Tewkesbury Borough Council

11 March 2014

Committee	Audit
Date	Wednesday, 19 March 2014
Time of Meeting	2:00 pm
Venue	Committee Room 1

ALL MEMBERS OF THE COMMITTEE ARE REQUESTED TO ATTEND

for Sara J Freckleton
Borough Solicitor

Agenda

1. ANNOUNCEMENTS

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the visitors' car park at the front of the building and await further instructions (staff should proceed to their usual assembly point). Please do not re-enter the building unless instructed to do so.

In the event of a fire any person with a disability should be assisted in leaving the building.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive apologies for absence and advise of any substitutions.

	Item	Page(s)
3.	**DECLARATIONS OF INTEREST** Pursuant to the adoption by the Council on 26 June 2012 of the Tewkesbury Borough Council Code of Conduct, effective from 1 July 2012, as set out in Minute No. CL.34, Members are invited to declare any interest they may have in the business set out on the Agenda to which the approved Code applies.	
4.	**MINUTES** To approve the Minutes of the meeting held on 11 December 2013.	1 - 5
5.	**GRANT THORNTON PROGRESS REPORT** To consider Grant Thornton's report on progress against planned outputs.	6 - 18
6.	**GRANT THORNTON CERTIFICATION REPORT 2012/13** To consider Grant Thornton's Certification Report 2012/13.	19 - 30
7.	**STATEMENT OF ACCOUNTING POLICIES** To approve the accounting policies to be used during the 2013/14 closedown.	31 - 50
8.	**INTERNAL AUDIT MONITORING REPORT** To consider the Internal Audit work undertaken and the assurance given on the adequacy of internal controls operating in the systems audited for the period December 2013 to February 2014.	51 - 67
9.	**INTERNAL AUDIT PLAN 2014/15** To approve the Internal Audit Plan 2014/15 as detailed at Appendix 1.	68 - 72

DATE OF NEXT MEETING

WEDNESDAY, 25 JUNE 2014

COUNCILLORS CONSTITUTING COMMITTEE

Councillors: R E Allen, Mrs K J Berry, Dr A L Carter, B C J Hesketh, A L Mackinnon (Chairman), A C Tugwell and D J Waters (Vice-Chairman)

The Council has a substitution procedure and any substitutions will be announced at the beginning of the meeting.

TEWKESBURY BOROUGH COUNCIL

Minutes of a Meeting of the Audit Committee held at the Council Offices, Gloucester Road, Tewkesbury on Wednesday, 11 December 2013 commencing at 2:00 pm

Present:

Chairman	Councillor A L Mackinnon
Vice Chairman	Councillor D J Waters

and Councillors:

Dr A L Carter, B C J Hesketh and M G Sztymiak

AUD.29 ANNOUNCEMENTS

29.1 The Chairman welcomed Peter Barber, Engagement Lead, and Peter Smith, Audit Manager, both from Grant Thornton.

29.2 The evacuation procedure, as noted on the Agenda, was taken as read.

AUD.30 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

30.1 Apologies for absence were received from Councillors Mrs K J Berry and A C Tugwell. There were no substitutions for the meeting.

AUD.31 DECLARATIONS OF INTEREST

31.1 The Committee's attention was drawn to the Tewkesbury Borough Council Code of Conduct which was adopted by the Council on 26 June 2012 and took effect from 1 July 2012.

31.2 There were no declarations made on this occasion.

AUD.32 MINUTES

32.1 The Minutes of the meeting held on 25 September 2013, copies of which had been circulated, were approved as a correct record and signed by the Chairman subject to an amendment to Minute No. AUD.18.3 to confirm that the housing and council tax benefit claim and national non-domestic rates return were the most significant claims and returns to be audited in ***2012/13*** rather than 2011/12.

AUD.33 GRANT THORNTON PROGRESS REPORT

33.1 Attention was drawn to Grant Thornton's progress report, circulated at Pages No. 11-24, which set out the progress which had been made in relation to the audit plan together with any emerging national issues and developments that might be relevant to the Borough Council. Members were asked to consider the report.

33.2 With regard to the outstanding 2012/13 audit, Members were advised that the grants certification work had now been completed and a report setting out the findings in relation to the housing benefit claim would be brought to the next meeting. The claim had been submitted with a very small amendment and a qualification letter. Whilst Officers had been disappointed to receive the letter, Grant Thornton was obliged to report these findings and overall had concluded that the claim was accurate and the processing behind it was good. The detailed audit work for 2013/14 had not yet commenced, however, the planned dates were included within the report.

33.3 In terms of emerging issues and developments, the Audit Commission had published a report in September which provided an analysis of Councils' 2011/12 income from charging. One of the key findings was that charges were the main source of income (20%) for the majority of District Councils and the report set out what the Audit Commission saw as a way forward in terms of maintaining control over the income and charges which were levied by local authorities. In relation to the second issue, Members were reminded that the Government had introduced a business rates retention scheme in April 2013 so that local authorities as a whole would be able to keep half of the business rates income they collected rather than paying it all into the national pool. As a result the Audit Commission had published a paper based on the information gathered from local authority accounts in relation to collection rates and the cost of collecting business rates. This was a useful source for putting the performance of Tewkesbury Borough Council into context; business rates arrears varied between £200,000 and £4.5M and Tewkesbury Borough was at the lower end of this range.

33.4 Members recognised the importance of ensuring that the Council had an effective procurement function in place due to the need for authorities to make further savings and operate under tighter constraints. In terms of simplifying and streamlining the presentation of local authority financial statements, Members were advised that Tewkesbury Borough Council's Statement of Accounts for 2012/13 had consisted of 108 pages which was an average length when compared to other District Councils locally. This indicated that there could be some scope to reduce the content and this would be discussed with the Finance team prior to the commencement of the 2013/14 audit.

33.5 Another significant development related to the 2013/14 Local Authority Accounting Code of Practice which had changed the requirements for the frequency at which authorities were required to carry out valuations on property plant and equipment. Previously the Code had permitted valuations to be carried out on a rolling basis over a maximum of five years, however, the Code now required that assets were shown at a reasonable value for each year during the five year period. There had been a significant change in guidance in that, in order to comply with the Code, all assets within a particular class should be valued within the same financial year which could result in additional costs being incurred if revaluations were required. It was also noted that Grant Thornton and CIPFA had run a series of workshops over the last year in relation to the consultation on the local authority accounting code of practice for 2014/15 and issues in respect of IFRS 13 and infrastructure assets had been discussed. Another emerging issue related to the Audit Commission briefing note, published in September, in relation to the Local Audit and Accountability Bill which was currently going through Parliament. The briefing provided information on what would happen when the Audit Commission was abolished which would eventually result in local authorities being able to choose their own auditors.

33.6 The Audit Manager indicated that Grant Thornton had issued a report in relation to financial resilience based on the work which it carried out with local authorities. The report contained some useful examples of good practice and guidance around understanding financial resilience and comparisons with others. Two copies of the report were circulated around the table for information. The Chairman expressed the view that Tewkesbury Borough Council was performing quite well in terms of the level of financial control, particularly when compared to the National Health Service. The Engagement Lead from Grant Thornton explained that there were many more issues and concerns about financial viability within the National Health Service and some hospitals were in severe difficulty. Tewkesbury Borough Council had been awarded a 'green' status in the previous financial resilience report, however, some Councils were now finding it increasingly difficult to bring their finances under control.

