’s statement of accounts. The committee approved the application of a de-minimus level of materiality of 1% of total Net Assets/Reserves (measured at the start of the financial year) regarding the preparation of the statement of accounts. For 2017/18 the committee should note this amount is marginally increased to £863,830.

3.3 Members should however note that the materiality threshold may be lower, for example for common transactions and outcomes where materiality judgements are usually particularly sensitive. These include:

(a) Transactions with related parties
(b) Sensitive matters, such as fraud and non-compliance with law
(c) Unusual or non-recurring transactions/balances

4 **DISCLOSURE REVIEW**

~~4.1~~ The Finance Accountancy team have reviewed the statement of accounts for 2016/17 for potential disclosure amendments against materiality for the Council, with no amendments identified. The preparations for 2017/18 account disclosure are commencing shortly and will be reviewed against the previous years' disclosures in line with above stated level of materiality.

5 CONCLUSION

5.1 This report states the accounting policies, informs members of additional/amended disclosures, the level of internal materiality applied in the statement of accounts for 2017/18.

6 BACKGROUND INFORMATION

See http://www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment

And:

http://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201718-book

AMANDA FAHEY **HEAD OF FINANCIAL SERVICES**

Accounting Policy for "Overheads and Support Services" **Appendix 1**

Minor amendments are presented for the accounting policy stated below in order for it to accommodate changes in reporting practice and style required for the Council's Statement of Accounts for 2017/18

i. Cash and Cash Equivalents (for application to the 2017/18 accounts)

Cash and cash equivalents includes all bank accounts including overdrafts that are an integral part of the Authority's cash management.

Cash is represented by cash in hand and deposits with financial institutions repayable without out penalty on notice of not more than 24 hours.

Cash equivalents are deposits held with financial institutions that mature in no more than one month or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

The above accounting policy was PREVIOUSLY stated as below:

ii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without out penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in no more than one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

iii. Borrowing Costs Eligible for Capitalisation

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset (as defined within IAS 23) had not been made. The Council recognises the accounting requirements of IAS 23 and determines the amount of borrowing costs that are eligible for capitalisation by applying a capitalisation rate to the expenditures on the qualifying asset. The capitalisation rate is the total borrowing costs related to the spend on the specific asset based on the average cost of the Council's total debt.

The Council only applies a process of capitalisation of borrowing costs for qualifying assets, in the following circumstances:

- Scheme capital expenditure exceeds £1m,
- Scheme capital expenditure results in an asset or revenue income stream,
- Duration of scheme creation is more than one financial year.

No PREVIOUS accounting policy stated

Appendix 2

Statement of Accounts 2017/18 - Certification, Approval and Publication

Rushmoor's Statement of Accounts 2017/18 - To be available at 31st May 2018

Certification by the Chief Financial Officer

The CFO must:

(a) sign and date the Statement of Accounts
(b) confirm that they are satisfied that the Statement presents a true and fair view of the financial position of the authority at the end of the financial year
(c) the authority's income and expenditure for the financial year

The certification has to be signed off before the draft Statement of Accounts is made available for public inspection. The effective deadline for 2017/18 is the day before the first working day of June 2018 (i.e. 31st May 2018)

The requirement for the end of May certification effectively establishes an end-point for the drafting of the Statement of Accounts. By this date the Statement will be in such a state of completion and accuracy that the CFO is assured that it presents a true and fair view. Subsequent changes would be related to the correction of misstatements and omissions identified by the auditor or the updating of disclosures for subsequent events.

Public Inspection Period

For 2017/18 there is a formal requirement to publish the unaudited Statement as the focus for the public inspection period. As described above, the CFO will sign, date and certify the unaudited Statement of Accounts for 2017/18 and commence the period for the exercise of public rights. The inspection period must comprise a single period of 30 working days. For the 2017/18 Accounts, the period will start on Friday 1st June 2018 and end on Friday 13th July 2018.

Website publication and additional information that accompanies the Accounts (including the exercise of public rights)

The CFO will publish the unaudited certified Statement of Accounts (which must at least include publication on the authority's website).

