



RUSHMOOR BOROUGH COUNCIL

LICENSING, AUDIT AND GENERAL PURPOSES COMMITTEE

*to be held as a Virtual Meeting on
Monday, 28th September, 2020 at 7.00 pm*

To:

Cllr S.J. Masterson (Chairman)
Cllr Mara Makunura (Vice-Chairman)

Cllr Sophia Choudhary
Cllr A.K. Chowdhury
Cllr A.H. Crawford
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr A.J. Halstead
Cllr L. Jeffers
Cllr Prabesh KC
Cllr Jacqui Vosper

STANDING DEPUTIES

Cllr Sue Carter
Cllr C.P. Grattan

Enquiries regarding this agenda should be referred to the Committee Administrator,
Marion Young, Democracy and Community, Tel. (01252 398827) or email
marion.young@rushmoor.gov.uk.

A G E N D A

1. **MINUTES – (Pages 1 - 4)**

To confirm the Minutes of the Meeting held on 28th July, 2020 (copy attached).

2. **STATEMENT OF ACCOUNTS AND AUDIT RESULTS 2018/19 – (Pages 5 - 56)**

To consider the Executive Head of Finance's Report (copy to follow) which seeks approval for the Council's Statement of Accounts 2018/19 and summarises the findings of the Council's auditors, Ernst & Young, in carrying out their audit work in relation to the 2018/19 financial year. A representative from Ernst & Young will be in attendance to present their Audit Results Report 2018/19 (copy to follow).

3. **INTERNAL AUDIT - AUDIT UPDATE – (Pages 57 - 96)**

To consider the Audit Manager's Report No. AUD 20/08 (copy attached), which describes the work carried out by Internal Audit for quarter 2 and the update to the expected deliverables for quarter 3.

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 two working days prior to the meeting.

LICENSING, AUDIT AND GENERAL PURPOSES COMMITTEE

Meeting held on Tuesday, 28th July, 2020 at the Remote meeting - link to view the meeting is below at 7.00 pm.

Voting Members

Cllr S.J. Masterson (Chairman)
Cllr Mara Makunura (Vice-Chairman)

Cllr Sophia Choudhary
Cllr A.K. Chowdhury
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr A.J. Halstead
Cllr L. Jeffers
Cllr Prabesh KC
Cllr Jacqui Vosper

Apologies for absence were submitted on behalf of Cllr A.H. Crawford.

6. MINUTES

The Minutes of the meeting held on 28th May, 2020 were approved and would be signed by the Chairman at a later date.

7. AUDIT RESULTS REPORT AND STATEMENT OF ACCOUNTS 2018/19 - UPDATE 5

The Committee received the Executive Head of Finance's Report No. FIN2019 which provided Members with an update on audit progress for the Council's Statement of Accounts for 2018/19 and on the provision of audit opinion since the last meeting on 28th May, 2020.

The Executive Head of Finance reminded members that at the meeting in May 2020, they were advised that Covid-19 had given rise to a Post Balance Sheet Event (PBSE) and posed an ongoing risk to the Council's financial standing. It had been noted that, in order to complete the Accounts and Audit Opinion process, the Statement of Accounts needed to include a detailed Disclosure Note that addressed the impact on the Council's finances from Covid-19 and consideration of the Going Concern basis.

The Executive Head of Finance advised that whilst a draft Disclosure Note had been prepared and shared with Ernst & Young (EY) in early July, 2020, it required amendment to include the latest financial information, based on the Q1 2020/21 budget monitoring position, and a projection of the Council's cashflow for the following twelve months and reserves over the current Medium Term Financial

Strategy (MTFS) period. Once these amendments had been made, the Disclosure Note would be subject to EY's audit and assurances processes.

To agree the accounts and audit opinion before the next scheduled meeting of the Committee on 28th September, 2020, it was proposed that, in order to finalise the Statement of Accounts process and receive the external Auditor's Report, authority was delegated to the Chairman and to the Executive Head of Finance to approve formally and certify the audited 2018/19 Statement of Accounts and receive the External Auditor's Report from EY. Members would be provided with a copy of the final draft documents in advance to give them a limited opportunity to ask questions and seek clarification on matters identified in the report.

The Committee noted the new deadlines for the completion and publication of the 2019/20 Statement of Accounts, as set out in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which came into force on 30th April, 2020.

RESOLVED: That, subject to Members of the Committee being provided with a copy of the audited Statement of Accounts and the Audit Results Report in advance, the Chairman of the Committee and the Executive Head of Finance be authorised to approve formally and certify the audited Statement of Accounts 2018/19 and to receive the External Auditor's Report.

8. INTERNAL AUDIT - AUDIT UPDATE

The Committee considered the Audit Manager's Report No. AUD20/06 which provided an update on work carried out by Internal Audit for quarter 1 2020/21, including the work slipped from quarter 4 2019/20, and the expected deliverables for quarter 2.

The Audit Manager responded to queries on 'Timing of Invoice Issue' and 'Changes to Insurance Requirements'. In respect of compliance with the Payment Card Industry Data Security Standards (PCI DSS) in relation to a card terminal at Princes Hall, the Executive Head of Finance would provide Members with a written response on this matter.

RESOLVED: That the audit work carried out in quarter 1 2020/21, including work slipped from quarter 4 2019/20, and the expected deliverables for quarter 2 2020/21, as set out in the Audit Manager's Report No. AUD20/06, be noted.

9. ANNUAL GOVERNANCE STATEMENT

The Committee considered the Audit Manager's Report No. AUD20/07, which set out the Annual Governance Statement 2019/20 for publication alongside the Council's Statement of Accounts.

It was noted that the Accounts and Audit Regulations 2015 required councils to prepare and publish an Annual Governance Statement in order to report publicly on the extent to which the Council complied with its Code of Corporate Governance, including how the Council had monitored the effectiveness of arrangements in the year and on any planned changes to the governance arrangements in the following

year. In particular, the Committee noted that, due to the current Covid-19 pandemic, details of the changes impacting on the governance arrangements within the Council had been included, to provide an update on the current situation and the potential challenges facing the Council during 2020/21.

RESOLVED: That approval be given to:

- (i) the Council's Annual Governance Statement 2019/20;
- (ii) authorising the Chief Executive and Leader of the Council to sign the Annual Governance Statement; and
- (iii) the publication of the Annual Governance Statement alongside the Council's Statement of Accounts for 2019/20.

10. **MODEL CODE OF CONDUCT CONSULTATION**

The Corporate Manager – Legal Services introduced the Model Code of Conduct Consultation. The Committee noted that the Local Government Association (LGA) was carrying out a review of the current model member code of conduct and had recently published a consultation document on the new model code for comment by 17th August, 2020. Members were encouraged to provide feedback on the proposed new Code which would then be presented in its final form to the LGA General Assembly in Autumn 2020.

RESOLVED: That the consultation on a revised Model Code of Conduct be noted.

The meeting closed at 7.55 pm.

CLLR S.J. MASTERSON (CHAIRMAN)

This page is intentionally left blank

LICENSING, AUDIT & GENERAL
PURPOSES COMMITTEE
28 SEPTEMBER 2020

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2028

STATEMENT OF ACCOUNTS 2018/19 – UPDATE 6

SUMMARY:

The purpose of this report is to inform Members' of audit progress for the Council's Statement of Accounts for 2018/19 and provision of the audit opinion since the meeting on 28 July 2020. The Committee is reminded that the deadline for issuing a final set of audit statements of accounts and audit opinion of 31 July 2019 was not met.

RECOMMENDATIONS:

It is proposed that subject to all Members of the Committee being provided with a copy of the audited Statement of Accounts and the Audit Results Report in advance, the Chairman of the Committee and the Executive Head of Finance be authorised to approve formally and certify the audited Statement of Accounts 2018/19 and to receive the External Auditor's Report.

1 INTRODUCTION

- 1.1 The Council published a draft statement of account 2018/19 on 31 May 2019. The Council is required under regulation to obtain an independent external audit opinion on the true and fair nature of the statement of accounts. Following provision of the external audit opinion the relevant Council Committee (being Licencing, Audit and General Purposes Committee) is required to approve the accounts and publish both the approved set of account and the audit opinion by 31 July 2019.
 - 1.2 As reported to the committee at the meetings on 29 July 2019, 23 September 2019, 23 March 2020, 28 May 2020 and 28 July 2020 the Council's external auditor opinion was not due to be received until after the statutory deadline of 31 July 2019. Members were informed that the delay in the opinion being issued was largely due to material changes in the valuation of the Council's fixed assets. The impact of Covid-19 on the Council's finances has also contributed to slower than anticipated progress due to the need to provide a Disclosure Note covering a 12-month period from the likely audit opinion date.
 - 1.3 In terms of context, it is worth noting that there were 208 public bodies (Councils, Fire and Rescue, Police and other LG bodies) that did not receive an auditor opinion by 31 July 2019 (around 40%) – as compared to 64 at the same point the previous year.
- 2** This report provides members with an update on progress made since July 2020.

3 CURRENT STATUS OF THE AUDIT

- 3.1 Members will be aware from the meetings in 2020 that the Council's external auditors had largely concluded their audit work and had issued a draft Audit Results Report.
- 3.2 A number of adjustments were required to the financial statement, which required a subsequent review of the final Statement of Accounts by EY to ensure that all material changes had been made before issuing their final opinion.
- 3.3 At the meeting on 28 May 2020, it was noted that Covid-19 gave rise to a Post Balance Sheet Event (PBSE) and posed an ongoing risk to the Council's financial standing. In order to complete the accounts and audit opinion process, the Statement of Accounts would need to include a detailed Disclosure Note that addressed impact on the Council's Finances from Covid-19 and considered the Going Concern basis.
- 3.4 An updated Disclosure Note was drafted and provided to EY at the beginning of September following work undertaken on the 2019/20 Outturn. This allowed a forward projection of the Council's Reserves and Balances and a projection of the Council's cashflow for the next 12 months and reserves over the current MTFS period.
- 3.5 EY have provided a draft Audit Results report which has been included on the Agenda for consideration at this meeting. The final version of the 2018/19 Statement of Accounts will include the updated narrative statement and Disclosure Note. It is anticipated that this will be provided to EY by the end of September 2020 once final formatting and cross-referencing checks have been completed. Subject to EY's audit and assurance processes, it can be expected that an audit opinion and the final audit results report will be received in early October 2020.
- 3.6 Therefore, in order to agree the accounts and audit opinion before the next scheduled meeting of the committee in November 2020, it is proposed that subject to all Members of the Committee being provided with a copy of the audited Statement of Accounts and the Audit Results Report in advance, the Chairman of the Committee and the Executive Head of Finance be authorised to approve formally and certify the audited Statement of Accounts 2018/19 and to receive the final External Auditor's Report.

4 2019/20 STATEMENT OF ACCOUNTS AND AUDIT TIMINGS

- 4.1 As reported to the committee in May 2020, deadlines for the completion and publication of the 2019/20 accounts have been relaxed recognising the possible disruption to relevant authorities caused by the spread of coronavirus.

4.2 The table below sets out the changes made to the deadlines, as set out in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which came into force on 30 April 2020.

Action	Deadline as set out in Accounts and Audit Regulations 2015	Revised Deadline as set out in Accounts and Audit (Coronavirus) (Amendment) Regulations 2020
Draft Accounts completion	31 May	31 August
Public Inspection period	First 10 working days of June of the financial year immediately following the end of the financial year to which the statement relates	First 10 working days of September of the financial year immediately following the end of the financial year to which the statement relates
Publication of Accounts	31 July	30 November

4.3 In accordance with the revised timetable, the Council published the draft 2019/20 Statement of Accounts on 31 August 2020. These are available on the Council's website: <https://www.rushmoor.gov.uk/statementofaccounts>

4.4 It is expected that the main element of audit work on the financial statements will start in the week commencing 12 October 2020, with EY anticipating the audit work will take 4 weeks to complete. Subject to EY's audit and assurance processes, it can be expected that an audit opinion and audit results report will be finalised by the revised statutory deadline of 30 November 2020.

5 CONCLUSION


5.1 Subject to the final review of the financial statements and EY's review process, the Council should receive the Audit Opinion in early October 2020.

5.2 It is worth reassuring members that the additional time taken is not due to errors, omissions or matters concerning the quality of the final accounts.

Contact Details:

Report Author and Head of Service:
 David Stanley – Executive Head of Finance
 01252 398440
david.stanley@rushmoor.gov.uk

This page is intentionally left blank



Rushmoor Borough
Council
Audit results report

Year ended 31 March 2019

September 2020



EY

Building a better
working world



Private and Confidential

September 2020

Dear Licensing, Audit and General Purposes Committee Members

We are pleased to attach our revised audit results report for the forthcoming meeting of the Licensing, Audit and General Purposes Committee on 28 September 2020. This report summarises our audit conclusion in relation to the audit of Rushmoor Borough Council for 2018/19.