33.7 A Member queried whether reference was made to pooling within the Audit Commission briefing paper on business rates. The Engagement Lead indicated that although a whole raft of 'Shire' authorities had sought to pool, the Gloucestershire authority pool was one of the few which had taken this through to the final stage. The Finance and Asset Management Group Manager indicated that a number of authorities were now looking to pool in the second year and were looking at the governance arrangements in the Gloucestershire pool as best practice.

33.8 In terms of investments, a Member sought a view from Grant Thornton as to the use of the Council's reserves for a single investment which may not make a profit. The Engagement Lead explained that the financial resilience work carried out by Grant Thornton had regard to a whole range of areas but focused on the balance sheet and reserves. Clearly the external auditors would check that the Council had demonstrated that it had sufficient reserves based on its own assessment of risks and the flow of funds in the future. He was well aware of the recent decisions in relation to the leisure centre and recognised that, whilst it was an inherently risky project, the Council was taking a staged approach to move this forward. Grant Thornton would be seeking assurance that the Council had the correct project management in place and that it was bringing in specialist skills at the appropriate points. The Finance and Asset Management Group Manager confirmed that the Council would be bringing in specialist support to deliver the project which would require significant expenditure. Both capital and revenue reserves would be considered to mitigate against any future risks.

33.9 Having considered the information provided it was

RESOLVED That the Grant Thornton progress report be **NOTED**.

AUD.34 ANNUAL AUDIT LETTER 2012/13

34.1 Attention was drawn to the annual audit letter, attached at Pages No. 25-38, which summarised the key messages arising from the 2012/13 audit and key issues facing the Council in future. Members were asked to consider the letter.

34.2 Grant Thornton had issued an unqualified opinion on the Council's 2012/13 accounts and an unqualified value for money conclusion. In respect of the certification of grant claims and returns, although the housing benefit claim had been qualified and a small amendment made, overall the completion and production of the claims was strong, with limited issues arising, and the conclusions were very positive. The fee for the audit was set out at Page No. 37 of the report and was consistent with that which had been suggested at the planning stage. The Council was encouraged to make the annual audit letter available to members of the public both in hard copy format and via the Council's website. The Chairman felt that this was a positive document which should be publicised as a good news story.

34.3 A Member queried whether Grant Thornton ever approached the Audit Committee to warn of possible problems which might occur in the future based on trends and knowledge from central Government. The Engagement Lead explained that the Audit Committee must satisfy itself that the appropriate controls were in place to manage risk within the authority. Grant Thornton could help to inform this discussion through its regular dialogue with Officers. The Member suggested that the annual audit letter would benefit from a covering statement to acknowledge that, despite best intentions to maintain the current high level of performance, problems would inevitably arise as a result of the continued reduction in income from central Government. The Borough Solicitor indicated that the Council fully intended to meet these challenges and this might be called into question if a statement of that nature was included. The Engagement Lead clarified that this had been referenced in the annual audit letter Executive Summary, set out at Page No. 29, which stated that 'Service costs are generally consistent with the trends indicated by other councils. Given that future budget predictions are subject to uncertainty, officers and members will need to continue working effectively and proactively together to manage the risks which the Council faces and to bridge any funding gaps identified'. Members agreed that this adequately captured the observation which had been made and that it would be unnecessary to add anything future to the letter which was intended to act as a self-contained document.

34.4 It was subsequently

RESOLVED That the annual audit letter 2012/13 be **NOTED**.

AUD.35 INTERNAL AUDIT PLAN MONITORING REPORT

35.1 The report of the Policy and Performance Group Manager, circulated at Pages No. 39-54, summarised the work undertaken by the Internal Audit team for the period September-November 2013. Members were asked to consider the audit work completed and the assurance given on the adequacy of internal controls operating in the systems audited.

35.2 Members were advised that good progress was being made towards the completion of the annual audit plan and the 90% target completion of the plan would be achieved. The work undertaken during the period September-November 2013 was detailed at Appendix 1 to the report which provided a summary of the activity audited, the control objectives for each activity and the audit opinion for each control objective. The outcome of any follow-up audits undertaken during the period was also included. The Finance and Asset Management Group Manager indicated that a good level of assurance had been found in both the debtor and cash and bank audits. Council tax was one of the most significant systems operated by the Council and it was encouraging that a good level of assurance had also been found in relation to this audit. There had been good assurance on all aspects of the audit of the main accounting system and the structure of the system had been updated to reflect the changes arising from the organisational restructure, in accordance with control objective two. A good level of assurance had also been found in relation to the work on the payroll audit. The Finance and Asset Management Group Manager went on to explain that trade waste had been called in a number of times by the Committee and had been the subject of repeated follow-up audits. It was pleasing to note that many of the outstanding recommendations from the last follow-up audit had now been completed including up-to-date transfer lists being held for commercial waste customers; crew lists being issued on a regular basis, which had led to further efficiencies; and recovery action being taken in accordance with the Recovery Policy.

35.3 With regard to the Council tax audit, a Member noted that the password for the Northgate system should be comprised of a minimum of seven characters and he sought clarification as to why this was the case when eight characters was the minimum amount for the majority of other systems he had used. Members were advised that the Council's IT team considered a seven character minimum to be best practice and for the password to contain a combination of alpha, numeric and special characters, nevertheless, the Finance and Asset Management Group Manager indicated that he would discuss this further with the IT team following the meeting. A Member sought clarification as to what constituted a 'regular' basis in terms of changing the password and was informed that the password was changed every 30 days i.e. on a monthly basis. When a member of staff left the authority their access to the system would be removed.

35.4 Having considered the information provided it was

RESOLVED That the Internal Audit Plan Monitoring Report be **NOTED**.

AUD.36 MONITORING OF SIGNIFICANT GOVERNANCE ISSUES

36.1 The report of the Borough Solicitor, circulated at Pages No. 55-61, set out the progress that had been made in relation to the Significant Governance Issues identified in the Council's Annual Governance Statement which had been approved in September. Members were asked to consider the information provided and to review progress against the actions.

36.2 Members were advised that the table at Appendix 1 to the report set out the Significant Governance Issues identified, the proposed action and timescale and the progress which had been made as at 30 November 2013. Progress had been made against all of the identified issues and the actions proposed were currently on target to be completed within the prescribed timescales. In response to a general concern, the Borough Solicitor explained that the Council was compliant with the Code of Connection (CoCo) that defined the minimum standards and processes that a local authority must comply with in order to connect to Government Connect Secure Extranet (GCSX). GCSX was a secure, private wide area network which enabled secure interactions between local authorities and other organisations. It was to be borne in mind that this was a moving feast and the Council would need to take care to ensure that it continued to comply with the Code.

36.3 It was

RESOLVED That the monitoring report on the Significant Governance Issues identified in the Annual Governance Statement be **NOTED**.