The unaudited 2017/18 Statement of Accounts must be accompanied by:

(a) a CFO signed declaration that the Statement of Accounts are unaudited and may be subject to change
(b) the Annual Governance Statement
(c) the Narrative Statement

The CFO must also publish a statement under regulation that sets out:

(a) the period for the exercise of public rights
(b) details of how interested parties should give notice of an intention to inspect the accounting records and other documents
(c) the name and address of the local auditor
(d) the provisions regarding the rights of public inspection of documents
(e) right to make objections at audit)

The period for the exercise of public rights then commences on the day after the requirements for the publication of the unaudited Statement of Accounts and the statement of public rights have been satisfied.

The CFO is required to notify the external auditor when the public inspection period has commenced.

Rights of inspection

Any persons interested may:
(a) inspect the accounting records for the financial year to which the audit relates and all books, deeds, contracts, bills, vouchers, receipts and other documents relating to them
(b) make copies of all or any part of those records or documents

On completion of external audit (to be a date in July 2018 prior to the L & GP Committee meeting

The CFO must re-confirm their view that the Statement of Accounts presents a true and fair view before it is given member approval. This is an absolute requirement, and the CFO cannot rely on the original certification, even if the Statement of Accounts has not changed since the unaudited version was published.

Approval by Members in July 2018

Members are required to approve the Statement of Accounts at the L & GP meeting in July 2018. Members have a duty to:
(a) consider the Statement of Accounts
(b) approve the Statement by a resolution
(c) ensure that the Statement is signed and dated by person presiding at the meeting

Publication

The approved the Statement of Accounts for 2017/18 must then be re-published with
(a) the Annual Governance Statement (also approved by members in advance of the Statement of Accounts)
(b) the Narrative Statement

The Regulations state the above as separate documents. This is important for the Statement of Accounts, as this is the document that the CFO and the auditor are required to certify as true and fair and care needs to be taken that this view is not taken to apply to any other statement.

Once the Statement of Accounts is published, the Council must:

(a) keep copies of the Statement of Accounts, Annual Governance Statement and Narrative Statement for purchase on payment of a reasonable sum

(b) ensure that the three Statements remain available for public access for at least five years after the date of publication

The Council must additionally publish a statement as soon as reasonably practicable after the conclusion of the audit. The statement must include

(a) confirmation that the audit has been concluded and that the Statement of Accounts has been published

(b) information about electors' rights of to inspect and make copies of the Statement of Accounts, the auditor's certificate of completion, the auditor's opinion on the Statement of Accounts, any public interest report relating to the authority or an entity connected with it, and any recommendation relating to the authority or an entity connected with it

(c) details of the address and the hours during which inspection rights may be exercised

Electors have a right to inspect the documents at all reasonable times and without payment and a right to be supplied with copies on payment of a reasonable sum.

Annual audit letter

When the annual audit letter is received from the auditor, the L & GP committee will meet to consider its contents as soon as reasonably practicable. The Council then must

(a) publish the audit letter

(b) make copies available for purchase on payment of such sum as the authority may reasonably require

LICENSING AND GENERAL PURPOSES COMMITTEE
29 JANUARY 2018

HEAD OF FINANCIAL SERVICES
REPORT NO: FIN1810

FOLLOW UP FROM AUDIT RESULTS REPORT

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report sets out a proposed course of action in response to observations made by Ernst & Young and set out in their annual Audit Results Report, and in the Annual Audit Letter, previously reported to the Licensing & General Purposes Committee on 25th September 2017 and on 27th November 2017 respectively.

RECOMMENDATION: To consider the proposals and agree an action plan in response to the observations.

1 BACKGROUND

1.1 Ernst and Young LLP, the Council's appointed auditor, presented their Audit Results Report to the Licencing & General Purposes Committee on 25th September 2017. An unqualified audit opinion was subsequently issued in respect of the Council's Annual Statement of Accounts and concluded that the Council has in place proper arrangements to secure value for money in its use of resources.

1.2 The Audit Results Report is scrutinised by the Licensing and General Purposes Committee as part of their role as 'those charged with governance' i.e. the Committee of the Council that has responsibility for matters such as the Annual Governance Report and approval of the Council's financial statements.

1.3 The Executive Summary within the report contained the following paragraph in relation to the operation of internal controls.

Control observations
We have adopted a fully substantive approach and so have not tested the operation of controls. As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.
We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which they are not aware. However we note some areas for improvement, covering the operation of the Councils governance, assurance and risk management processes, which are discussed in Section 7.