The Council produced a second set of financial statements, on 17 July 2019 as a result of delays from challenging its property values during the original accounts production process. The Council met the statutory deadline of publishing its accounts by 31 July 2019 and provided an explanation as to why the audit opinion was delayed. A third set of statements, incorporating the adjustments from the audit was produced in March 2020. The finalisation of the audit was then further delayed by the outbreak of the Coronavirus pandemic. The ongoing disruption to daily life and the economy as a result of the Covid-19 virus would be expected to have a pervasive impact upon the finances of the Council, most notably in 2020/21. Understandably, the priority for the Council has been to ensure the safety of staff and the delivery of business critical activities. However, this has required the Council to revisit their going concern and post balance sheet events disclosures in the 2018/19 statements. We have now substantially completed our audit of Rushmoor Borough Council for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the final version of the financial statements, produced in September 2020, in the form at Section 3.

We also have one matter, in terms of the need for properly documented council wide risk management arrangements, to report to you as part of our work on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We have qualified our Value for Money Conclusion on this basis.

This report is intended solely for the use of the the Licensing, Audit and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Licensing, Audit and General Purposes Committee meeting on 28 September 2020.

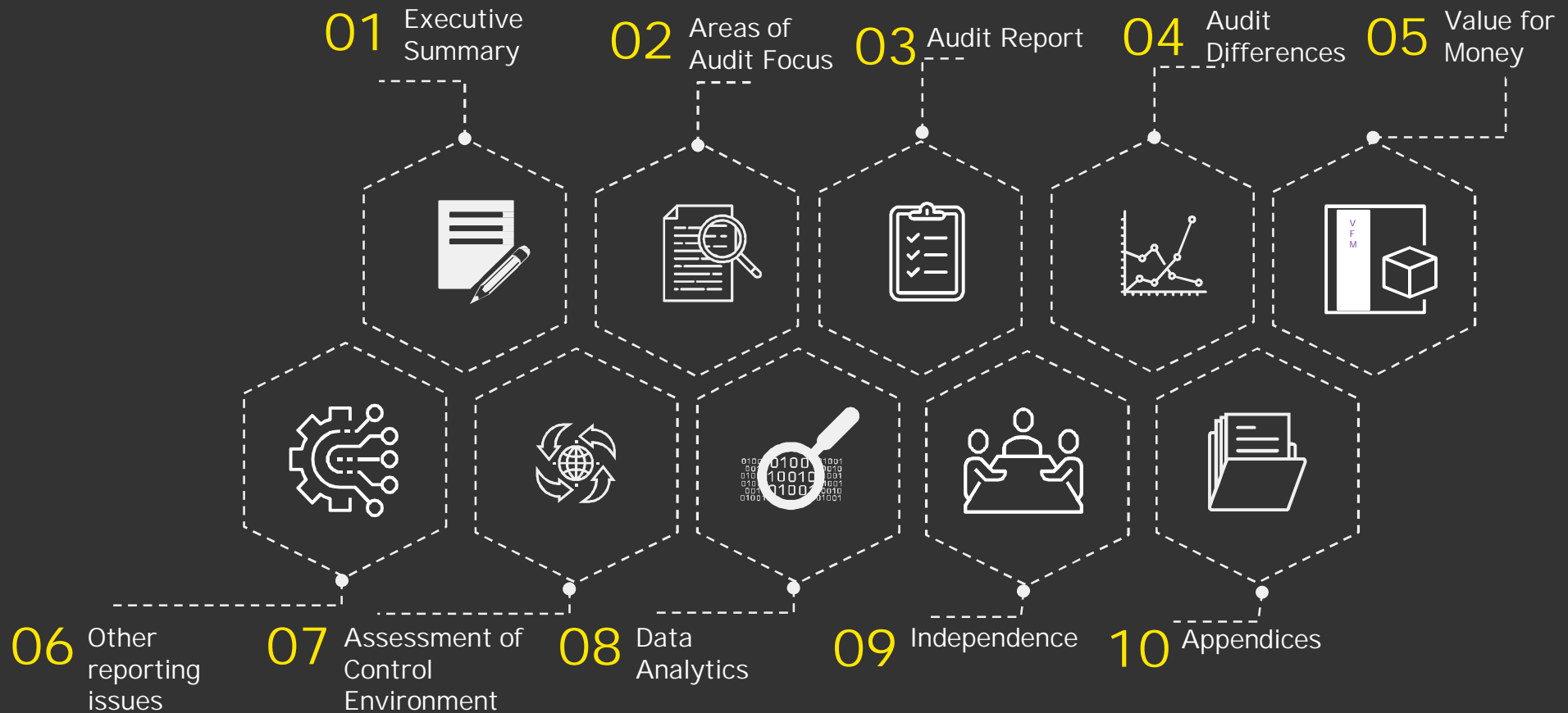
Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



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 April 2018)" 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, Audit 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, Audit 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, Audit 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 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 28 January 2019 Licensing, Audit and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

Going concern and its potential impact on the audit report

Covid-19 has been classed as an “event that may cast significant doubt on the entity’s ability to continue as a going concern”. Financial plans for 2020/21 and medium term financial plans needed revising for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management’s assessment with particular reference to Covid-19 and the Council’s actual year end financial position and performance.

Having increased the scope of our work in this area, in response to the above risk, we reviewed whether the:

- Covid-19 event constitutes a material uncertainty and whether an expected modification is required to the Council’s audit opinion;
- use of the Going Concern assumption is appropriate in the preparation and presentation of the Council’s 2018/19 financial statements; and
- Covid-19 disclosures in the Council’s 2018/19 financial statements are appropriate.

We currently going through a risk and consultation process to complete this work, consistent with all audit reports being currently issued by the firm.

Materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.321m, with performance materiality, at 75% of overall materiality, of £0.990m, and a threshold for reporting misstatements of £66k. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, our overall materiality assessment has remained unchanged at £1.321m, with performance materiality, at 75% of overall materiality, remaining at £0.990m.

The basis of our assessment has remained consistent with prior years at 2% of gross expenditure.

Status of the audit

We have substantially completed our audit of the Council’s financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Authority’s financial statements in the form which appears at Section 3. At the time of writing the outstanding matters are:

- Page 13
- Review of the final version of the financial statements;
 - Completion of going concern assessment and subsequent events review;
 - Completion of our mandatory internal consultation process on the disclosures in relation to COVID-19;
 - Receipt of the signed management representation letter;
 - Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

However until work is complete, further amendments may arise. We expect to issue the audit certificate at the same time as the audit opinion.



Executive Summary

Page 14

Changes to the financial statements and audit differences

Changes to the financial statements:

The lack of timely production of property information, required for PPE valuation estimates, delayed the Council's production of materially accurate financial statements. The Council published a set of financial statements on 31 May which had materially incorrect fair values for its operational property and investment properties. A second set of financial statements, produced on 17 July 2019, incorporated revised asset values for 15 assets and reported a reduction in asset values of £11.658 million compared to the Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019.

In the revised version of the financial statements, there was also one other adjustment due to the McCloud national pensions issue, which resulted in a pension net liability increase of £1.36 million to £47.196 million.

A third version of the Council's financial statements, produced in March 2020, incorporates the following adjustments:

- PPE Valuation changes for Land & Buildings and Investment Properties; and
- Financial instruments note amendments
- Minor changes to the narrative statement

A final version of the Council's financial statements, produced in July 2020, incorporating additional disclosures in relation to the COVID-19 pandemic.

Audit differences

- Audit differences in the Council's financial statements are detailed in section 4 of this report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues
- you agree with the resolution of the issue
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Licensing, Audit and General Purposes Committee.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, during the audit we identified a number of observations and improvement recommendations on (1) the Council's Risk Management arrangements, set out in Section 5 – Value for Money; and (2) the timely production of property information, required for PPE valuation estimates which delayed the Council's production of its financial statements, discussed in Section 6 of this report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks and our findings on these are reported in Section 5 of this report. In summary, we found:

- Delivery of a sustainable medium term financial plan - The Authority's strategy of increasing revenue through commercial investments, alongside the savings plan, appears to be reasonable. The Authority is becoming more reliant on the income from property investments than in previous years, as they have made a number of acquisitions during 2018/19.
- Commercialisation and the purchase of investment properties: Income from commercial investment properties was forecast to increase by £3.037m between 2018/19 and 2019/20 to £3.191m as the Council purchases more investment properties. The rate of return on the commercial property investments is higher than their interest rates on debt, which shows that property investments are, as at 31 March 2019, profitable, as the investments have been funded by borrowing.

Council's Risk Management arrangements: As a result of observations from the our work above we carried out additional work on the Council's Risk Management arrangements and found that the Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register had not been updated since January 2018.

We note that the Council had failed during 2018/19 to the implement the findings in the 2017/18 Audit Results Report and the actions from the 2017/18 Annual Governance Statement on how it could further improve Risk Management. Its revised risk management arrangements put in place in 2017/18 have lapsed due to resource constraints. We have therefore given an "except for" qualified value for money conclusion for the Council for 2018/19, as shown in Section 3.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Whilst the information is consistent, we suggest regular monitoring of the implementation of actions for the nine governance issues in the 2018/19 AGS action plan by the Licensing, Audit and General Purposes Committee, and monitored by CMT each month. This will give members and officers the assurance that good progress is being made on these key governance issues and avoid, where possible, issues being carried forward as they have done for the Council's risk managements arrangements.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no matters to report.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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 judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



Areas of Audit Focus

Significant risk

Page 18

Misstatements due to fraud or error – capitalisation of revenue expenditure

What is the risk?

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.



Areas of Audit Focus

Significant risk

Significant risk – valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population. The Code of Practice on Local Authority Accounting states that where assets are revalued, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that using the current value at the end of the reporting period. Each class of asset should normally be valued at least every five years, subject to this requirement.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations.

We have also considered those assets that were not valued in 2018/19 and the potential for material misstatement in the valuation of those assets.

What did we do?

We took a substantive approach to respond to this risk, undertaking the procedures set out below. We disaggregated the Council's property portfolio to determine those asset classes where more judgement was required in the valuation of assets. We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used;

Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property;

Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated; and

Ensured accounting entries had been correctly processed in the financial statements.



Areas of Audit Focus

Page 20

What are our conclusions?

Changes to PPE asset values

- The lack of timely production of property information, required for PPE valuation estimates, delayed the Council's production of materially accurate financial statements. The Council published a set of financial statements on 31 May which had materially incorrect fair values for its operational property and investment properties as officers were in the process of challenging its valuers (Wilks, Head and Eve) over the value of 15 assets that had been revalued in 2018/19.
- A second set of financial statements, produced on 17 July 2019, incorporated revised asset values for these 15 assets which resulted in a reduction in asset values of £11.658 million compared to the Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019.

Additional audit procedures

- In order to comply with the code the Council now discloses its five year cyclical programme of revaluation which clarifies when the Council is valuing its assets, on a category by category basis, over a 5 year period.
- Responding to our assessment of risk as outlined above, we performed additional audit work (using our EY Real Estates specialists) on asset valuations that were:
 - (a) valued in the financial year 2018/19 to test the adequacy of in-year asset valuation; and
 - (b) valued in 2017/18 and the three years previously to assess whether those asset values are representative of Fair Value at 31 March 2019.

Our work identified a number of valuation adjustments as discussed in section 4.

PPE Valuation adjustments:

- Land & Buildings (L&B):
 - Lysons Depot: understatement of value of £1.438 million, increasing the value of the Depot to £2.23 million;
 - Devereux House (including Bevan Lodge): understatement of value of £1.01 million, increasing the value of the asset to £1.55 million;
 - Community centres: increased in value of £1.13 million to recognise a more appropriate basis for valuation;
 - projected increase in value across the remainder of the L&B population of £1.0 million.
- Investment Properties (IP):
 - Cumulative increase in value of £3.65m for Dominion Road, Invincible Road, Ashbourne Rd;
 - projected increase in value across the remainder of the IP population of £1.7m;

At the time of writing this report, our final review of the financial statements to agree that the all final adjustments have been correctly processed is still to take place.



Areas of Audit Focus

Significant risk

Pension Net Liability Valuation

What is the risk?

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 Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Unitary Authority (RBWM).

The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £276.125m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to RBWM. Accounting for this scheme involves significant estimation and judgement and therefore management engages the 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.

What judgements are we focused on?

The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures. We:

- liaised with the auditors of the Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council.
- assessed the work of the Pension Fund actuary, Aon Hewitt, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

In 2019, there has also been an ongoing national issue which has meant that a change was required to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". Officers requested their actuary update their estimate of net pension scheme liability taking into account the McCloud ruling.

As a result one adjustment was made by officers which reflected that the Council's Pension liability increased by £1.36 million to £47.196 million, and to increase past service costs accounted for through the Income Statement by an equivalent amount, to reflect the impact of the McCloud ruling.