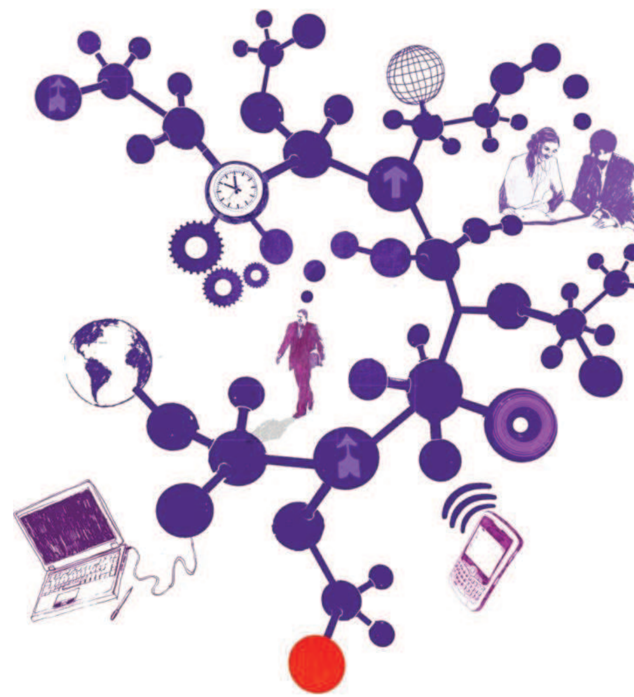
The meeting closed at 2:50 pm

Grant Thornton

Audit Committee Update for Tewkesbury Borough Council

Year ended 31 March 2014

27 February 2014



Agenda Item 5

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

Contents

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – "Reaping the benefits: first impressions of the impact of welfare reform", "2016 Tipping Point – Challenging the current?", 2014 – "Responding to the Challenge – Alternative Delivery methods in Local Government", 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

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Progress at 27 February 2014

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	June 2014	No	Our audit plan will be produced following the completion of our interim and planning work which will be completed in early March. The plan will be agreed in time to go to the June Audit Committee.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	February – March 2014	No	Our work is underway and is due to be completed in early march. No issues have arisen which require reporting to the Audit Committee
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	July – August 2014	No	We have not yet started our detailed audit work for 2013-14.

Progress at 27 February 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VFM conclusion comprises: • a initial risk assessment; • a detailed review of arrangements against the criteria; • bringing forward knowledge form previous auditors; • reviewing key documents; and • discussion with officers.	August 2014	No	Our work will be focussed on the two criteria specified by the Audit Commission i.e. - The organisation has proper arrangements in place for securing financial resilience; and - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. We will provide a report setting out the findings from our work on the Financial Resilience criteria.
Other areas of work – Certification of claims and returns • Housing and Council Tax Benefits claim	November 2013	No	We have not yet started our detailed audit work for 2013-14. We do not expect an NNDR claim this year and our work on Council Tax benefit as part of the Housing and Council Tax Benefits claim will be reduced following changes in the Council tax system.
Other activity undertaken			To be updated during the audit

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider/challenge questions:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/ discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, Reaping the Benefits focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Council kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Challenge question
Have officers consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- ~~to~~ work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

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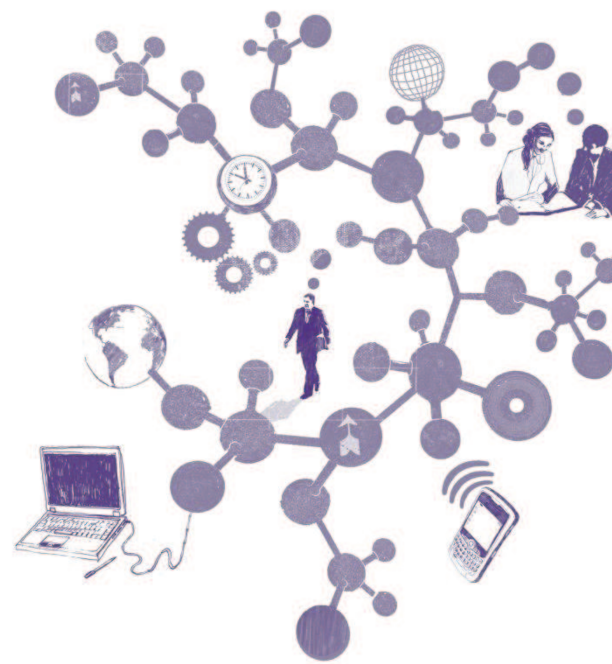
Certification report 2012/13 for Tewkesbury Borough Council

Year ended 31 March 2013

16 December 2013



Agenda Item 6

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Section 1: Executive summary

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by Tewkesbury Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified 2 claims and returns for the financial year 2012/13 r non-domestic rates and the benefit subsidy return) elating to expenditure of £55.799 million.

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This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in September 2013.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Both claims were submitted to audit by the required deadline.	
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	One claim (Housing Benefits) required amendments but these related to misclassification of cases between rent rebates and rent allowances and had no net impact on subsidy claimed.	
Supporting working papers	Working papers supporting both claims were good subject to improved explanation of reconciliation differences in respect of the benefits claim.	

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
December 2014

Section 2: Results of our certification work

Results of our certification work

Key messages

We have certified 2 claims and returns for the financial year 2012/13 relating to expenditure of £55.8 million. The Council's performance in preparing claims and returns is summarised below.

- One claim (Housing Benefits) was subject to qualification and amendment. The amendments related to misclassification of cases between rent rebates and rent allowances and had no net impact on subsidy claimed. The qualification related to minor reconciliation differences and the reporting of an error found in one of our initial samples. It is not unusual for Housing Benefit claims to be qualified due to their complex nature and the volume of cases dealt with. Details of the certification of all claims and returns are included at Appendix A.

Significant findings

Our work has identified no significant issues in relation to the management arrangements and certification of individual grant claims and return. Although we make 2 recommendations in Appendix B:

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification work at the Council of £14,650 based on 2010/11 certification fees. The Council has agreed fee variances as follows:

- Additional costs of £1,883 incurred in carrying out additional testing in 2012/13 compared to the base year of 2010/11. i.e. we tested 40 additional cases in 2012/13. This year the claim was amended and a report issued.
- Reduced costs of £1,136 as a result of carrying out only Part A testing in 2012/13 compared with Parts A and B in the base year of 2010/11

The proposed total fee for 2012/13 certification work is therefore £15,397 which is £747 higher than the indicative fee.

The increased fee has been agreed by officers but is subject to agreement by the Audit Commission. We will report the final fee as soon as this is clear.

Appendices

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Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Benefits subsidy return ((MPF720a)	£22,912,100	Yes	489	Yes	**Amendment issue** The claim was amended to correct misclassification of 4 Non HRA Rent Rebate cases. **Qualification issues** (1) Our sample testing of rent rebate cases identified a small number of calculation errors relating to the benefits cap caused by a system error in the Northgate system. There was no risk of any over claim of subsidy as a result of this problem which has been discussed with the supplier. (2) Our testing of rent rebate cases also identified the inconsistent treatment of ineligible service charges for some accommodation. It was not possible to identify what the impact of this would be on subsidy claimed. (3) Our testing of Council Tax benefit cases identified 2 errors relating to the input of child tax credits. It was not possible to identify what the impact of this would be on subsidy claimed.
National non-domestic rates return (NNDR3)	£32,887,441	No	Nil	No	
Total	£55,799,541				

Appendix B: Action plan

Priority

High - Significant effect on arrangements
Medium – Some effect on arrangements
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Retain supporting evidence from the homeless advice team to support whether service charges are eligible or ineligible.	Medium	The errors identified in appendix (a) are very minor in nature and that the figures on the subsidy claim are accurate. We do carry out checks on benefit claims to ensure that they are accurate to try and identify error. The benefits team processes a high number of transactions on a daily basis and unfortunately there is occasional human error. The Council can take assurance that there are no significant issues over the way benefits are processed at Tewkesbury Borough Council. The concern raised in appendix (b) has arisen over the administration of housing benefit for a certain chain of hotel which the Council uses for its homeless cases. In the case of the majority of establishments we must consider the impact of ineligible charges for heating, lighting and breakfast. We found during the year that none of these charges were being used for this establishments homeless cases. Future claims are being assessed correctly and evidence retained.	Ongoing - Revenues & Benefits Operational Manager