1.4 Section 7 of the report, Assessment of Control Environment, set out detailed recommendations in respect of four observations.

Assessment of control environment
It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as auditor is to consider whether the Council has adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice. As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have not tested the operation of controls.
Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements of which they are not aware. However we note four areas for improvement which we have identified as part of our work.
Observation 1: Revised Terms of Reference and work programme for the L&GP Committee
Following the committees restructure the L&GP Committee is responsible for carrying out the functions of an audit committee for the Council. Our review of its current Terms of Reference and output for 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committee which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) production of an annual report of its achievements for Cabinet.
Recommendation
The Licensing and General Purposes Committee Terms of Reference should reflect those requirements of an audit committee as specified in CIPFA's Position Statement and guidance on Audit Committees to ensure that its work programme for the year covers all best practice requirements.
Observation 2: Mapping and reporting of the Council's Assurance Framework
The Council is lacking an overarching assurance framework which is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Council can then use this to effectively manage performance and risk through identifying and reporting on continuous improvement and areas where management need to focus their attention. A good assurance framework, if reported to the Council's L&GP Committee will provide wider assurance than controls, integrating financial, risk and performance measurements, independent assurance with VFM outcomes. It also underpins planning, performance management and risk management leading to a good understanding of how the Council achieves its objectives and addresses areas for improvement. This will be a useful investment and may reduce the amount of scrutiny committee time needed.
Recommendation
The Council should consider mapping its Assurance Framework, where it obtains its assurances, where there are gaps and risks to manage and actions to take. Also then agree on the reporting of this to the Licensing and General Purposes Committee, which will give members a clear view of how the Council is achieving its objectives and addressing areas for improvement.
Observation 3: Review of Risk Management Framework

The Internal Auditor's Opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes provides underlying assurances for the Council's Annual Governance Statement. The Head of Internal Audit's Opinion for 2016/17 was based on eight reviews, six of which were financial system reviews. Improvements have been made in terms of to the planning and scoping of internal audit work for 2017/18, however there is no planned review of the effectiveness of the Council's Risk Management Framework. The Council's Risk management framework was identified as a significant governance issue in both the 2015/16 and the 2016/17 Annual Governance Statements as the Council recognises that risk management needs to be better embedded within the Council. The Council is currently updating the Corporate Risk Register, risk policies and practice through its re-invigoration of the Risk Management Group. However the Risk Register still needs to be based on the risks around the delivery of the Council's strategic objectives.
Recommendation
Internal Audit should provide assurance over the adequacy of the Council's Risk Management Framework, to underpin the 2017/18 Annual Governance Statement, if they carried out a review of the Council's improved risk management arrangements before March 2018.
Observation 4: Robust challenge of experts
The Council's valuers, Wilks, Head and Eve (WHE) estimated that there was a £24.192 million upward revaluation of land and buildings compared to the Council's PPE asset opening balance of £67.455 million. Given the significant increase of some £24 million, it appears that management did discuss the outcome of the valuation work with WHE, however management did not document how they were satisfied that the valuation estimates were reasonable. Also, given the differences identified in section 2 of this report, it is our view that the valuers need a more robust setting of scope and challenge process to ensure the valuation approach meets the individual circumstances of the assets being revalued.
Recommendation
Whilst appreciating that valuations are a matter of professional judgement, management should critically appraise the information provided to valuers to ensure it is accurate and understood, assess the methods and assumptions used against the accepted accounting practices and challenge where potential anomalies arise. Management should then document their challenge of the significant estimates made by experts so they can satisfy themselves that the entries in the financial statements are reasonable.

1.5 The Annual Audit Letter (AAL) produced by Ernst &Young, and presented to Committee at its November meeting, also identified observations 1 and 2 above as matters to bring to the attention of the Committee. This is set out in the following extract from the AAL:

Extract from Annual Audit Letter for the year ended 31 March 2017 – Ernst & Young LLP

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, our audit did identify the following control issues to bring to the attention of the Licensing and General Purposes Committee.