Subject to completion of the remainder of our audit procedures, we are satisfied that the Council has correctly reflected the IAS 19 entries provided by their actuaries in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?	What we found
<p><u>IFRS 9 Financial instruments</u></p> <p>This new accounting standard is applicable for local authority accounts from this financial year and changes:</p> <ul style="list-style-type: none"> • how financial assets are classified and measured; • how the impairment of financial assets are calculated; and • the disclosure requirements for financial instruments. <p>We have:</p> <ul style="list-style-type: none"> • Assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This involved: • Reviewing the Council's election to designate their collective investment vehicles as financial asset through other comprehensive income' • Considering whether the vehicles met the definition of equity under IAS 32 to allow the Council to make the election: and • Consulting internally with our financial reporting experts on the classification of the financial instruments • Considered the classification and valuation of all other financial instrument assets • Reviewed new expected credit loss model impairment calculations for assets; and • Checked additional disclosure requirements. 	<p>Following technical guidance we identified that the Council's collective investment vehicles do not meet the definition of 'equity instruments'. As the instruments did not meet the definition of equity the Council cannot elect to the present the instruments as 'Fair value through other comprehensive income' in the financial instruments note.</p> <p>This resulted in classification of the collective investment vehicles being adjusted from 'Fair value through other comprehensive income' to 'Fair value through profit and loss.'</p> <ul style="list-style-type: none"> • <u>CIES</u>: Amendment of the £117k Surplus from investing in equity instruments designated at fair value through other comprehensive income. Also shown on the Gains and Losses Note. • <u>Note 17 - Financial instruments</u> - a £22.305 million reclassification between FVOCI and FVPL. • <u>Note 24: Unusable reserves</u> - a £422k reclassification between the Financial Instrument Revaluation Reserve and the Pooled Investment Fund Adjustment Account while the statutory override remains in place. • <u>Removal of election to designate FVOCI (within note 17)</u> - the narrative in the disclosure note therefore needed to be updated to reflect the above.
<p><u>IFRS 15 Revenue from contracts with customers</u></p> <p>This new accounting standard is applicable for local authority accounts from this year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The impact on local authority accounting was likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue could change and new disclosure requirements have been introduced.</p>	<p>We:</p> <ul style="list-style-type: none"> • assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • checked additional disclosure requirements. <p>We have no issues to report.</p>



03 Audit Report



Audit Report

Draft audit report*

Page 24

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Opinion

We have audited the financial statements of Rushmoor Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Authority Movement in Reserves Statement,

- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement; and
- Related notes to the Core Financial Statements 1 to 39;
- Collection Fund and related notes 1 to 3;

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor Borough Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Rushmoor Borough Council and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01,

and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to [XXXX] of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting its operational and financial position and performance during 2019/20, 2020/21 and beyond.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Executive Head of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

* - the wording of the audit report is subject to our current mandatory consultation process for all opinions issued by EY



Audit Report

Our opinion on the financial statements

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

The Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register had not been updated since January 2018. We noted that the Council has failed to take account of our findings in last year's Audit Results Report on how they could further improve Risk Management and new arrangements put in place in 2017/18 have since lapsed due to resource constraints.

The Council is undergoing significant internal transformation and was involved in extensive regeneration partnerships in 2018/19. However, there is no centralised formal documented process which highlights the gross risks, the controls and mitigating actions to give an overview of the risks the Council faces and holds officers to account for those risks. We note that officers consider risk every day, however there is no framework in place to demonstrate that or show that the Officers and Members are strategically managing risk.

The issue above is evidence of weakness in informed decision making as result of not having proper arrangements in place for managing risks effectively and maintaining a sound system of internal control.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Rushmoor Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Page 25 Our opinion on the financial statements

Responsibility of the Executive Head of Finance

As explained more fully in the Statement of the Executive Head of Finance's Responsibilities set out on page 12, the Executive Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Rushmoor Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



Audit Report

Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Rushmoor Borough Council and Rushmoor Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of changes to the financial statements and audit adjusted differences

Changes to the financial statements:

- Second version of the financial statements: A second set of financial statements, produced on 17 July 2019, included revised asset values for 15 assets and reported a reduction in asset values of £11.658 million compared to the 31 May Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019. It also included the adjustment due to the McCloud national pensions issue, which resulted in a pension net liability increase of £1.36 million to £47.196 million
- Third version of the financial statements: A third version of the Council’s financial statements, produced in March 2020, included a number of Property, Plant and Equipment (PPE) adjustments for Land & Buildings, Community Assets and Investment Properties and changes to the financial instrument disclosure.

Audit adjusted differences:

PPE Valuation adjustments:

- Land & Buildings (L&B):
 - Lysons Depot: understatement of value of £1.438 million, increasing the value of the Depot to £2.23 million;
 - Devereux House (including Bevan Lodge): understatement of value of £1.01 million, increasing the value of the asset to £1.55 million
 - Community centres: increased in value of £1.13 million to recognise a more appropriate basis for valuation;
 - Projected increase in value across the remainder of the L&B population of £1.0 million.
- Investment Properties (IP):
 - increase in value of £3.65m for Dominion Road, Invincible Road, Ashbourne Rd combined;
 - projected increase in value across the remainder of the IP population of £1.7m.

Financial instruments note amendments

- CIES: Amendment of the £117k Surplus from investing in equity instruments designated at fair value through other comprehensive income. Also shown on the Gains and Losses Note;
- Note 17 - Financial instruments - a £22.305 million reclassification between FVOCI and FVPL.
- Note 24: Unusable reserves - a £422k reclassification between the Financial Instrument Revaluation Reserve and the Pooled Investment Fund Adjustment Account while the statutory override remains in place.
- Removal of election to designate FVOCI (within note 17) - the narrative in the disclosure note therefore needed to be updated to reflect the above.



Audit Differences

Page 30 Summary of adjusted differences (continued)

McCloud national pension issue:

- o There was a pension net liability increase of £1.36 million for the Council as a result of the McCloud judgment around age discrimination in the award of pension benefits.

Unadjusted audit differences

- Decrease in value of L&B of £0.65m relating to the cumulative adjustments for Pinehurst & High St car parks, Union St and Aldershot pools;
- Potential projected increase in value of £0.5m for L&B.
- Guaranteed Minimum Pension (GMP) increase in pension liability of £0.285 million.

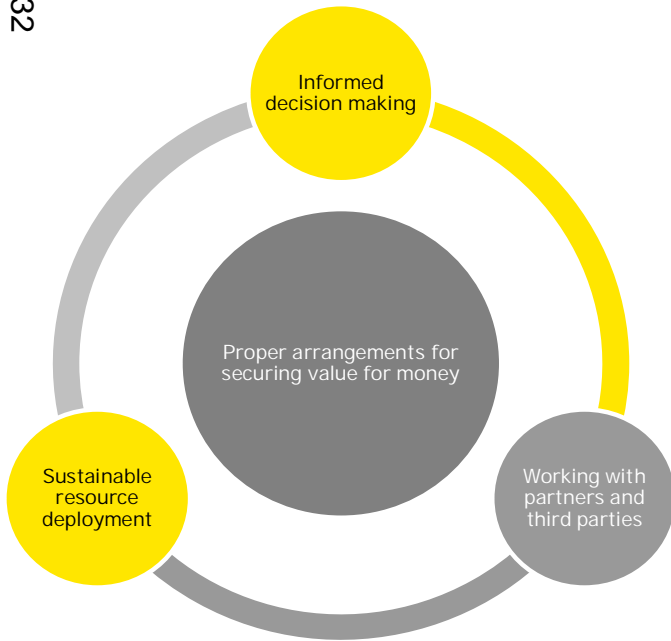
Disclosures

- *Note 13 – Property, Plant and Equipment: Five year cyclical programme of revaluation:* Officers have disclosed the Council's five year cyclical programme of revaluation which clarifies when the Council is valuing its assets, on a category by category basis, over a 5 year period.
- *Note 34 – Related parties:* The "financial assistance to voluntary organisations" was changed from £0.542m to £1.0525m. The number of members was corrected to 38.
- There were also other minor changes to the disclosure notes and narrative statement that were made during the course of the audit.



05

Value for Money Risks



Background

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. This is known as our value for money conclusion.

For 2018/19 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.

Overall conclusion

As part of our audit planning report we identified two significant risks. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

We were able to conclude that proper arrangements were in place in relation to these two risks.

In addition, during the course of our work in following up recommendations made in previous reports, we identified issues with Council's formal risk management framework, which resulted in further examination of the arrangements in place.

As a result of these we therefore plan to issue an "except for" qualified value for money conclusion in relation to formal risk management arrangements,

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What did we do?																																			
<p>Delivery of a robust Medium Term Financial Plan (MTFP)</p> <p>In the Council's Medium Term Financial Plan (MTFP), reported to Cabinet in February 2018, the Council was able to set a balanced budget for 2018/19, as it planned to withdraw £41k from reserves. However, from 2019/20 onwards the funding gaps are predicted to increase significantly year on year, with a cumulative shortfall in 2021/22 of £3.842 million.</p> <p>The Council's reserves are currently in excess of this, but some of these are earmarked to invest in future projects. The Council's planned MTFP is reliant on the delivery of the Council's "Rushmoor 2020" strategy to cover significant "savings proposals" each year, as shown below.</p> <table border="1" data-bbox="120 758 1254 1166"> <thead> <tr> <th>Revenue forecasts 18/19 to 21/22</th> <th>2018/19 (£000)</th> <th>2019/20 (£000)</th> <th>2020/21 (£000)</th> <th>2021/22 (£000)</th> </tr> </thead> <tbody> <tr> <td>Net budget</td> <td>11,957</td> <td>13,616</td> <td>14,667</td> <td>16,384</td> </tr> <tr> <td>Total funding</td> <td>-11,275</td> <td>-10,886</td> <td>-11,585</td> <td>-12,542</td> </tr> <tr> <td>Funding gap</td> <td>682</td> <td>2,730</td> <td>3,082</td> <td>3,842</td> </tr> <tr> <td>Savings</td> <td>-641</td> <td>-2,559</td> <td>-3,055</td> <td>-3,090</td> </tr> <tr> <td>Funding gap</td> <td>41</td> <td>171</td> <td>27</td> <td>752</td> </tr> <tr> <td>Cumulative funding gap</td> <td>41</td> <td>212</td> <td>239</td> <td>992</td> </tr> </tbody> </table> <p>However, these "savings proposals" of £3.055 million in 2020/21 for example are not true savings. They are mix of income from commercial investments (some £1.8 million), net savings from transformation projects (£900k), increase in fees & charges (£129k), efficiencies (£65k) and other income (£161k). The figures vary year on year but the greatest percentage "savings" are to be achieved through the income generation projects. Given the fact that the Council's capital programme, in terms of investment and regeneration, has slipped in 2018/19 then the impact on the delivery of the "savings proposals" and therefore a robust MTFP needs to be more closely monitored as these initiatives are higher risk and less outside of the Council's control.</p>	Revenue forecasts 18/19 to 21/22	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	Net budget	11,957	13,616	14,667	16,384	Total funding	-11,275	-10,886	-11,585	-12,542	Funding gap	682	2,730	3,082	3,842	Savings	-641	-2,559	-3,055	-3,090	Funding gap	41	171	27	752	Cumulative funding gap	41	212	239	992	<p>Deploy resources in a sustainable manner</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed the key assumptions made within the annual budget and MTFP reviewed the progress made in identifying savings for 2019/20 and beyond; assessed the effectiveness of project management and clarity of reporting to members in overseeing the Rushmoor 2020 transformational projects and income generation opportunities; reviewed the Council's business planning process for both generating savings and also undertaking commercial and regeneration projects.
Revenue forecasts 18/19 to 21/22	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)																																	
Net budget	11,957	13,616	14,667	16,384																																	
Total funding	-11,275	-10,886	-11,585	-12,542																																	
Funding gap	682	2,730	3,082	3,842																																	
Savings	-641	-2,559	-3,055	-3,090																																	
Funding gap	41	171	27	752																																	
Cumulative funding gap	41	212	239	992																																	

Page 34
Delivery of a robust Medium Term Financial Plan (MTFP) – our conclusions

- The Authority is taking steps to improve its financial resilience and sustainability in the long term by identifying savings opportunities, as well as opportunities to generate additional income, through their commercial investment approach.
- We have reviewed the key assumptions of the MFTP and obtained supporting working papers from the client. These support the conclusion that, on the whole, the assumptions are reasonable with the only outlier being the assumed inflation level, which is lower than the advised rate of above 2% received from Arlingclose by the Authority. Assumptions and key elements of the MFTP are monitored and reported on a quarterly basis by the Authority which allows them to actively track their progress and results, and review how they are performing compared to the plan.
 - The Authority has anticipated a significant increase in its income streams throughout the MFTP compared to 2018/19. In addition to this, they have identified additional savings that can be made through contract renegotiation and their Rushmoor 2020 programme. The Authority has significant borrowing commitments which are being used to finance their commercial investments programme. This borrowing is compliant with the Prudential Code as they are borrowing to finance their spending needs rather than for investment purposes, and they are borrowing when they need the money rather than far in advance.
 - The Authority's strategy of increasing revenue through commercial investments, alongside the savings plan, appears to be reasonable as at the end of the reporting period. The Authority is becoming more reliant on the income from property investments than in previous years, as they have made a number of acquisitions during 2018/19. The income from this revenue stream is dependent on occupancy rates and other variables so is also subject to fluctuation.
 - Rushmoor 2020 is a programme developed by the Authority to modernise organisational arrangements and service delivery to bring about budget savings. The Authority's initial step was to identify where stakeholders felt improvements were necessary – this was conducted through speaking to members of the Authority's leadership, its staff survey and feedback from customers. The core programme of improvements was due to be in place by December 2020.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What did we do?
Commercialisation and the purchase of investment properties		
<p>The Council continues to develop significant commercial and investment opportunities to impact on annual income targets so that it can improve its financial sustainability. Full Council has granted approval to borrow up money and the Council will invest some £31.7 million in investment properties and some £7.2 million in regeneration properties in 2018/19.</p> <p>The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Paragraph 46 of the Statutory Guidance on Local Government Investments states that 'Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'. However, para 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order.</p>	<p>Deploy resources in a sustainable manner</p> <p>Informed decision making</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> the underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; legal powers and other advice obtained e.g. tax, investment decisions; compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; the Council's MRP policy; clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; the recognition and reporting of risks in the corporate/strategic risk register <p>We also considered the extent to which the Council has demonstrated the key Prudential Code considerations:</p> <ul style="list-style-type: none"> existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality demonstrating value for money in borrowing decisions security of borrowed funds extent of borrowing for investments and borrowing overall the nature of the investment risks involved, including falling capital values, borrowing costs, illiquidity of assets.