Appendix C: Fees

Claim or return	2012/13 indicative fee (£)	2012/13 actual fee (£)	2011/12 fee (£) *	Variance to prior year (£)	Explanation for significant variances
Housing and Council Tax Benefit subsidy claim	12,550	14,433	11,937	+2,496	Additional errors were found to samples in 2012/13 compared to 2011/12
National Non Domestic rates return	2,100	964	620	+344	No significant variance identified.
Total	14,650	15,397	12,557	2,840	

- 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	19 March 2014
Subject:	Statement of Accounting Policies
Report of:	Simon Dix, Finance and Asset Management Group Manager
Corporate Lead:	Rachel North, Deputy Chief Executive
Lead Member:	Councillor A L Keyte
Number of Appendices:	One

Executive Summary:

This report sets out the main changes in accounting policies under the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by International Financial Reporting Standards (IFRS) from UK GAAP (Generally Accepted Accounting Practice). These policies outline the specific principles, bases, conventions, rules and practices applied when preparing and presenting the financial statements.

Recommendation:

The Committee is asked to APPROVE the accounting policies to be used during the 2013/14 closedown.

Reasons for Recommendation:

The accounting policies govern the accounting treatment used to close the final accounts which this Committee is asked to approve in September after the audit has been completed.

Resource Implications:

There are no direct financial implications arising from the approval of accounting policies.

Legal Implications:

There are no direct legal implications arising from the approval of accounting policies, however, Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations requiring accounting practices including the Statement of Accounts to be undertaken in accordance with proper accounting practices (i.e. the current Code of Practice).

Risk Management Implications:

There is a risk of the accounts being qualified if the proper accounting practices are not followed or if they deviate substantially from the Code of Practice on Local Authority Accounting.

Performance Management Follow-up: The Audit Commission will audit this as part of the year end audit and will issue an opinion in September 2014.
Environmental Implications: None.

1.0 INTRODUCTION/BACKGROUND

1.1 The Council is required to produce an annual statement of accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. In order to do this the Council has to review all its accounting policies to ensure it complies with the Code as the policies outline the principles applied when preparing the accounts.

2.0 MAIN CHANGES IN ACCOUNTING POLICIES

2.1 The main changes are outlined below but the full list of accounting policies can be found as Appendix A.

2.1.1 Post-Employment Benefits

Extensive revisions to reflect the 2013/14 Code changes to the classification, recognition, measurement and disclosure requirements introduced by the June 2011 amendments to IAS 19.

The revision introduces a requirement to fully recognise changes in the net defined benefit liability including immediate recognition of defined benefit costs, and require disaggregation of the overall defined benefit cost into components and requiring the recognition of re-measurements in other comprehensive income.

The overall effect on the Council remains the same but the accounting treatment differs at the year end.

2.1.2 Termination Benefits

The change in recognising a termination benefit from when there was a 'demonstrable commitment' to when there is a more certainty that it will take place.

The Code states that a liability for a termination benefit is recognised at the *earlier* of the following dates:

- when the authority can no longer withdraw the offer of those benefits, and
- when the authority recognises costs for a restructuring that involves the payment of termination benefits.

Where the employee makes the decision, the liability must be recognised at the *earlier* of:

- when the employee accepts the offer, and
- when a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the authority's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

This may result in the benefit being recognised at a later date than previously.

2.1.3 Property, Plant and Equipment (PPE)

Clarification was given by the Code as to the frequency of revaluation of PPE and that just having a rolling programme over five years was insufficient to assure the carrying value does not differ materially from fair value at the year end. The policy has been written to reflect this and also to add in the Code's requirement that revaluations are carried out in classes so as not to report a mix of amounts at different valuation dates.

2.1.4 Council Tax and Business Rates

A new policy has been included clarifying the accounting treatment of Council Tax and Business Rates and how it differs from the statutory treatment involving the Collection Fund.

3.0 OTHER OPTIONS CONSIDERED

3.1 None.

4.0 CONSULTATION

4.1 None.

5.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5.1 None.

6.0 RELEVANT GOVERNMENT POLICIES

6.1 Local Government Act 2003

Accounts and Audit Regulations 2011

7.0 RESOURCE IMPLICATIONS (Human/Property)

7.1 None.

8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8.1 None.

9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

9.1 None.

10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None.

Background Papers: None.

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Appendices: Appendix A - Statement of Accounting Policies – 2013/14

NOTES TO THE ACCOUNTS

1. Accounting Policies and Accounting Standards Issued, Not Adopted

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/2014 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 and the Service Reporting Code of Practice 2013/2014, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.
The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council prepares its accounts on the basis that it remains a going concern; that is that there is the assumption that the functions of the Council will continue in operational existence.

1.2 Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:
• Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
• Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
• Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
• Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
• Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
• Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and Cash Equivalents

The Council deems cash and cash equivalents to include all short-term, highly liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes in value.

The Council defines 'readily convertible' to mean an investment which can be 'called' within 30 days and has insignificant withdrawal penalties.
Bank Overdrafts that are an integral part of the Council's cash management will be included within cash and cash equivalents.

1.4 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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

Post Employment Benefits

Employees of the Authority are members of the Local Government Pensions Scheme administered by Gloucestershire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Pension Scheme

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

• The liabilities of the Gloucestershire County Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

To be updated when latest Actuary's report is received

• Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on a 3.2% gilt yield plus 1.3% credit spread) as at 31 December 2012.

• The assets of the Gloucestershire County Council pension fund attributable to the council are included in the Balance Sheet at their bid value as required by IAS 19.

The change in the net pensions liability is analysed into several components:

• Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

• Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

• net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

• the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

• actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

• Contributions paid to the Gloucestershire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. However, the Council has a policy not to allow this.

1.5 Events After the Reporting Period

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

• Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

1.6 Exceptional Items

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

1.7 Financial Instruments

Financial Liabilities

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

For any borrowings that the Authority undertakes, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. This year the Authority has no borrowings.

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

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

Financial Assets

Financial assets are classified into two types:

• Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

• Available-for-sale-assets - assets that have quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Only investments which are not 'callable' within 30 days (and would incur penalties for early withdrawal) and are due within 12 months would be classified as short-term investments. All others are classified as cash equivalents (see policy 1.3).

Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments Entered Into Before 1 April 2006

The council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 1.18.

1.8 Government Grants and Contributions

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

• The Authority will comply with the conditions attached to the payments, and
• The grants or contributions will be received.

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

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

The policy of this Council is to recognise all grants straight away in the Comprehensive Income and Expenditure Account unless there are conditions attached to the grant that require repayment and the Council believes this is more than likely to occur based on previous experience.

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

1.9 Intangible Assets

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

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

1.10 Interests in Companies and Other Entities

The Authority has a controlling interest in a Trust which has the nature of subsidiary and requires it to prepare group accounts. The Council acts as management agents and deficit funds the Trust so all cash flows, income and expenditure is held in the Single Entity's accounts with no adjustments.

1.11 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in, first out) costing formula.

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

The Council currently has no long term contracts.

1.12 Investment Property

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

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

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

1.13 Leases

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

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

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

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

• A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

• A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

• A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

• Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to [the Deferred Capital Receipts Reserve (England and Wales) or Capital Receipts Reserve (Scotland)] in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve (England and Wales).]