Observation	**Recommendation**
Revised Terms of Reference and work programme for the L&GP Committee Following the committees restructure the L&GP Committee is responsible for carrying out the functions of an audit committee for the Council. Our review of its current Terms of Reference and output for 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committee which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) production of an annual report of its achievements for Cabinet	The Licensing and General Purposes Committee Terms of Reference should reflect those requirements of an audit committee as specified in CIPFA's Position Statement and guidance on Audit Committees to ensure that its work programme for the year covers all best practice requirements.
Mapping and reporting of the Council's Assurance Framework The Council is lacking an overarching assurance framework which is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Council can then use this to effectively manage performance and risk through identifying and reporting on continuous improvement and areas where management need to focus their attention. A good assurance framework, if reported to the Council's L&GP Committee will provide wider assurance than controls, integrating financial, risk and performance measurements, independent assurance with VFM outcomes. It also underpins planning, performance management and risk management leading to a good understanding of how the Council achieves its objectives and addresses areas for improvement. This will be a useful investment and may reduce the amount of scrutiny committee time needed.	The Council should consider mapping its Assurance Framework, where it obtains its assurances, where there are gaps and risks to manage and actions to take. Also then agree on the reporting of this to the Licensing and General Purposes Committee, which will give members a clear view of how the Council is achieving its objectives and addressing areas for improvement

1.6 These observations and the accompanying recommendations were discussed at the meetings to which they were presented. In addition, at its November meeting the Head of Financial Services agreed to bring forward a high-level action plan to the next meeting of the Committee to aid discussion on the Council's response to the recommendations.

1.7 The proposed plan is set out at Appendix A with indicative timescales for each action.

1.8 Members are invited to discuss the proposals and agree the broad themes of work to improve the effectiveness of the control environment, having consideration to the recommendations of the external auditors.

CONTACT DETAILS:

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES
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01252 398440

APPENDIX A

Observation:	Proposed action:	Comment/Date:
Revised Terms of Reference and work programme for the L&GP Committee	Review Terms of Reference against Cipfa's best practice guidance	Guide on order from Cipfa publications 15/01/18.
	Create a work programme for the year	Plan to draw up a programme based on best practice guidance to consider at first meeting of the municipal year
	Provide regular risk management updates to Committee	First report to Committee in January with planned, regular updates
	Self-assessment of effectiveness	To consider format and timing in consultation with external auditors and having due regard to best practice
	Annual Report of achievements to Cabinet	Work with Democratic Services to determine the most effective way of reporting the work of the Committee to the Cabinet
Mapping and reporting of the Council's Assurance Framework	To map the Assurance Framework, report to Committee and report on gaps/risks with an action plan	Background work has commenced led by the interim Audit Manager and informed by the external auditors. This is a longer-term piece of work that will come forward on the work plan once developed.
Review of Risk Management Framework	To ensure that the internal audit plan and the annual governance statement take due regard to a review of the Council's risk framework.	This work is underway. The internal audit plan submitted to Committee in January takes a risk-based approach with a focus on governance issues. The draft Risk Register has been improved and updated and reported to Committee in January. Risk will form part of the work of the external auditors in their review of the "Value for money" conclusion for 2017/18 financial year.
Robust challenge of experts	To improve practise around valuation requests to external experts by; providing the framework in which the Council expects the valuer to work; supplying sufficient detail to enable a robust valuation to be carried out; documenting the process and all communications; and challenging the valuations where appropriate. This will enable the Council to satisfy themselves that the entries in the financial statements are correct.	This will be an area of focus for the external auditors in the audit of the 2017/18 financial statements (as set out in the Audit Planning Report reported to Committee in January). A procurement process has been undertaken by the Council to secure expert valuers for the 2017/18 work (to be carried out between January and March). The tender set out minimum requirements both qualitative as well as quantitative, with responses setting out experience and methodology. Discussions have taken place between external audit, the Finance Manager and the Legal & Estates team to ensure the process is rigorous. Members will be updated as part of the final accounts process and through the work of the external auditor in the Audit Results Report for 2017/18.
Other actions proposed to underpin the above:	Improved communications about available training and forums	For example, list of EY Audit Committee Chair forums - next dates 25th January 2018 Reading, 5th February 2018 Southampton
	Targeted training for Members of the Committee to understand their role as "those charged with governance"	Need to develop training aligned with revised terms of reference and work plan - working with new Finance Manager on design in consultation with internal and external auditors.