- The key commercial development affecting the Authority is the development of its commercial property investment scheme. They have made property acquisitions throughout 2018/19 and are planning to continue acquiring properties in upcoming years, making this a much more significant revenue stream than previously. Income from commercial investment properties is forecast to increase by £3.037m between 2018/19 and 2019/20 to £3.191m. The Authority is forecasting a further £527k increase in this revenue stream the following year, after which it is forecast to stabilise. This was predominantly being funded by borrowing – their debt has increased by £13.5m year on year. This increased borrowing complies with the Prudential Code as it is being taken out to cover expenses and is within an appropriate timeframe of the expenses.
- Information around the commercialisation plans has been provided to Cabinet members in their monthly meetings. The Cabinet members have given approval prior to the property purchases and there is a steering committee in place to oversee the Rushmoor 2020 programme. The minutes give no indication of whether approval was unanimous or if there were any challenges to the purchase of the properties. Records indicate that there is appropriate oversight and regular reporting of the commercial programme but that there is no significant challenge being presented to the proposals that are being brought forward.
- In March 2019, the Authority stated that it had sought external advice upon the purchase of the investment properties regarding the physical structure of the properties. In addition to this, they sought legal and financial due diligence help. The Authority has provided information about who the firms were who provided this advice, and they were all experts in their respective fields. The Council has also received financial forecasting advice from Arlingclose, specialists in treasury advice, treasury management and financial consulting, which has been incorporated into their MTFP. And in addition, from Avison Young, a commercial real estate services firm, when undertaking property purchases. They have also received external help from Pixel Financial Management in order to complete the Medium Term Financial Planner. Pixel Financial Management are specialists in local government financing and funding so are appropriate experts in this field.
- During 18/19 the rate of return on the commercial property investments was higher than the interest rates on debt. This shows that the property investments profitable during 18/19, as the investments have been funded by borrowing. The rate of return on the properties is 4.25% and their current average rate of borrowing was 0.86%. During 18/19 the Authority did not have an up to date risk register to allow them to manage and quantify their risks. Consequently, we were not able to evaluate their current risk management arrangements as the information we were able to access was out of date (the most recent risk register was from January 2018). This is a weakness of the Authority which leaves it exposed to financial, strategic and management risks as they are potentially unaware of the most significant risks they are currently facing. This point is explained further below.

Qualified “except for” Value for Money Conclusion

Risk management arrangements

The Council’s risk management arrangements are identified as a governance issue to be addressed in the action plan in the Council’s 2018/19 Annual Governance Statement. There was no formal internal audit review of the Council’s risk management arrangements during 2018/19. Given the lapse in formal risk management arrangements during 2018/19, we will issue an “except for” Value for Money Conclusion in our Audit Report (in section 3) which stated that risk Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register was not updated during 18/19. The last update prior to March 2019 was January 2018.

We noted that the Council has failed to implement the findings in the 2017/18 Audit Results Report on further improving Risk Management and new arrangements put in place in 2017/18 have since lapsed due to resource constraints. The Council is undergoing significant internal transformation and was involved in extensive regeneration partnerships in 2018/19. However, there is no centralised formal documented process which highlights the gross risks, the controls and mitigating actions to give an overview of the risks the Council faces and holds officers to account for those risks. We note that officers consider risk every day, however there is no framework in place to demonstrate that or show that the Officers and Members are strategically managing risk.

Through our work we have observed the following which could help improve the risk management arrangements:

- An independent internal audit review of the effectiveness of the Council’s risk management arrangements in quarter four of 2019/20.
- Revision of the Council’s Corporate Risk Register with clear actions and timescales on how risks are managed going forward.
- Reappraisal of the risk appetite to ensure that the Council is operating at a risk level commensurate with that documented for its corporate risks.
- The formalising of risk registers for each service which underpin the Corporate Risk Register.
- Clarity on the role of the Licensing, Audit and General Purposes Committee in providing assurance over the effectiveness of the Council’s Risk Management arrangements, by understanding and commenting on the effectiveness of the whole process which then feeds into the Annual Governance Statement.
- Consideration of the role of the Scrutiny Committee in how its work programme may be risk based using the new Corporate Risk Register and as a result allow for the deep dive and scrutiny of risks and assurance on the effectiveness of the Corporate Risk Register as live tool for managing risk.

Whilst outside the scope of our work for 2018/19 and this Audit Results Report we understand that the Corporate Risk Management Group (CRMG) finalised the Risk Register in December 2019. At the CRMG’s meeting in March 2020 it is intended that the Risk Register is formally reviewed so that it can be reported alongside the Council’s wider Q4 Performance Framework. We note that the Licensing, Audit and General Purposes Committee’s Terms of Reference require it to consider the adequacy of the Council’s Risk Management arrangements for the financial year 2019/20.

We will follow-up on the above as part of our VFM work for 2019/20 and include it as a significant VFM risk in our 2019/20 audit plan.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

- The financial and non-financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We must also review the Council's Annual Governance Statement (AGS) for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We found that it was consistent with other information from our audit of the financial statements and complies with relevant guidance.
- In section 8 of the 18/19 AGS it correctly documents that "Risk Management" is a governance issue that has been brought forward from 2017/18. The action to take forward is the "formal adoption of the risk management process and work carried out to embed risk management within all council activities" with a target date of September 2019. However, officers stated that a revised Corporate Risk Register was not available until the end of the December 2019 and therefore won't be formally adopted by Council until 2020.
- There are nine governance issues identified in total in the 1819 AGS action plan, and we suggest that a quarterly update of progress against the 1819 AGS actions is received by the Licensing, Audit and General Purposes Committee, and monitored by CMT each month, so that members and officers are assured that good progress is being made on these key governance issues.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. As the Council's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Rushmoor Borough Council.

We will submit the required return in due course following the completion of the audit.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest. We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations
- Going Concern
- Consideration of laws and regulations

We have nothing further to disclose on these matters that is not covered elsewhere within this report.

Other reporting issues

Going concern assessment

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for this set of statements we need to see evidence of going concern up to October 2021.

We have scrutinised the Council's assessment of the impact of Covid-19 on its planned income and expenditure budgets, its revised financial plans and cashflow forecasts. We have challenged known outcomes, sensitivities, mitigating actions and key assumptions. We have also discussed with management the need to make specific disclosures in the statements on in the financial statements on going concern and post balance sheet events as well as updating the narrative statement. The final version of the statements includes these updated disclosures.

In addition to the above, we are required to consult internally within EY in respect of the wording of our auditor's report to ensure that it provides the appropriate assurance to the Council and its stakeholders. The auditor's report provided will reflect the outcome of the consultation, and potentially will include an Emphasis of Matter to draw the reader's attention to the additional disclosures. An Emphasis of Matter is not a qualification or modification to our audit opinion.



07

Assessment of Control Environment



Assessment of Control Environment

Internal financial control

It is the responsibility of the Authority 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 your auditor is to consider whether the Authority has put adequate arrangements in place 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 therefore 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 to you significant deficiencies in internal control, in particular those internal controls that might result in a material misstatement in your financial statements.

We do not have any significant deficiencies to bring to your attention, but we do have a observation based on the results of our audit procedures.

Robustness of the Fixed Asset Register (FAR)

Following the number of material adjustments required to Land & Buildings and Investments Properties in the Council's 2018/19 financial statements, detailed on page 12, we observed that the quality of the evidence underpinning the FAR could be improved. The Council's property department, in conjunction with the Council's external valuers, should closely liaise with the Finance Department and test the robustness of the values held, that the Council relies on to support the calculation of PPE and IP valuations. For example the accuracy of site plans, income levels and the appropriate bases for valuing assets. We recommend more of a detailed approach to asset records and valuation, rather than a desk-top review and a simple roll forward of values where assets are not valued in year.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journals Testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2019, which we presented to 28 January 2019 Licensing, Audit and General Purposes Committee.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Licensing, Audit and General Purposes Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Licensing, Audit and General Purposes Committee on 23 March 2020.

Relationships, services and related threats and safeguards

Page
48

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your council, its directors, senior management and its affiliates. This includes all services provided by us and our network to your council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity; including those that could compromise independence and the related safeguards that are in place and, why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The page overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed overleaf have been provided on a contingent fee basis.

As at the date of this report, there are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Note 1	38,375	38,375	49,838
Non-audit work for Housing subsidy grant claim	Note 2	Note 2	Note 2	7,511

Note 1: We are proposing to vary the scale fee in relation to the additional work on the following, the:

- treatment of collective investment vehicles under IFRS 9 (section 2);
- valuation of PPE and IP (section 2);
- adjustment and disclosure of the McCloud ruling with respect to the pensions liability (section 2);
- qualified except for VFM conclusion in section 3;
- two Value for Money significant risks in section 5;
- review of additional going concern assessment and disclosures in relation to COVID-19 (section 6).

Given the extending of the audit process and procedures needed in order to conclude, the impact of the above will be significant to the scale fee. We estimate at this point that it will be in the range of £35-40k. We will propose a final fee variation which need to be agreed with officers, and then approved by PSAA.

Note 2 – Housing benefit subsidy grant claim:

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed another firm to act as reporting accountants in relation to the housing subsidy claim.






10 Appendices

Appendix A

Required communications with the Licensing, Audit and General Purposes Committee

There are certain communications that we must provide to the Licensing, Audit and General Purposes Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Licensing, Audit 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.	Audit planning report – January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – January 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report – January 2019

Appendix A

Page 52		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 entity’s ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report – September 2020
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report – September 2020
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Licensing, Audit and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial 	Audit results report – September 2020
Fraud	<ul style="list-style-type: none"> • Enquiries of the Licensing, Audit and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Licensing, Audit and General Purposes Committee’s responsibility. 	Audit results report – September 2020

Appendix A


Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report – September 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report – January 2019 and Audit results report – September 2020

Appendix A

Page 54

 Our Reporting to you

Required communications	What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Licensing, Audit 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, Audit and General Purposes Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report in September 2020 and Annual Audit Letter in November 2020.

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report on 30 January 2019 and Audit results report in September 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> • Written representations we are requesting from management and those charged with governance 	Audit results report in September 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report in September 2020
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report in September 2020
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report on 30 January 2019 And Audit results report in September 2020

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

LICENSING, AUDIT AND GENERAL PURPOSES COMMITTEE

AUDIT MANAGER 28th SEPTEMBER 2020
REPORT NO. AUD 20/08

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:

This report describes the work carried out by Internal Audit for quarter 2.

RECOMMENDATION:

Members are requested to:

- i. Note the audit work carried out in quarter 2 to date, including the work slipped from quarter 1.
- ii. Note the update to the expected deliverables for quarter 3.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work completed by Internal Audit to date for Q2 2020/21.
- A schedule of work expected to be delivered in Q3 and Q4.

2 Audit work – Q2 20/21

2.1 The following audit work has been carried out within quarter 2:

Work	Status
Audit findings – Appendix A of this report	
Capital Programme Management	A reasonable assurance opinion has been given to this area. Findings are detailed within Appendix A.
SANGS/S106	This audit was carried out by the contract auditors. A limited assurance opinion has been given to this area. Findings are detailed within Appendix A.
Capital Project (Ski Slope Maintenance)	This audit was carried out by the contract auditors. A reasonable assurance opinion has been given to this area. Findings are detailed within Appendix A.
Petty Cash	A reasonable assurance opinion has been given to this area. Findings are detailed within Appendix A.