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.14 Non-Current Assets Held for Sale and Disposals

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

To be classed as 'held for sale' the following criteria must be met:

• The asset is available for immediate sale in the present condition subject to terms that are usual and customary for such assets;

• The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;

• The asset must be actively marketed for a sale at a price that is reasonable in relation to the current value;

• The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

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

Disposals

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

• Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.

• Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.16 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

1.17 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides are for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition at its current location for its intended use, including the purchase price and any dismantling and removal costs. Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

• Infrastructure, community assets and assets under construction – depreciated historical cost

• Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)

• All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

• Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

• Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The Council operates a deminimis for capital purposes of £10,000 except where a specific government grant has been received or it is an enhancement of an existing asset.

Impairment

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

• Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

• Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases:
• Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
• Vehicles, plant, furniture and equipment – three to five years
• Infrastructure – as estimated by the valuer.

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

Componentisation

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

The authority has taken the view that 'significant' means:
• The cost of the component is more than 25% of the cost of the asset as a whole; and
• The cost of the component is more than £500,000.

However, if depreciating the single asset as opposed to the separate components will not result in a material mis-statement of either depreciation charges or the carrying amount of the asset then componentisation will not be required.

1.18 Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement [equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance (England and Wales). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.19 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

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

1.20 Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

1.21 Revenue Expenditure Funded from Capital under Statute

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

1.22 VAT

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

1.23 Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.24 Heritage Assets

The Authority holds three classes of Heritage Assets: archaeological artefacts, held at Tewkesbury Museum on loan and at Gloucestershire County Council, civic regalia held at the Council Offices in display cabinets and historical battle sites and monuments.

All of these are held for the objective of knowledge and culture. The museum exhibits and historical sites are to provide historical understanding and appreciation of the local area and the civic regalia is held for historical and cultural appreciation of the Borough.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment.

The accounting policies in relation to heritage assets includes both tangible and intangible assets (which we currently do not have). The Authority's collections of heritage assets are accounted for as follows.

Archaeological Collection

The Holm Hill Archaeological Collection was uncovered when Tewkesbury Borough Council undertook some archaeological rescue excavations in 1974 and 1975 in preparation for building new offices.

The collection includes objects from five principal periods as listed:-

Period 1	Iron Age
Period 2	late Anglo-Saxon/Anglo Norman
Period 3	mid 11th to mid 14th century
Period 4	late medieval to 18th century
Period 5	modern (18th century to 1970s)

Items include pottery, weapons, knives, tools and coins.

The valuation obtained is for insurance purposes and the Officer in charge of the regalia reviews the values annually to ensure they are adequately insured. The Officer is responsible for getting the items revalued when they feel is necessary.

Artefacts uncovered on the site of the old art deco Sabrina cinema (now the Roses Theatre site) and various other Borough sites over 40 years ago have been catalogued by Gloucestershire County Council this year with the aim of loaning them to Tewkesbury Museum for display. Among the artefacts catalogued are human bones and pottery but, according to the County Archaeologist, they have only archaeological value and no monetary value (due mainly to the fact they would be hard to put a reliable value on).

The Authority does not (normally) purchase any archaeological items and all items held have been excavated on our land.

Civic Regalia and similar items

The civic regalia is mostly displayed in glass cabinets near the Council Chamber for people to view and includes sterling silver maces and pendants.

The valuation obtained is for insurance purposes and the Officer in charge of the regalia reviews the values annually to ensure they are adequately insured. The Officer is responsible for getting the items revalued when they deem necessary.

All the civic regalia has been purchased or acquired (mainly through the creation of Tewkesbury Borough Council from 3 constituent authorities).

Historic Battle Sites

The Authority has many sites and monuments on the English Heritage protected list, mostly relating to the 1471 Battle of Tewkesbury.

There is no reliable way to measure the value of these assets due to the nature of them and so we do not recognise these on the balance sheet.

The Authority does not normally purchase such land.

Heritage Assets - general

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see the relevant note.

It is not known to dispose of heritage assets but if the event occurred the proceeds would be accounted for in line with the general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (policies 1.14 and 1.17).

1.25 Acquisitions and Discontinued Operations

Although we didn't have any acquisitions or discontinued operations in the year on 1 April 2011 we transferred (by Government directive) our Concessionary Travel function to Gloucestershire County Council. We still have some residual costs and any costs associated with this function are shown separately on the face of the Comprehensive Income and Expenditure Statement.

1.26 Council tax and Business Rates (NNDR)

The Council tax and business rates (NDR) income recognised in the Comprehensive Income and Expenditure Account is the Council's share of accrued Council tax and business rates recognised in the Collection Fund.

The transactions contained within the Collection Fund are prescribed by legislation and we (as a billing authority) have no discretion to deviate from this at all.

This means:
- the transactions included within the Collection Fund are limited to cashflows (as statute dictates) whereas the income is recognised on a full accruals basis in the Comprehensive income and Expenditure statement (including our share of the year's surplus or deficit on the Collection Fund whereas in reality this is distributed in the following year).
- the year end surplus/deficit on the Collection fund is based on estimates made in January.

The difference between the Collection Fund figures and those required in the accounts are taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

1.27 Other policies with limited impact

We have considered all accounting policies referred to in the Code and some do not impact on us at present but if that changes we will incorporate them into our accounting policies statement.

These are:

Back pay arising from unequal pay claims - we have an equal pay strategy and so unlikely to be needed.
Borrowing costs - the decision whether to capitalise or expense borrowing costs on qualifying assets will be made when a project requiring borrowing is undertaken and so no policy has been set.
Business Improvement District schemes - we do not operate one.
Carbon Reduction Commitment schemes - we do not participate in this scheme.
Jointly Controlled Operations and Jointly Controlled Assets - we currently do not undertake such activities.

PFI schemes - we do not operate any PFI contracts.

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	19 March 2014
Subject:	Internal Audit Plan Monitoring Report
Report of:	Graeme Simpson, Policy and Performance Group Manager
Corporate Lead:	Mike Dawson, Chief Executive
Lead Member:	Councillor Mrs J M Perez
Number of Appendices:	2

Executive Summary:

This report summarises the work undertaken by the Internal Audit team for the period December 2013 to February 2014.

Recommendation:

To CONSIDER the audit work completed, and the assurance given on the adequacy of internal controls operating in the systems audited.

Reasons for Recommendation:

Internal Audit Work should comply with the Public Sector Internal Audit Standards (PSIAS). These standards state that the Chief Audit Executive (CAE) must report functionally to the board. This includes reporting on Internal Audit's activity relative to its Plan.

Resource Implications:

None.

Legal Implications:

None arising directly from the report.

Risk Management Implications:

If the CAE does not report functionally to the board then this does not comply with the PSIAS.

If there are delays in response to the acceptance/implementation of essential audit recommendations then this potentially increases the risk of fraud or error occurring.

Performance Management Follow-up: All recommendations made by Internal Audit are followed-up within appropriate timescales to give assurance they have been implemented. The outcome of the follow-up audit is formally reported to the Audit Committee. Outstanding recommendations made by Internal Audit that are categorised as essential will be proactively monitored through the recommendation template detailed in Appendix 2.
Environmental Implications: None.

1.0 INTRODUCTION/BACKGROUND

1.1 The 2013/14 Internal Audit Plan was approved at Audit Committee on 20 March 2013. . This is the third monitoring report for the year and summarises Internal Audit work undertaken for the period December 2013 – February 2014. It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that the Chief Audit Executive (Group Manager Policy and Performance) reports formally to the 'board' (Audit Committee).