Housing faster payment	A reasonable assurance opinion has been given to this area. Findings are detailed within Appendix A.
Building Control Partnership	This audit was carried out by the contract auditors. A reasonable assurance opinion has been given to this area. Findings are detailed within Appendix A.
DFG follow up	A follow up was carried out on the recommendations made from the Disabled Facilities Grant audit carried out in 2019/20. The findings from the follow up has made no change to the assurance opinion within this area, which remains as substantial assurance . Findings are detailed within Appendix A.
Contract Management follow up	A follow up was carried out on the recommendations made from the Contract Management audit carried out in 2019/20. The findings from the follow up has made no change to the assurance opinion within this area, which remains as reasonable assurance . Findings are detailed within Appendix A.
Audit work in progress	
Alderwood Leisure Centre	Testing is currently being finalised and a draft report is being produced. This will be reported to the Committee as part of the next audit update report.
Car Park Income Reconciliation - Consultancy	Consultancy work is currently being carried out to review the income reconciliation. We are currently awaiting information from a third party in order to finalise the consultancy work.
Housing company/RDP set up	Testing is currently being carried out.
Tenants of the Council building	Testing is currently being carried out.

2.2 Other deliverables:

Audit have been providing assistance to the organisation with regards to assurance for elements relating to Covid-19 and contributing to one of the covid-19 recovery workstreams.

3 Expected deliverables for Q2 & Q3 2020/21

- 3.1 The following changes will be made to quarter 2 work previously planned within the audit update provided to the Committee in July 2020:
- IT Security – Application Patch Management – due to resource implications on the service this audit is being deferred until November 2020 when resources within IT will be available to assist with this audit.
- 3.2 The work expected to be delivered in the remainder of quarter 2 & quarter 3 is detailed within the table below. As with the previous quarter, these audits can be subject to change due to the changing needs of the organisation or resource availability. An update will be provided at the November meeting.

Service	Audit/ follow up/descriptor	Expected
Operations	Car Park Income Reconciliation - <i>Consultancy days planned to offer advice around the reconciliation process for car park income.</i>	Q2 2020/21
ICT, Facilities & Project Services	External Tenants within the Council Offices– <i>A review of the agreements in place with the external tenants and the management of them. The number of tenants within the Council offices has recently increased.</i>	
Democracy, Strategy and Partnerships	Alderwood Leisure Centre – <i>A review of the process in place for bookings and payments.</i>	
CMT/ELT	Housing company/ RDP set up – <i>A review of the governance arrangements for the set up of the Housing company and RDP.</i>	
Finance	FMS & Bank reconciliation – <i>A key financial system review.</i>	Q3 2020/21
Operations	Car park PCNs – <i>A review of the process in place for issuing, collecting and enforcing PCNs for on and off-street parking.</i>	
Finance	Purchase Ledger – <i>A key financial system review.</i>	
Finance	NNDR Billing & Collection – <i>A key financial system review.</i>	
Regeneration & Property	Council Property Maintenance – <i>A review of the process for identifying maintenance required on Council property and ensuring this is appropriately planned and budgets in place.</i>	

AUTHOR: Nikki Hughes, Audit Manager
01252 398810
nikki.hughes@rushmoor.gov.uk

HEAD OF SERVICE: David Stanley, Executive Head of Financial Services

References: *Internal Audit – Audit Plan* report, presented to the Committee on the 23rd March 2020.

<https://democracy.rushmoor.gov.uk/ieListDocuments.aspx?CId=166&MId=666&Ver=4>

AUDIT FINDINGS ON 8 ITEMS: CAPITAL PROGRAMME MANAGEMENT, SANGS/ S106, CAPITAL PROJECT (SKI SLOPE MAINTENANCE), PETTY CASH, HOUSING FASTER PAYMENT, BUILDING CONTROL PARTNERSHIP, DISABLED FACILITIES GRANT FOLLOW UP AND CONTRACT MANAGEMENT FOLLOW UP.

Audit Title 1	Capital Programme Management		
Year of Audit	2019/20		
Assurance given	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>		
Overview of area	<p>A capital project is reviewed annually as part of the internal audit plan. A capital programme is developed annually and the value for 2019/20 was £70.231m. It should be noted that this amount also includes the purchase of investment properties.</p> <p>This audit was carried out to review the process for capital projects to be put forward, evaluated and approved for the 2019/20 capital programme.</p>		
Priority	Key findings	Management response and agreed action	Action by who and when
Medium	<p>Procedures</p> <p>There are no procedure notes to define the process for establishing the capital programme.</p> <p><i>Risk: In the absence of current, clear and approved procedures covering the capital programme function there is a risk that staff may be unclear of the roles, responsibilities and approval process.</i></p>	<p>Procedure notes will be prepared by the Finance Manager and agreed by the Executive Head of Finance for the 2021/22 budget setting process.</p>	<p>Finance Manager and Executive Head of Finance</p> <p>September 2020</p>
Medium	<p>Bids</p> <p>Clear and appropriate information in relation to capital bids is not provided.</p> <p><i>Risk: If appropriate information is not provided at the outset then senior management will not be making an informed decision in relation to</i></p>	<p>Budget officers to supply finance with requested capital bid information.</p>	<p>Budget Officer</p> <p>September 2020</p>

	<i>projects for inclusion within the capital programme.</i>		
Medium	<p>Bids More than one project is shown on some bids making it difficult to establish the individual cost, benefit and timescale of the project. Furthermore, it impacts on the monitoring of the finances for the projects.</p> <p>Risk: <i>By not separating projects out there is the risk that the Council may not be transparently showing the finance of individual projects and ongoing costs for specific projects may be unclear.</i></p>	Budget officers to supply finance with requested capital bid information.	Budget Officer September 2020
Medium	<p>Evaluation The process for evaluating the capital projects is not clearly defined and a predetermined set of criteria is not used.</p> <p>Risk: <i>Not having in place a set of evaluation criteria could result in projects not being evaluated consistently. Furthermore, key elements may not be considered when evaluating the project for example, links to the Council Plan, availability of resources to deliver the project etc.</i></p>	Evaluation criteria will be prepared by the Finance Manager and agreed by the Executive Head of Finance (in consultation with CLT) for the 2021/22 budget setting process.	Finance Manager and Executive Head of Finance September 2020
Medium	<p>Evaluation documentation No clear documentation is maintained to detail the evaluation results of each capital bid. Furthermore, it is not clear from the documentation which capital bids were approved by CLT for inclusion within the 19/20 Capital Programme.</p>	<p>A special CLT meeting will be arranged to evaluate and agree capital bids for 2021/22.</p> <p>The outcomes from the meeting will be documented and communicated to CLT and Finance.</p>	Executive Head of Finance December 2020

	Risk: <i>If the evaluation of capital bids is not documented then it may be difficult to demonstrate the rationale for including the project on the capital programme at the time of the decision, should it be challenged.</i>		
Medium	<p>Communication of approved projects</p> <p>The projects which are to be included within the capital programme are not formally communicated to Finance. Therefore, it is not clear which had been agreed and if these had been correctly shown on the capital programme.</p> <p>Risk: <i>If the projects which have been agreed by CLT to go onto the Capital Programme are not formally communicated to Finance, projects may be missed off or included within the programme when not agreed.</i></p>	<p>A special CLT meeting will be arranged to evaluate and agree capital bids for 2021/22.</p> <p>The outcomes from the meeting will be documented and communicated to CLT and Finance.</p>	<p>Executive Head of Finance</p> <p>December 2020</p>
Medium	<p>Monitoring information</p> <p>When monitoring projects, the project owners do not provide Finance with sufficient information to enable appropriate financial monitoring. Therefore, not assisting overall forecast of spend requirements to be developed.</p> <p>Risk: <i>If appropriate financial updates on projects are not provided to the Finance team then they will not be able to appropriately forecast spend requirements.</i></p>	<p>Budget officer need to be clearly identified by Head of Service and for active budget monitoring to take place within service</p>	<p>Budget Officer</p>
Medium	<p>Variance information</p> <p>Sufficient information is not provided by the budget holders/project owners to justify over or under spend amounts, as set out in the Council's Constitution. Requests are being made by Finance for approval of these amounts, but it is</p>	<p>Budget officer must fully evidence and communicate variances in budget</p>	<p>Budget Officer</p>

	<p>based on limited information provided by project owners.</p> <p>Risk: <i>Appropriate information is not proved to Cabinet in relation to overspends therefore not providing them with enough information to make an informed decision for the additional spend on the projects.</i></p>		
--	---	--	--

Priority key for way forwards	
High priority	A fundamental weakness in the system/area that puts the Authority at risk. To be addressed as a matter of urgency.
Medium priority	A moderate weakness within the system/area that leaves the system/area open to risk.
Low priority	A minor weakness in the system/area or a desirable improvement to the system/area.

Audit Title 2	SANGS/ S106		
Year of review	2019/20		
Assurance given	<i>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.</i>		
Overview of area	<p>A Section 106 is a legal agreement between an applicant seeking planning permission and the local planning authority, which is used to mitigate the impact of the new home building on the local community and infrastructure. A SANG (Suitable Alternative Natural Greenspace) is an area that is designated for special protection, such as nature conservations.</p> <p>This audit was requested by management in order to help provide them with assurance that the processes being developed were sound.</p> <p>Management are aware that while individual elements of the process may be managed well there has been a lack of monitoring and oversight of the entire process. The aim is to incorporate the required data/information into a comprehensive register and for the newly appointed Housing Enabling and S106 Officer to perform regular monitoring.</p> <p>The Housing Enabling and S106 Officer is compiling a procedure that captures all of the processes of the teams who are involved in the service to improve fluidity and consistency.</p> <p>Management are currently applying measures to obtain assurance that the service is ready to provide their first annual statement to Central Government in December 2020.</p>		
Priority	Key findings	Management response and agreed action	Action by who and when

Medium	<p>a) The documented procedure in place is out of date and does not reflect all aspects of the service.</p> <p>b) The Planning Team procedure notes are not current / up to date.</p> <p>c) The procedure for the Legal Team could not be verified.</p> <p>Risk <i>Governance and Procedural issues may occur when documented procedures do not reflect current practices.</i></p> <p>Suggested recommendation</p> <p>a) Process to be compiled which captures all parts of the process for S106 arrangements.</p> <p>b) Process to include the procedure of each team that are involved i.e. Sundry Debtors, Invoicing, Planning Officers etc.</p> <p>c) Once procedure is finalised, a role out to all teams would be advisable.</p>	Recommendation agreed.	<p>Housing and Enabling Officer</p> <p>Completion of process in all elements September 2020</p> <p>Roll out to teams October 2020</p>
High	<p>Invoice repayment plans are being allowed to be arranged for S106/SANGS invoices. As at 23/03/2020 there were 10 invoices on payment arrangement plans.</p> <p>Risk <i>This is a breach of the legal contract and can cause issue to financing projects.</i></p> <p>Suggested recommendation</p>	<p>Immediate action required as review and roll out of procedures will take time.</p> <p>Longer term review of coding of debts to support procedures required.</p> <p>Immediate instruction issued to Sundry debtors to explain and prevent future payment arrangements being made</p>	<p>Head of Economy, Planning and Strategic Housing</p> <p>Immediate</p>

	<p>The Sundry Debtor process should be altered for S106/SANGS payments to reflect legal obligations surrounding the payment agreement, ensuring payment arrangements are not applied.</p>	<p>Revised procedure as above.</p> <p>Revised guidance on the raising of s106-related invoices to include a change to the guidance on payment of invoices. This will make it clear that payment plans or part payment of s106 obligations cannot be agreed.</p>	<p>Executive Head of Finance</p> <p>August 2020</p>
Medium	<p>a) There are agreements on the Uniform system which are showing the incorrect status i.e. test cases still showing. b) Management could not confirm that the status of all agreements on the Uniform system were correct. (2.4)</p> <p>Risk <i>There could be financial losses due to triggers being missed.</i></p> <p>Suggested recommendation a) A full data cleanse of the agreements on the Uniform system should be conducted to ensure all records are up to date and current. b) Going forward, one person should be responsible for overseeing the status of the cases.</p>	<p>Recommendation agreed.</p> <p>Housing and s106 Officer appointed</p>	<p>Corporate Planning Manager and Housing and s106 Officer</p> <p>Undertake data cleanse Completion June 2021</p>
High	<p>a) There is no log/register that lists all agreements that the service holds. b) The agreements are not monitored once commenced to ensure all triggers are met.</p> <p>Risk</p>	<p>Recommendation agreed.</p> <p>Housing and s106 Officer appointed</p>	<p>Housing and s106 Officer</p> <p>Implement register immediately</p>

	<p>a) <i>There is no audit trail or way of monitoring the applications and agreements within the service.</i></p> <p>b) <i>There may be financial losses if triggers are not met.</i></p> <p>Suggested recommendation</p> <p>a) A log/register should be compiled and held within the service.</p> <p>b) This should be monitored by one person to inform trigger actions and should be updated when the status application / agreement changes.</p>		<p>Completion dependent on data cleanse</p> <p>Completion 2021</p>
Medium	<p>a) There is not one place for a case to be held. It is split between the separate application and enforcement modules within the Uniform system, as it progresses.</p> <p>b) A case is given two different reference numbers depending where in the process it is, i.e. an application is given a unique application reference number and then once it progresses to an agreement it is given a different unique enforcement reference number.</p> <p>Risk</p> <p><i>This creates difficulties keeping track of cases and finding information/documents.</i></p> <p>Suggested recommendation</p> <p>If one module cannot be devised in the Uniform system to hold a case from start to end of process, then a log/register should be compiled and held within the service, which holds both reference numbers, so these can be easily found on the different modules within Uniform system.</p>	<p>Awaiting implementation of enforcement module – date not yet confirmed</p> <p>Both case numbers will be held on register in interim</p>	<p>Housing and s106 Officer</p> <p>New cases or where enforcement arise will immediately implement interim measure.</p> <p>Data cleanse will identify cases and register update as occurs.</p>

<p>Medium</p>	<p>The service is not using incentives available to encourage Developers to pay outstanding monies.</p> <p>Risk <i>a) Sundry Debtors are setting up payment arrangement plans, which is a breach of legal obligations.</i> <i>b) The service are not using preventative measures, which would mitigate risk in the future.</i></p> <p>Suggested recommendation The service should compile a list of tools and consider using them with Developers to encourage prompt payment of outstanding monies.</p>	<p>Recommendation agreed.</p>	<p>Corporate Planning Manager</p> <p>Develop guidance for Planning Officers October 2020</p> <p>Roll out training for Planning Officers January 2021</p>
<p>Low</p>	<p>The Housing Enabling and S106 Officer does not have access to all of the relevant systems.</p> <p>Risk <i>There is not the level of access granted which is needed to have a complete oversight of the service.</i></p> <p>Suggested recommendation In order for the Housing Enabling and S106 Officer to have complete and transparent oversight of the service, access will need to be granted for all systems involved in the S106 process and training on all systems is required.</p>	<p>Recommendation agreed and implemented.</p>	<p>Implemented</p>
<p>High</p>	<p>a) The Council may be holding S106 monies that are over 5 years old. b) Monitoring of all s106 funds has not been in place.</p> <p>Risk <i>a) Developers have the right to request funds back if not used after 5 years. This could result in a financial loss for the Council.</i></p>	<p>Recommendation agreed.</p> <p>As part of the process of compiling the register and cleansing data any sums held for over 5 years will be identified.</p> <p>Regular meetings will be held between the Head of Economy, Planning and</p>	<p>Head of Economy, Planning and Strategic Housing</p> <p>September 2020 onwards</p>

	<p><i>b) There is no oversight or monitoring of the funds.</i></p> <p>Suggested recommendation</p> <p>a) There should be a plan in place as to how the funds are properly utilised and regular meetings to monitor this. This needs to include a plan of how to utilise monies that the Council may currently hold over 5 years or determine to repay sums. This would ensure that all monies that have been paid to the Council are utilised appropriately and prevent Developers successfully requesting funding back.</p> <p>b) There should be knowledge of who manages this fund. There should be regular meetings to discuss the value to enable full oversight.</p>	<p>Strategic Housing, Planning and finance will be held quarterly starting in September</p> <p>All sums will be allocated to specific officers and teams and monitored through the quarterly meetings</p>	
--	---	---	--

Audit Title 3	Capital Project (Ski Slope Maintenance)		
Year of review	2019/20		
Assurance given	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>		
Overview of area	<p>The Ski Slope capital project was carried out during 2019/20 to undertake structural works in removing existing, and replacing with new lacing beams.</p> <p>The budgeted capital cost for this was £75,000, approved in the Rushmoor annual Capital Programme of 2018/19.</p> <p>Under the new contract with Active Nation for operating the ski slope, RBC still has responsibility for the main slope structure and an annual structural survey is required, with any future major work paid from capital funds.</p>		
Priority	Key findings	Management response and agreed action	Action by who and when

<p>Medium</p>	<p>Structural Survey Procurement</p> <p>a) The pre-contract Structural Survey (£5,200) was procured with SG Structures with no evidence that 3 quotes were sought as per RBC Contract Standing Orders (CSO) – Low Value Transactions Band 2.</p> <p>b) Additionally, the independent evaluation of quotes for this work could not be applied (CSO 10.2) and the selection was solely by one officer, the Building Services surveyor</p> <p>It is understood that SG Structures have been undertaking various works for RBC for many years.</p> <p><i>Risk: If corporate procurement requirements and controls are not applied then RBC may not be receiving best value for money and there is the opportunity for fraudulent activity.</i></p>	<p>Property and Estates in its current (new) format does adhere to the Procurement procedures in place.</p> <p>SG Structures are on occasion brought in where there is a time constraint issue, but this is the exception.</p> <p>Improved adherence to procurement procedures will be had going forward for such pre-contract requirements.</p> <p>It is difficult to state what guidance/input from Senior Officers was provided at the commencement of the Project since it was begun under a different reporting regime.</p>	<p>Property & Estates Manager / Principal Building Maintenance Surveyor</p> <p>Implemented</p>
<p>Medium</p>	<p>Main Contractor Selection</p> <p>Procurement advice from the specialist team was not taken into account in the selection process for the main contractor.</p> <p><i>Risk: The procurement process may not be conducted in the most efficient or effective way and regulations/legislation may not be met.</i></p>	<p>In future, advice from the Procurement team will be taken on board. The new regime within the Service is now more conscious of the need to adhere to central guidelines and to ensure that Officers acting within the Service or for Clients in the Council, do act accordingly.</p> <p>It is also important that the Principal Procurement Officer be available to be part of the scoring of tenders as an independent party to the process.</p>	<p>Property & Estates Manager / Principal Building Maintenance Surveyor</p> <p>Implemented</p>

		<p>A new Framework on a variety of bases for works with the Service (Regeneration and Property) is currently (April 2020) close to completion and any new projects hereafter will be governed by this framework.</p> <p>For higher value projects, other various frameworks are accessed, i.e. Crown Commercial Services.</p>	
Medium	<p>Main Contractor Selection</p> <p>a) E-tendering via the SEBP was utilised, however, the CSO 9.2 was not applied in terms of <i>“...the ‘locked box’ must only be opened in the presence of two officers from the Head of Finance’s Team ...”</i>. <i>“Details of the opened tenders, including title/reference number of tenders, name of tenderers and prices, must be recorded in the Tender Opening Sheet or electronically”</i>.</p> <p>b) The two tenders received (JK Build and GABE) were so disparate that in effect only one quote was credibly received. The options under CSO 6.6.5 of seeking more quotations or obtaining an exemption were not applied.</p> <p>c) There was insufficient time allowed for full exploration of the marketplace and the decision to award was hurried. The use of an Exemption (CSO 22.3) could have been applied in this scenario where time is short and the marketplace has not been fully tested.</p>	<p>Response as above in 1.1 and 2.1</p> <p>This project unfortunately did not follow any of the RBC guidelines and it is not known of any management input to the process.</p> <p>The locked box opening process is now not a requirement as agreed by the previous Head of Legal as the Procurement Officer is impartial to the tender so is able to open the electronic tender box. Opening is recorded electronically.</p> <p>In 2.7 above, the Procurement Team were aware of the shortfalls and this could have triggered a response:</p> <p>a) to the Building Surveyor’s Manager, b) to the Client, and c) to the Principal Procurement Officer’s own Manager, providing 3 separate opportunities to have managed this better.</p>	<p>Contracting Officers / Heads of Service</p> <p>Implemented</p>

	<p>d) The CSO 10.1 was also not applied in regard to “<i>For medium value transactions the tenders should be objectively evaluated by a panel of three officers including one officer from the Procurement Service using the Award Criteria</i>”.</p> <p>There was no formal evaluation and the Building Services surveyor took the decision to select the contractor, based on the tender being less than the capital funds approved.</p> <p>Risk: <i>Unless the CSO are fully applied then RBC may not be receiving best value for money and there is the opportunity for fraudulent activity.</i></p>	<p>It is not known if any of this occurred, but certainly no action was taken to prevent the project proceeding as it did.</p> <p>None of the stated procurement guidelines are adhered to, including CSO 9.2, 6.6.5, 22.3 or 10.1 and the Building Surveyor proceeded as he wished.</p> <p>As part of the planned training on Procurement, Heads of Service and Contracting Officers will be reminded of the requirements of the CSOs and the expectation of contracting officers.</p>	<p>Principal Procurement Officer</p> <p>31st December 2020</p>
<p>Medium</p>	<p>Tender Requirements</p> <p>The tender Outline Brief stated that all tenderers would need to visit site and make themselves aware of all site constraints, scaffolding and access requirements. It could not be established if this occurred <i>although the current surveyor was required to inform the contractor that their scaffold arrangements were not appropriate and were modified.</i></p> <p>Risk: <i>If tender requirements are not met, then pricing of the works is not fully informed.</i></p>	<p>There were two projects on one site and under the previous Building Surveyor it is not known if both were assessed on the one visit.</p> <p>Under the new Property and Estates management, site visits will be booked for all projects and attended with the Building Surveyor.</p> <p>Where projects are managed outside of Property and Estates, the targeted training of the new Procurement Strategy, will reinforce the need for</p>	<p>Contracting Officers / Heads of Service</p> <p>31st December 2020</p>

		contracting officers to meet all tender requirements.	
Low	<p>Invoice Order Numbers / Accruals The invoices for SG Structures quoted an incorrect order number and the JK Build invoices none at all. This created more administration for the finance team. There is also a risk that payments are forced and paid, plus any accrual stays on the system against the project.</p> <p><i>Risk: There could be double accounting for invoice costs on a project which would distort figures for project management purposes.</i></p>	<p>A new process for 'Client' managed projects within Property and estates exists (from mid-2019) to ensure 3 checks are undertaken before the Invoice is sent for Approval:</p> <ol style="list-style-type: none"> 1. the Budget is checked 2. The Cost Coding is checked 3. The 'Client' is asked to cross check <p>In this way, the process is more accurate, those budget holders outside the Service are informed and any queries can be picked up. It also means reduced delays and input from the Approver rather than holding up Approvals to query these same items.</p>	<p>Property & Estates Manager / Principal Building Maintenance Surveyor</p> <p>Implemented</p>
Medium	<p>Project Management Guidance For this project, the surveyor had full control on every aspect including selecting the contractors, managing the project, agreeing payments and the final account. For minor/medium capital projects, there are no corporate guidelines for officers on the:</p> <p>a) Project management role of the Building Services team, when they are managing projects/capital budgets on behalf of other departments, e.g. tendering, site visits, internal reporting of progress, etc.</p>	<p>Corporate Guidelines would be welcomed for officers to work to and to address both the project management and the financial management of these projects. Where projects are cross-Service, a means to include the Client as Budget Holder and the Officers' Team Leader in both the physical project managing and the financial monitoring might prove to be useful.</p>	<p>Executive Head of Regeneration and Property / Executive Head of Finance</p> <p>30th September 2020</p>

	<p>b) The responsibilities and expectations of the capital project budget holder, e.g. monitoring spend, sign off final account. etc. These need to be formally defined and corporate guidance agreed.</p> <p><i>Risk: Key project management risks may not be properly managed increasing the chance of delayed progress, overspend and fraud.</i></p>	<p>Especially as the financial sign-off lies with either of these others and not with the Officer running the project.</p> <p>There is a proposal for a Project Management Board and full PM process to be established for Property-led projects as this does not at present exist. This is intended to mirror the current Regeneration PM process that works well and has visibility and milestones that ease progress and control.</p> <p>In the absence of a corporate project management framework, the guidance issued on budget preparation for 2021/22 will include detail on the expectations around the financial management of capital schemes / projects.</p> <p>This will set out guidelines on how capital projects should be managed including how payments are authorised and how expenditure is reported.</p> <p>The officer Governance Group will consider a way of supporting operational and financial decision making and monitoring for all</p>	<p>Property & Estates Manager 30th September 2020</p> <p>Executive Head of Finance</p> <p>Budget preparation</p>
--	--	--	--

		projects, including where they are cross-Service.	
Medium	<p>Contracts Register There is a requirement under the Transparency Code for all contracts over £5,000 to be included on the RBC Contracts Register. The two Ski Slope capital contracts/services could not be located.</p> <p><i>Risk: Statutory requirements under the Transparency Code are not being met.</i></p>	<p>It is not known who the signatory to the Contract was in this case.</p> <p>As part of the planned training on Procurement, Heads of Service and Contracting Officers will be reminded of the need to provide the Principal Procurement Officer with details of contracts awarded to enable the Contracts Register to be updated.</p>	<p>Principal Procurement Officer</p> <p>31st December 2020</p>

Audit Title 4	Petty Cash
Year of review	2020/21
Assurance given	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>
Overview of area	<p>An audit of petty cash was carried out as part of an ethical governance audit scheduled within the 2019/20 audit plan.</p> <p>Petty cash is utilised across the Council with 513 claims being made in 19/20 totalling £9,472.</p>