2.0 INTERNAL AUDIT WORK FOR THE PERIOD

2.1 As at 7 March 2014, good progress is being made towards completion of the annual audit plan and the 90% target completion of the plan will be achieved. Estimated completion is 92-96% i.e. 23/24 audits complete out of 25. At the time of this report a number of audits are either at draft report stage or in progress and will be completed by 31 March 2014. The outcome of these audits will reported in the final monitoring report, which will be presented to Audit Committee in June 2014.

2.2 As reported previously, a resourcing issue within the team should be brought to the attention of the Committee. Temporary resource shortages within the small Audit team have been mitigated by a combination of:

- an amount of overtime being undertaken in December and January by the other Performance and Audit Officer;
- a reciprocal working arrangement with a neighbouring authority has been brought forward from March 2014; and
- the appointment of an agency contractor for the period mid-Feb to the end of March.

2.3 The work undertaken in the period is detailed in Appendix 1. This provides a summary of the activity audited, the control objectives for each activity and the audit opinion for each control objective. Also included is the outcome of any follow up audits undertaken in the period and whether the audit recommendations have been implemented or not.

2.4 When reporting, a 'split' opinion is given. This means individual opinions are given for different parts of the system being audited. This approach enables Internal Audit to identify to management specific areas of control that are operating or not. Assurance opinions are categorised as 'good', 'satisfactory', 'limited' and 'unsatisfactory'. It is pleasing to report that of the systems audited there are no audit opinions of a 'limited' or 'unsatisfactory' nature.

2.5 The committee also receive information on 'essential' audit recommendations that have not been implemented. These have been identified through the undertaking of follow-up audits. Essential recommendations that remain outstanding as a result of follow-up work are detailed in Appendix 2. Additional comments relating to the progress of implementing the recommendations have been obtained from the appropriate Manager(s) and are included in the table. Changes from the previously reported position are shown in bold type.

3.0 CORPORATE IMPROVEMENT WORK

3.1 Included within the 2013/14 Internal Audit plan is an allocation of days to undertake corporate improvement work. As reported previously to the Committee, the Policy and Performance team can collectively identify corporate type activities that may have 'stagnated' or need resolving. Corporate Leadership Team and Group Managers are aware of this allocation of days and have been encouraged to put forward suggestions where the team may help. Work undertaken during the period can also be found in Appendix 1.

4.0 OTHER OPTIONS CONSIDERED

4.1 None.

5.0 CONSULTATION

5.1 All Managers are consulted prior to the commencement of the audit to agree the scope and each Manager has the opportunity to complete a client survey at the end of the audit.

6.0 RELEVANT COUNCIL POLICIES/STRATEGIES

6.1 Internal Audit Charter and Internal Audit Annual Plan.

7.0 RELEVANT GOVERNMENT POLICIES

7.1 None.

8.0 RESOURCE IMPLICATIONS (Human/Property)

8.1 None.

9.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

9.1 None.

10.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

10.1 Internal Audit contributes to VFM through its improvement work.

11.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

11.1 None.

Background Papers: None

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01684 272002 Graeme.simpson@tewkesbury.gov.uk

Appendices: Appendix 1 – Audit work undertaken December 2013-February 2014

Appendix 2 – Outstanding audit recommendations categorised as 'essential'

List of Audits Completed as Part of the 2013/14 Audit Plan (December 2013 – February 2014)

<table>
<tr><th>Audit</th><th>Audit Objective & Opinion</th></tr>
<tr><td>Data Quality</td><td>
Control Objectives (CO):
1. The following Key Performance Indicators (KPIs) have been calculated and reported accurately through the 2013/14 Qtr2 progress report:
Environmental Health
- Satisfaction with the Disabled Facilities Grant scheme.
Leisure Services
- Total number of attendances at Cascades Leisure Centre.
Economic and Community Development
- Total number of people assisted within the Borough by Citizens’ Advice Bureau (CAB).
- Financial gain to clients resulting from CAB advice.
Audit Opinion
<table>
<tr><th>CO</th><th>Assurance Level</th><th>Opinion</th></tr>
<tr><td>1</td><td>Satisfactory</td><td>In respect of the KPIs reviewed during the audit, there is a satisfactory level of assurance that systems are in place to accurately calculate these figures.
<u>Environmental Health</u>
The percentage satisfaction with the disabled facilities grant scheme was found to have been accurately stated.
<u>Leisure Services</u>
The attendance figure reported is based on a combination of both actual and best estimate figures. Audit testing identified that the reported Qtr2 figure varied from the figure within the supporting spreadsheet due to a misinterpretation. Furthermore, testing identified a total variance of 7442 against the figure within the supporting spreadsheet. This was found to be due to an element of double counting and a number of errors within the spreadsheet, all of which have now been corrected.
<u>Economic and Community Development</u>
These figures have been reported in accordance with the data obtained from the Citizens’ Advice Bureau; which did identify the omission of some Ward areas and advice categories. Although this does not materially affect the indicator, it is recommended that upon receipt of this data, a number of verification checks take place to provide assurance that relevant data has been included within the outturn figures.</td></tr>
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<table>
<tr>
<td>HR</td>
<td>
Control Objectives (CO):

Salary adjustments sent to the Payroll Officer are accurate, supported with appropriate documentation and are processed in accordance with Council policies and procedures.
An establishment list is verified on an annual basis.

Audit Opinion
<table>
<tr><th>CO</th><th>Assurance Level</th><th>Opinion</th></tr>
<tr><td>1</td><td>Satisfactory</td><td>The audit reviewed a range of policies and procedures which underpin the salary adjustment notifications sent to the Payroll Officer, including; honorariums, recruitment, maternity leave, redundancies and overtime. There is a satisfactory level of control in relation to these salary adjustment notifications being supported by the appropriate documentation. In order to strengthen these arrangements; recommendations have been made in relation to the following:
- A review of the Relocation Scheme and Overtime Policy.
- Contract monitoring.</td></tr>
<tr><td>2</td><td>Satisfactory</td><td>A revised establishment list has been produced based upon the new organisational structure as at 1 August 2013. This is due to be circulated to Group Managers and Operational Managers in February 2014 for verification and to update any changes within the establishment since this date.</td></tr>
<tr><td></td><td>Previous audit recommendations follow up</td><td>The previous audit made two recommendations; both of which were found to have been implemented. A review of both the Maternity Handbook and Allowances (Honorarium) Policy and Procedure has been undertaken and the appropriate amendments made.</td></tr>
</table>
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<tr>
<td>Licensing</td>
<td>
Control Objectives (CO):

Licence fees set locally e.g. private hire and hackney carriage, street trading etc. have been approved in accordance with the Council's Scheme of Delegation and are reviewed on a regular basis.
Prior to formal approval, licences are checked to ensure they are supported with all relevant supporting documentation to ensure the licence application is valid.
Licences are not issued unless the correct fee has been received and income is appropriately accounted for.
Licences are processed within stated timeframes and issued under the correct authority.