Priority	Key findings	Management response and agreed action	Action by who and when
<p>Medium</p>	<p>The current and revised petty cash policy in place does not provide clear details as to the process for making a claim or for what could or could not be claimed.</p> <p>The lack of guidance on the process to be carried out has resulted in various forms of the petty cash claim form being in circulation within the Council.</p> <p>Furthermore, Information relating to the petty cash policy is not correctly reflected on the Council's Intranet site, Inform, as the limit for the amount to be claimed is not clear.</p> <p>Risk: <i>That petty cash will be inconsistently utilised within the Council without clear guidance and communication.</i></p>	<p>The Council's Financial Procedure Rules provide the framework for the operation of the Petty Cash system.</p> <p>The expectation is that most expense and reimbursement claims will be made through MyHR.</p> <p>Revised guidance will be issued by Finance, in consultation with HR, to ensure all staff are aware of the way in which expenses should be reclaimed.</p>	<p>David Stanley, Executive Head of Finance/ Alan Gregory, Finance Manager</p> <p>January 2021</p>
<p>Medium</p>	<p>Petty cash claims are being made when other more efficient ways are available, for example MyHR or original purchases being made via procurement cards.</p> <p>Risk: <i>The Council may continue to maintain a level of petty cash unnecessarily as other more cost and resource effective methods are not being utilised.</i></p>	<p>Agreed</p> <p>The Guidance will cover the ways in which certain costs (e.g. rail travel) can be arranged in advance using procurement cards.</p>	<p>David Stanley, Executive Head of Finance/ Alan Gregory, Finance Manager</p> <p>January 2021</p>
<p>Medium</p>	<p>Claims for petty cash are being submitted and authorised without a full description being provided.</p> <p>Risk: <i>If full descriptions are not provided for the claims then this cannot be appropriately authorised by the authorising officers and may result erroneous claims.</i></p>	<p>Agreed</p> <p>Revised guidance on the claiming of expenses through Petty Cash will address this issue.</p>	<p>David Stanley, Executive Head of Finance/ Alan Gregory, Finance Manager</p> <p>January 2021</p>
<p>Medium</p>	<p>There is insufficient control at the point of payment of petty cash to ensure that the claim has been endorsed</p>	<p>Agreed</p>	<p>David Stanley, Executive Head of</p>

	<p>by an authorising officer, independent of the person making the claim.</p> <p>Risk: <i>By not having in place sufficient checks and/or segregation of duties erroneous or fraudulent claims could be made.</i></p>	<p>Revised guidance will include a redesigned petty cash authorisation form (replacing the different forms found in testing) and ensure adequate authorisation has been obtained before reimbursement is requested.</p>	<p>Finance/ Alan Gregory, Finance Manager</p> <p>January 2021</p>
--	--	---	---

Audit Title 5	Housing Faster Payment
Year of review	2020/21
Assurance given	Reasonable – <i>Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>
Overview of area	A review of the process for issuing faster payments was undertaken following a report of a fraudulent transaction to Audit, in relation to the accommodation deposit for a homeless person. The Finance Department advised that

	<p>following the issuing of a faster payment having been made to a landlord, the Housing Department had informed them that they now believed the landlady, (to whom the payment had been made) was fraudulent.</p> <p>The Review looked at the process for making faster payments for housing deposits from the point of it being requested within the Council's Housing Department until the payment is made from the Council's bank account by Finance.</p> <p>The amount paid out to the fraudster has now been recouped by the Council.</p>		
Priority	Key findings	Management response and agreed action	Action by who and when
High	<p>Documents, (required to verify the link between the property and the landlord) were not obtained prior to requesting the housing deposit faster payment. This was also not picked up by the second housing officer who authorised the payment.</p> <p>Risk: <i>Without carrying out the necessary checks to verify the link between the property and the landlord and checks by the second housing officer to ensure these had been carried out, a fraudulent payment may be made resulting in a financial loss for the Council.</i></p>	<p>Officers have received training to ensure that:</p> <ul style="list-style-type: none"> • they follow the procedure to establish the link between the property and landlord. • The second officer who checks the first officer's request understands that this is a full check to establish that all documents are present, and procedures have been followed confirmed by signing off. 	<p>Suzannah Hellicar, <i>Housing Options Manager</i></p> <p>Immediately</p>
High	<p>The Housing Officers were not aware of the requirement to obtain certain documents prior to submitting the matter for authorising a faster payment.</p> <p>Risk: <i>If officers are unaware of the processes to follow and documents to be obtained, fraudulent payments may be made as sufficient control checks are not being carried out, resulting in a financial loss for the Council.</i></p>	<p>This error happened with an inexperienced officer who was working remotely and was not aware or had forgotten to obtain the full information. However, a check by a more experienced officer should have identified this.</p>	<p>Suzannah Hellicar, <i>Housing Options Manager</i></p> <p>Immediately</p>

Audit Title 6	Building Control Partnership
Year of review	2019/20
Assurance given	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>

<p>Overview of area</p>	<p>The Building Act 1984 places a statutory requirement on Local Authorities to provide a Building Control service. The Building Control Team ensures that the Building Control Regulations 2010, which cover the construction and extension of buildings, are complied with. These regulations are developed by the UK Government and approved by Parliament, and are the minimum standards for design, construction and alterations to virtually every building.</p> <p>Hart District Council (HDC) Building Control entered into a shared service with Rushmoor Borough Council (RBC) to form a Partnership in July 2015. RBC host the service out of their offices in Farnborough and the aim of the arrangement is set out in a signed Legal Deed with an initial term of five years.</p> <p>The Building Act defines which of the statutory Building Control functions are to be fee earning and non-fee earning. At the outset of the Partnership each authority had an individual fee schedule which have now been amalgamated into a single partnership schedule of charges. The fees intended to be charged on a cost recovery basis.</p> <p>HDC are charged a quarterly Hosting Charge which was established to cover the additional costs that RBC incur for hosting the Building Control Service.</p> <p>Partnership scrutiny arrangements are outlined in the Deed with the expectation being that a Steering Group fulfils its defined roles and responsibilities and co-operates with the Scrutiny Committees of the Council, whose responsibility it is to oversee the manner in which the Delegated Function is carried out.</p>		
<p>Priority</p>	<p>Key findings</p>	<p>Management response and agreed action</p>	<p>Action by who and when</p>
<p>Medium</p>	<p>Review of The Deed The Deed has not been subject to formal review since the commencement of the Partnership.</p> <p><i>Risk: Unless the Deed is subject to the required annual review it may not accurately reflect the operations and objectives of the Partnership as it has evolved over time.</i></p>	<p>Arrange meeting of the Steering Group once proposed new Deed is ready and establish a diary of meetings for future years.</p> <p>Set schedule of annual review for the period of the term of the new Deed on the anniversary of signing.</p>	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
<p>Medium</p>	<p>Continuation of the Partnership The Deed is due to come to the end of its term in July 2020. To date no discussion has been held with regards to the continuation of the Partnership and any deed of variations which may be required.</p> <p><i>Risk: Unless sufficient time is allowed for discussion and planning as regards the future continuation of the Partnership, changes or enhancements may not be agreed or implemented in time for the start of the new term.</i></p>	<p>HDC & RBC wish to see Partnership continue in principle. Will extend the term of the Deed with same terms and conditions for 6 months to enable a review to be completed.</p> <p>Mutual agreement by exchange of letters (dated 29 & 30 June 2020) to extend term of Deed until 31 December</p>	<p>Tim Mills, <i>Head of Economy, Planning and Strategic Housing</i></p> <p>January 2021</p>

		2020 to enable review and drafting of new Deed.	
Medium	<p>Compliance with the Deed The Partnership appears to operate with limited reference to the Deed and therefore there are elements which are not adhered to or met.</p> <p><i>Risk: Without reference to the Partnership Deed during the course of its term there is a risk that not all delegated functions, including legal responsibilities, will be carried out.</i></p>	Review governance arrangements in preparing the new Deed. Adhere to the required meetings and schedule meeting dates for the term of the new Deed.	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
High	<p>2010 Building Regulations Requirement Hart do not publish their surplus or deficit figures as is required by the 2010 Building Regulations.</p> <p><i>Risk: The Partnership may be at risk of criticism if they do not comply with the requirements of the Building (Local Authority Charges) Regulations 2010.</i></p>	Look to resolve during negotiations on new Deed, referring to The Building (Local Authority Charges) Regulations 2010. Review of Regs to agree how the Partnership adheres to the requirement.	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
High	<p>Rushmoor Deficit Figure RBC's three year rolling surplus/deficit figure was reported as £87,697 in deficit for 2018/19. This figure had however reduced in year.</p> <p><i>Risk: If the three year rolling deficit figure is not addressed and a decision made as to how to reduce it further, there is a risk that the Partnership are not covering their costs and both the fees and the Hosting Charge have not been accurately calculated to reflect the true cost of the service.</i></p>	Review 3 year rolling figure for 2019 - 20 and take action accordingly. Both Councils to consider proposal to set charges and review % split each year to respond to financial position	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
Low	<p>Procedure Notes Up to date procedure notes covering the key functions undertaken by the Technical Support team and the Surveyors are not in place.</p> <p><i>Risk: In the absence of current, clear and approved procedures covering the key functions of the service there is a risk that staff, particularly new staff, may be unclear of their roles and responsibilities and the time critical elements.</i></p>	Partnership is looking to implement the LABC ISO 9001:2015 which includes auditable procedures across the team and is now the national standard for LABC. Implementation of ISO accreditation will address this issue.	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>

Low	<p>Competition from Approved Inspectors The split between work allocation of 70:30 (Rushmoor: Approved Inspectors) is not being actively monitored and reported to ensure that the Partnership is not losing share and therefore losing income.</p> <p><i>Risk: Without regular monitoring and reporting of the work allocation split between the Building Control Partnership and Approved Inspectors there is a risk that prompt action is not taken should the Partnership start to lose market share and, as a consequence lose income.</i></p>	The split is monitored on a weekly basis. Weekly lists of all applications are reviewed by the Manager, who writes individually to all applicants. To be reported periodically to Steering Group	Martin Hobley, <i>Building Control Partnership Manager</i> January 2021
Medium	<p>Oversight from the Steering Group The Steering Group has not met for over a year.</p> <p><i>Risk: As the Steering Group has not met for over a year there will have been an absence of robust challenge and oversight of the budget.</i></p>	Arrange meeting of the Steering Group once proposed new Deed is ready and establish a diary of meetings for future years. Set schedule of meetings for the period of the term of the new Deed	Martin Hobley, <i>Building Control Partnership Manager</i> January 2021
High	<p>Annual Review of the Hosting Charge As the Steering Group has not met for over a year the Hosting Charge has not been formally audited by both parties prior to its submission to HDC for approval, as per the requirement detailed in point 10.2.5 of the Deed.</p> <p><i>Risk: Unless there is a review of the Hosting Charge by the Steering Group prior to submission to Hart District Council for approval there is a risk that beneficial or necessary adjustments are not made due to lack of challenge.</i></p>	Arrange meeting of the Steering Group once proposed new Deed is ready and establish a diary of meetings for future years. Set schedule of meetings for the period of the term of the new Deed	Martin Hobley, <i>Building Control Partnership Manager</i> January 2021
Medium	<p>Outturn Figure Although Rushmoor published a three year rolling deficit figure for 2018/19 the Building Control Partnership had an overall underspend of £22K in that period.</p>	Mainly due to the budget for structural engineering not being fully used. Always seen as a necessary contingency. To be dealt with in conjunction with item 2.4	Martin Hobley, <i>Building Control Partnership Manager</i> January 2021

	<p>Risk: Unless the outturn position for the Partnership is considered in conjunction with each individual authority's published surplus/deficit statement there is a risk that the budget, including the Hosting Charge, is not aligned correctly.</p>		
Low	<p>Monitoring of Income Income figures are not reported in the same format by both authorities.</p> <p>Risk: The monitoring of income figures is complicated by the different reporting formats used by each authority.</p>	<p>Seek to harmonise at least for decisions by the Steering Group. Harmonisation of Idox software may result in single payment system</p>	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
Medium	<p>Key Performance Indicators (KPIs) Although there are performance requirements stipulated in the Deed there are no formally approved and relevant Key Performance Indicators (KPIs) which are monitored and reported.</p> <p>Risk: Without approved KPIs which are regularly monitored and reported, there is a risk that the Partnership may not be performing as expected and necessary amendments are not made in a timely manner to the working arrangements.</p>	<p>Set a schedule of KPIs to be regularly reported and monitored by each authority through Steering Group. Use KPI's now used for reporting in Service Business plan following LABC national template</p>	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
Medium	<p>Meetings of the Steering Group The Steering Group have not fulfilled their requirement to meet biannually, neither have they formally undertaken their responsibilities as defined in the Deed. As a result Governance of the Partnership has not been robust.</p> <p>Risk: Unless there is scrutiny of the operation of the Partnership and adherence to the requirements stipulated in the Deed there is a risk that the service will not be meeting all of its obligations or complying with current legislation.</p>	<p>Arrange meeting of the Steering Group once proposed new Deed is ready and establish a diary of meetings for future years. Set schedule of meetings for the period of the term of the new Deed</p>	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>
Medium	<p>Reporting Requirements Reports are not routinely prepared specifically for the Steering Group to review and make any recommendations deemed necessary.</p>	<p>Identify set information that needs to be considered by the Steering Group to oversee the management of the service. Seek to use LABC template</p>	<p>Martin Hobley, <i>Building Control Partnership Manager</i></p> <p>January 2021</p>

	<p>Risk: <i>If the Steering Group are not provided with relevant reports as defined in the Deed there will be a risk that any shortfalls in performance of the Partnership will not be addressed in a timely manner.</i></p>		
--	---	--	--