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</tr>
</table>

Audit Opinion

CO	Assurance Level	Opinion
1	Good	Locally-set, non-statutory licence fees for 2013/14 were appropriately approved under the Council's Scheme of Delegation to Officers. Fees are reviewed annually and published, together with those for licences issued under the Licensing Act 2003 or the Gambling Act 2005, on the authority's website.
2	Satisfactory	Testing undertaken on 20 different licences across various licence types confirmed that, prior to formal approval, licences are checked to ensure the application is valid. In relation to supporting documentation this was evidenced in the most part. Recommendations have been made and accepted by management in relation to:- • The introduction of quality assurance checklists for all licence types. • Checklists are signed off by a Manager and retained. • All supporting documentation, whether internal or external is retained and scanned to IDOX.
3	Satisfactory	Testing demonstrated that licences are issued following the receipt of the correct fee, and that for the majority of licence types, payments are allocated to the correct licensing income code. During the course of the audit an additional detail code was set up to clearly allocate licence income relating to skin piercing applications. Regular monitoring of licensing-related income is undertaken but an audit recommendation to formalise the reconciliation process has been accepted by management.
4	Satisfactory	Licences were found to have been issued promptly. A recommendation relating to the update of the Scheme of Delegation for approval of licences was accepted by management and Officers now have the authority to issue licences. An audit recommendation relating to the scanning of the licence following its approval was implemented during the course of the audit.

<table>
<tr>
<td>Business Rates</td>
<td>
Control Objectives (CO)

Valuation lists are received regularly and promptly reconciled.
The number of bills produced in respect of opening debit are reconciled to number of business liable.
Relief has been appropriately authorised and applied.
Payments are allocated correctly and recovery action is taken in respect of accounts in arrears.
Reconciliation between Northgate and the general ledger is undertaken on a monthly basis.

Audit Opinion
<table>
<tr><th>CO</th><th>Assurance Level</th><th>Opinion</th></tr>
<tr><td>1</td><td>Good</td><td>Through a review of a sample of Valuation Office (VOA) schedules assurance was obtained that VOA changes are promptly and accurately recorded within Northgate. Furthermore, a reconciliation between the VOA and Northgate is performed.</td></tr>
<tr><td>2</td><td>Good</td><td>The annual billing process provides assurance that entry of key business rate parameters into Northgate are reviewed and that there is a reconciliation between the Valuation Office and Northgate figures. In addition, supervisory checks are also performed on accounts as part of the billing process. The previous audit recommendation in relation to retention of annual billing data has also been implemented.</td></tr>
<tr><td>3</td><td>Good</td><td>A review of a sample of accounts found that relief/exemptions have been calculated correctly and, where appropriate, also authorised. In addition, quality assurance checks on relief are undertaken as part of the annual billing process.</td></tr>
<tr><td>4</td><td>Satisfactory</td><td>Payments in connection with business rates are allocated correctly and, furthermore, refunds were found to have been authorised on Northgate. In respect of recovery of arrears, action to obtain liability orders in accordance with the collection policy has been undertaken. However, the arrangements concerning monitoring debt need to be enhanced in order to demonstrate compliance to the collections policy and rate avoidance procedures should be developed in relation leased properties.</td></tr>
<tr><td>5</td><td>Good</td><td>The reconciliation of non-domestic payments and associated refunds between revenues and the general ledger is undertaken on a monthly basis. The accuracy of the reconciliation process was also confirmed through a review of AP2 and AP4 balancing statements.</td></tr>
</table>
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Creditors

Control Objective (CO)

1. There is adequate control over the placement of orders and receipt of goods.

Audit Opinion

CO	Assurance Level	Opinion
1	Satisfactory	A sample of 20 paid creditor invoices were found to have been appropriately authorised and coded, were arithmetically correct and where VAT had been applied, contained a valid VAT registration number. Assurance was also obtained that invoiced VAT values are processed through the creditor's system and are accurately allocated to the VAT ledger code. Although 3 invoices were found not to be supported with official purchase orders, these were small in value (£38- £200), and 2 of these related to the same service area. In a number of other cases, particularly where expenditure is more significant, these were supported by a contract or agreement. Wherever possible, there is an adequate separation of duties in the ordering and receipt of goods process. In relation to the payments made for the storage of personal belongings for homeless persons, the invoice details could not be verified; thereby providing only **limited** assurance for this activity. Recommendations have therefore been made to enhance the process for monitoring this expenditure, including: • Obtaining an inventory of items for which storage is being provided. • Establishing the liability for loss or damage to such items. • Verifying the invoices received i.e. the number of containers. • Considering a maximum number of containers per household. • Obtaining competitive quotes in order to obtain best value.
2	Previous audit recommendations follow up	The previous creditors audit made 3 recommendations; 1 of which has been implemented with waivers obtained for the printing of Committee papers and B&B accommodation; 1 which has been negated in respect of running a duplicate payments report on a monthly basis; and 1 which is in the process of implementation with operational procedure notes currently being developed.

Tree Inspections	**Control Objective (CO)** 1. Tree inspections are being undertaken in accordance with policy (high risk land).

CO	Assurance Level	Opinion
1	Satisfactory	All Officers undertaking tree inspections have undergone Basic Tree Survey and Inspection training as required by the policy. There is a schedule of high risk land which shows progress to date in completing the inspections and is used by Officers within Grounds Maintenance as a control schedule to ensure that all high risk sites are inspected and reported on by the revised deadline of 31 March 2014. As of the date of the audit all but 3 of the 90 identified high risk sites had been inspected. While the intention is to complete the remaining 3 sites by 31 March 2014, this is currently precluded by flooding and will be dependent on the floods subsiding and the ground drying out before then. Inspections are being conducted in accordance with the policy and properly recorded on the Site Tree Inspection Forms (Form A's). These identify the location and tag numbers of the trees inspected at each site and separately identify the tag numbers of trees identified as having defects. Further Site Tree Inspection Forms (Form B's) have been prepared for all trees with defects identifying whether immediate works or further inspection is recommended based on the standard risk assessment in accordance with the policy. Some parts of the form are not being completed in full and, although this does not currently present a significant risk, recommendations have been raised to ensure full completion to prevent risks of misclassification of high risk sites arising in the future. Work completed in respect of defects identified is being recorded on Form C's and there is therefore a clear audit trail from the Form A (Inspection) to the Form B (recording defects) to the Form C (recording work completed). At the date of the audit, however, few (6) Form C's had been completed, indicating that there is a large backlog of works required, including some trees inspected in February 2013.

				No schedule of future inspections of high risk trees has yet been established in response to recommendations for further inspections raised in respect of inspections to date. As yet this does not represent a high risk as the recommended inspection intervals are at 12 and 24 months and, as far as we are aware, none of these scheduled further inspections are yet overdue. It is important that, once the current phase of inspections (high risk areas) has been completed, the envisaged database of trees should be established and maintained. This should incorporate the tag numbers of all trees allocated during the inspection process and incorporate details of the Forms A, B and C as appropriate. The database should serve both as an inventory of all the tagged trees as well as showing the status of works required and/or further inspections due as a result of the initial inspection.
Follow Up Audits				
Playgrounds	To follow-up the previous recommendations made within the 2012/13 Playgrounds audit. The 2012/13 Playgrounds audit made 8 recommendations; 6 of which were found to have been implemented, 1 partially implemented and 1 of which is agreed to be followed up at a later date.			

Ref	Recommendation	Findings
1	Playground sites identified as part of the Play Strategy 2007-2010 should be checked against TBC land registry titles.	Recommendation implemented. A review of playgrounds currently inspected and maintained by Tewkesbury Borough Council has been undertaken to confirm ownership. Furthermore, verbal assurance was provided that a check of TBC land registry titles has been undertaken to ensure there are no other playgrounds on council owned land that are not being inspected or maintained.
2	Prior to the transfer of a playground to TBC, documentary information confirming the playground confirms to EU standards and is in good condition should be obtained.	Due to the fact that Tewkesbury Borough Council has not adopted any new playgrounds since the audit recommendations were made in June 2013; it was agreed with the Asset Manager that this recommendation would be followed up following the completed transfer of a new playground into the Council’s ownership.