Audit Title 7	Disabled Facilities Grants - follow up
Year of review	2019/20

Assurance given at time of the audit	Substantial - Key controls designed to achieve the system/function/process objectives, are in place. There are opportunities to enhance/strengthen these controls.		
Assurance given at time of the follow up	Substantial - Key controls designed to achieve the system/function/process objectives, are in place. There are opportunities to enhance/strengthen these controls.		
Overview of area	<p>An audit was carried out on Disabled Facilities Grants in June 2019. The audit found that there are well established processes in place to ensure that each stage in processing a grant is correctly applied, and the application of these was verified as fully complied with during the review.</p> <p>The findings from this audit resulted in 1 high priority, 6 medium priority and 2 low priority recommendations being made which were agreed by management.</p>		
Priority	Original findings	Follow up findings	Recommendation status
Medium	<p>Within the Application Form and Grant Approval documentation, there is no reference to the responsibility of the owner/resident for servicing, repair, maintenance, etc of equipment provided / works completed and when this applies.</p> <p>Risk: <i>There may be misunderstanding as to the responsibility for equipment installed and works completed once Completion Forms are signed.</i></p>	It was confirmed that a sentence regarding the applicants' responsibility for maintenance of the adaptation, after the 12-month warranty period, has been included in point 5 of the application, which is sent to each applicant upon completion.	Implemented
Low	As part of the sample testing it was identified that:	Confirmation was provided by the Private Sector Housing (PSH) Manager that all staff were reminded about the	Implemented

	<p>- For one sample, the Schedule of Works could not be located.</p> <p>- For one sample, the Planning and Building Control documents were not sent on by the QS.</p> <p>Risk: <i>Supporting documentation for grants claims is not complete and statutory compliance cannot be verified.</i></p>	<p>process to be followed upon completion for the idoxing of all information to the Uniform system. Two samples were reviewed and found to have the necessary information.</p>	
Medium	<p>The quotation parameters applied for the DFG work do not correspond with the RBC Contract Standing Orders for works up to £10,000.</p> <p>Risk: <i>RBC Contract Standing Orders are not being complied with and could be subject to challenge.</i></p>	<p>Information required has been supplied to the Procurement Officer, however this was put on hold due other higher priority work being undertaken. This is currently being reviewed and should be in place by November 2020.</p>	Not Implemented
Medium	<p>The current DFG work is undertaken by a group of around 12 contractors who quote for work on a rotational basis selected by the team. The group was inherited from the Homes Improvement Agency and then evolved over time, and some contractors are invited to quote more often than others.</p> <p>Risk:</p>	<p>Contractors are not invited to quote more often as they go through a rotational spreadsheet. However, certain contractors are more successful in getting the job. Sometimes if contractors cannot accommodate the work they refuse to quote.</p> <p>The Framework Agreement has been discussed with the Procurement Officer.</p>	Not Implemented

	<i>Selection could be as inequitable and subject to challenge and there may be a more efficient and effective value for money procurement process, e.g. Framework, for the appointment of contractors.</i>	However, as detailed in Recommendation 3 above, due to other higher priority demands on that service this has not been progressed further but should be in place by the end of the calendar year.	
Low	For the occasional contracts over £50,000, the Procurement Service is not consulted for guidance on the best approach and requirements, e.g. advertising on the South East Business Portal (SEBP). Risk: <i>RBC Contract Standing Orders are not being complied with and could be challenged.</i>	This will be addressed as part of the Framework agreement as detailed within Recommendation 4 above. The Procurement Officer is working with Property Services and the PSH Manager to establish a list of Contractors which have tendered and been approved for inclusion on the framework for which the PSH Officers can then select from over the 4-year period of the framework.	Not Implemented
Medium	a) The financial stability of contractors is not formally verified. b) There is an expectation that contractor works would be guaranteed for 12 months but this is not formally set out in the purchase orders / process. Risk: <i>Work could be awarded to a financially unstable contractor and there could be misunderstanding of responsibility should any issues arise.</i>	The Private Sector Housing Manager and the Procurement Officer have agreed that to get on the Framework RBC will have to have a clear tender process, and this will form part of the procurement process where contractors/surveyors will have to submit a tender for work to enable them to get on the Framework. This information will be contained within the Framework Agreement.	Not Implemented
High	Two quantity surveyors are exclusively used (with one particularly favoured- BJC Design	The Procurement Officer is working with Property Services to set up a	Not Implemented

	<p>with payments in 2018/19 of c.£46k). The Contract Standing Orders 'requirement of aggregation' are not applied in assessing contract requirements.</p> <p>Risk: <i>RBC Contract Standing Orders are not being complied with and the EU Public Procurement Directives for services may be breached.</i></p>	<p>separate framework agreement for surveyors and to advertise for new surveyors to be 'procured' and vetted. The Procurement Officer confirmed this will go out to competition for acquiring new contractors/surveyors (see also recommendations 5 and 6 above).</p>	
Medium	<p>There is no annual verification of the Professional Indemnity Insurance for the two quantity surveying services or the Public Liability insurance for the contractors.</p> <p>Risk: <i>Services and works could be being provided without the appropriate insurances in place.</i></p>	<p>The PSH Manager has confirmed this information is chased by an officer from the PSH team, for compliance. A sample of two have been reviewed and copies of Certificates of Insurance, Public Liability Insurance, Professional Indemnity Insurance and Employers Liability Insurance were seen and checked for verification.</p>	Implemented
Medium	<p>Contracts let over £5,000 are not being added to the RBC Contracts Register.</p> <p>Risk: <i>Contract Standing Orders (13.1) and the Central Government Transparency Code requirements are not being met.</i></p>	<p>The PSH Manager believes the information has been updated on the public register by the Procurement Officer, however it would appear that this information is not on the contract register.</p>	Not Implemented

Audit Title 8	Contract Management - follow up		
Year of review	2019/20		
Assurance given at time of the audit	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>		
Assurance given at time of the follow up	<i>Reasonable – Basic controls designed to achieve the system/function/process objectives, are in place. Improvements are required if key controls are to be established.</i>		
Overview of area	<p>An audit was completed on Contract Management in July 2019. The audit found that there were some good practices identified and even though there was scope to improve controls, the majority of the contracts reviewed were operationally satisfactory and the service objectives were being fulfilled.</p> <p>The findings from this audit resulted in 2 high priority, 7 medium priority and 2 low priority recommendations being made, which were agreed by management.</p>		
Priority	Original findings	Follow up findings	Recommendation status
High	<p>There is no Contract Management corporate framework in place to provide guidance for Contract Managers, Procurement and management to:</p> <p>a) Assess the level of contract management required, e.g. formal, ad-hoc, 'light touch';</p> <p>b) Assess the risk to the business, e.g. financial, Health and Safety, reputational, business continuity, etc;</p> <p>c) To re-assess the level of contract management as the contract becomes established and client relationships evolve;</p> <p>d) Set out the requirement of recording meeting minutes / contract issues / progress, including the need for a standard template;</p>	<p>The New Constitution with the Contract Standing Orders, which covered the elements highlighted in the recommendation, went to Cabinet in May and was agreed. The Policy and Project Advisory Board (PAB) were consulted on the Council's Procurement Strategy 2020-2024 at their meetings in November 2019 and June 2020. A final draft of the Procurement Strategy was considered by Cabinet in August 2020. Training and Guidance will be produced for all officers involved in the procuring of services following the adoption of the</p>	Not implemented

	<p>e) Set out the steps to take if a contractor's performance / quality of delivery is inadequate, e.g. KPIs.</p> <p>f) Set out the process for the review / monitoring of continual contracts, e.g. HAGS/SMP Ltd, those contracts with expiry dates and any action required, e.g. PHS;</p> <p>g) Set out the process for adding on to the Contract Register;</p> <p>h) Set out the process when handing over an on-going contract to a new manager to oversee, e.g. PHS.</p> <p>i) Set out the reporting requirements to senior management and Members</p>	revised Contract Standing Orders and Procurement Strategy.	
Medium	Under Contract Standing Orders, it is not mandatory for contracts under £50,000 to have a contract, with a purchase order being used incorporating the standard RBC terms and conditions. There is no specific assessment of whether more contractual protection is needed for certain contracts.	The revised Contract Standing Orders do not make it a mandatory requirement for a purchase order to be used incorporating the standard RBC Terms and Conditions. Whilst there is an acceptance of this risk by the Executive Head of Finance, individual contracting officers are responsible for ensuring they have undertaken sufficient mitigation measures on contracts under £50,000 (as set out in the Contract Standing Orders). They should liaise with the Principal Procurement Officer who will consult with Legal services, where necessary. This will form part of the training to be implemented by the end of this 2020/21 financial year.	Not being implemented

High	There is no corporate guidance that sets out the clear roles and responsibilities for the Contract Managers, Procurement and management.	The updated Contract Standing Orders (CSO), sets out the roles and responsibilities. However, training on the update CSO will be given in the next few months so that contract managers are aware of their roles and responsibilities.	Not implemented
Medium	There is no formal written guidance on Inform or training available for contract managers.	This will require some work from Principal Procurement Officer with Legal services and some eLearning support from HR. Knowledge and best practice needs to be established and shared to Contract Managers. Work on this will commence within the 2020/21 financial year.	Not implemented
Medium	As part of some contracts, contractor visits to sites are required, e.g. PHS, 3C. Under the PHS contract, Health and Safety requirements of signing in and out were not being applied until an issue arose. For 3C, there are detailed specific Health and Safety conditions in the contract.	There is a Health & Safety section within the contracts. However, it is the responsibility of the contract manager to establish that the correct procedure is contained within the contract and that they are being adhered to. Heads of Service will remind their Contract Managers that there needs to be adherence to the Health & Safety section, which will be highlighted during the planned training.	Not implemented
Medium	There are no pro-active resilience arrangements. The contracts reviewed identified that detailed knowledge of managing these was generally held with a single officer and there is no active approach to identify the highest risk contracts.	This was being addressed within the Contract Management Business Continuity in January – March, as these arrangements need to be reviewed, together with the sharing of knowledge and availability of information. However, due to Covid-19 this was not achieved	Not implemented

		but will be picked back up and in place by the end of the year.	
Medium	For most contract payments, there are no division of duties, with the checking and authorising of invoices being managed solely by the Contract Manager.	<p>There are not many Head of Service that sign off invoices as this has been devolved and have signed authorisation forms giving limits to their officers. In some cases invoices go to an admin person with no approval limit to check and so it would be expected that it would be down to that person to check the rates before coding and it then going up the chain to the senior manager to check before approving or not. This is not the case with what are probably the two largest Contracts - Leisure (Ashley- Contract Manager) and Waste and Recycling (Ruth- Contract Manager), the invoices for these go directly to the Contract Managers who check, code and approve as this has been devolved to them by their Head of Service.</p> <p>The Executive Head of Finance accepts that this is a risk as the system is currently set up but could be difficult to alter. However, there are some options which will be explored in order to address this issue, including splitting of roles and restricting authorisation for Contract Managers.</p> <p>There is an issue on how to ensure a balance between separation of duties</p>	Not implemented

		<p>and the prompt payment of invoices. In the examples given, the individual Contract Manager will be 'best-placed' to authorise invoices given their detailed knowledge of the contract and any performance issues. However, this does pose a risk. Given the value of these particular contracts, the Executive Head of Finance will explore ways in which mitigating controls could be put in place within the Integra system without making the invoice authorisation process overly complex. This may include restricting authorisation limits or other compensating controls. However, at the time of the follow-up audit, the Executive Head of Finance was not certain that these changes could be made to Integra and may require external support to enable.</p>	
<p>Medium</p>	<p>For one contract (PHS) the invoice is sent directly to Accounts Payable and there is no check undertaken by the Contract Manager of the rates paid.</p>	<p>Finance request all invoices are emailed or sent to them. When an invoice is received it is registered on system and they are then sent to the budget officer to code and approve, it is down to that person to check the invoice and ensure that the rates are correct. Their Head of Service has signed off a form approving the limit they can approve. If someone receives an invoice and it is not for them,</p>	<p>Implemented</p>

		they reject it and we make enquiries to find out who to resend it to.	
Medium	The contracts setting out the schedule of rates for PHS, Capita and Northgate could not be located to enable the verification of the rates invoiced.	It would be expected that one of the Contract Manager, their Head of Service and/or the Procurement Manager to hold a copy of the contract. Contracts should be forwarded to the Procurement Manager in order for the details to be loaded onto the Council's contract register. However, if not made aware of the contract then it will not be added to the register. This has been raised as an issue in previous audits. The Procurement Manager is due to carry out training which will look to remind contracting managers that copies of the contracts should be submitted to the Procurement Manager so that they can be included within the Council's contract register in line with the Transparency Code.	Not implemented
Low	For the contracts reviewed, there were no local procedures in place setting out the management and payments processes.	This will be built into the Business Continuity and CSO training and guidance using best practice.	Not implemented
Low	There is no corporate process for the sharing of contract experiences, good practice, issues arising, etc, e.g. the recent PHS contract.	This will be built into the Business Continuity and CSO training and guidance using best practice.	Not implemented

This page is intentionally left blank