	3	Consideration should be given to commissioning RoSPA to undertake an inspection of all council owned playgrounds.	Recommendation implemented. RoSPA inspections have been completed for all Council-owned playgrounds, which include a documented risk assessment for the playground site and individual play equipment. The next annual RoSPA inspections are due to be undertaken in March 2014.
	4	Playground inspections should be documented in respect of the Finches, Winchcombe.	Recommendation implemented. Inspections are now documented in respect of the playground at the Finches, Winchcombe.
	5	Inspection sheets should include an accurate record of all playground equipment and provide adequate information for the inspector to identify and report defects.	Recommendation implemented. Playground inspection sheets are now consistent in their format and provide for key information to be recorded. Each form is tailored to the specific playground in terms of listing each item of play equipment and the component hazards that are required to be checked during the inspection.
	6	Any defects identified through the inspection by the Council's insurers need to be resolved promptly and an audit trail maintained as evidence of rectification.	Recommendation partially implemented. Inspections are no longer carried out by the council's insurers due to the termination of the engineering policy. Property Services are however currently in the process of implementing a new system to record all identified defects and any subsequent action taken. Audit testing found that where high risk defects are identified there was evidence of their rectification.
	7	Officers responsible for inspections should be adequately trained and receive update training on a regular basis.	Recommendation implemented. The Officers' currently undertaking playground inspections have received adequate training in both the routine and operational inspection of children's playgrounds. Refresher training is scheduled to take place every 3 years (next due July 2016).

	8	The Finches playground and the Rollerblade Park, Link Road should be added to the Council's engineering insurance policy.	Recommendation negated. Playgrounds are no longer insured under an engineering policy due to the operational and annual inspections now being carried out by trained members of staff. Assurance was obtained during the audit that public liability cover is held by Tewkesbury Borough Council which provides cover for any personal injury claims in relation to playgrounds.
Corporate Improvement Work	**Summary of work undertaken**		
Procurement	**Complete:** Demonstrating effective procurement was identified as a significant governance issue within the 2012/13 Annual Governance Statement. One of the key actions within the procurement delivery plan was to undertake a spend analysis. This work has now been complete and has been submitted to the Procurement Group for review.		
Customer Services	**Complete:** Internal Audit was commissioned by Corporate Leadership Team to undertake a review of how customer service is dealt with across all services. This included, how customer requests are logged, performance standards that are in place, how data is monitored and used etc. Findings will help inform the refresh of the Customer Services Strategy.		

<u>The level of internal control operating within systems will be classified in accordance with the following definitions:-</u>

LEVEL OF CONTROL	DEFINITION
Good	Robust framework of controls – provides substantial assurance.
Satisfactory	Sufficient framework of controls – provides satisfactory assurance – minimal risk. Probably no more than one or two 'Necessary' (Rank 2) recommendations.
Limited	Some lapses in framework of controls – provides limited assurance. A number of areas identified for improvement. A number of 'Necessary' (Rank 2) recommendations, and one or two 'Essential' (Rank 1) recommendations.
Unsatisfactory	Significant breakdown in framework of controls – provides unsatisfactory assurance. Unacceptable risks identified – fundamental changes required. A number of 'Essential' (Rank 1) recommendations.

<u>Recommendations/Assurance Statement</u>

CATEGORY		DEFINITION
1	Essential	Essential due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation. Where possible it should be addressed as a matter of urgency.
2	Necessary	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist and should be pursued in the short term, ideally within 6 months.

Appendix 2
INTERNAL AUDIT RECOMMENDATIONS CATEGORISED AS ESSENTIAL THAT HAVE YET TO BE IMPLEMENTED – THESE HAVE BEEN IDENTIFIED THROUGH THE FOLLOW UP PROCESS

Ref	Service Area	Audit	Date of Audit	Recommendation	Original Implementation Date	Assigned To	Agreed Action	Audit Comments	Comments of Manager /Responsible Officer
1.	Grounds Maintenance	Creditors (Procurement)	August 2009	R4./5.Expenditure should comply with the Council's Contract Procedure Rules.	March 2010	Various	Agreed. The following activities should be subject to formal tender - Tree maintenance (Grounds Maintenance).	Follow-up audit undertaken in March 2010 with a revised implementation date of November 2010 agreed.	**With regards to tree maintenance a formal tender exercise will be undertaken once the tree inspection programme has been complete.**
2.	Corporate	ICT Physical & Environmental Controls	May 2011	R1. With regards to corporate Business Continuity: - The reformation of the corporate business continuity group. Review and update the Corporate Business Continuity Plan. Review and update of service continuity plans. Review and prioritisation of critical systems.	July 2011	Director of Resources	Agreed to implement the reformation of the Corporate Group. This would fulfil the first requirement of the audit recommendation. Implementation dates for other agreed actions would need to be agreed by the Group.	The follow-up audit confirmed the Group had been reformed but has not met on a regular basis. As a result, agreed audit actions have not progressed. **Internal Audit is represented on the Corporate Business Continuity Group and can confirm the progression of the Business Continuity Action Plan.**	**The reformed Business Continuity Group has monthly meetings scheduled to June 2014.** **The Corporate Business Continuity Plan was approved at Executive Committee on 3 July 2013.** **The majority of service continuity plans have been produced and reviewed by the Business Continuity Group.** **Testing of the plan is a key future action.**

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INTERNAL AUDIT RECOMMENDATIONS CATEGORISED AS ESSENTIAL THAT HAVE YET TO BE IMPLEMENTED – THESE HAVE BEEN IDENTIFIED THROUGH THE FOLLOW UP PROCESS

Ref	Service Area	Audit	Date of Audit	Recommendation	Original Implementation Date	Assigned To	Agreed Action	Audit Comments	Comments of Manager /Responsible Officer
3.	Property Services	ICT Physical & Environmental Controls	May 2011	R.4 A one stop shop approach to fire management should be implemented with all activities rolled up into one contract and let in accordance with the Council's contract procedure rules.	July 2011	Property Services Manager	Agreed. A property services procurement programme is to be implemented and fire management will be included in this programme.	The follow-up audit confirms the original implementation date has not been achieved but the process has now commenced. A revised implementation date of Nov 2012 has been confirmed.	**The audit recommendation was agreed with the previous Property Services Manager. Procurement of fire management activities is now being reviewed by the Asset Manager. A 5 year contract is soon to be let for fire extinguisher maintenance – other activities remain under contract and will be reviewed nearer to the expiry dates.**

Appendix 2
INTERNAL AUDIT RECOMMENDATIONS CATEGORISED AS ESSENTIAL THAT HAVE YET TO BE IMPLEMENTED – THESE HAVE BEEN IDENTIFIED THROUGH THE FOLLOW UP PROCESS

Ref	Service Area	Audit	Date of Audit	Recommendation	Original Implementation Date	Assigned To	Agreed Action	Audit Comments	Comments of Manager /Responsible Officer
4.	Direct Services	Vehicle Contract	Jan 2011	R7/8/9 (3 recommendations) A financial limit for recharge works undertaken by the contractor prior to the raising of an order should be set To provide assurance that rechargeable parts are charged at net cost + 15%, the monthly review of parts by the contractor should be provided. Procurement procedures used by the contractor should be established so as to determine VFM is being achieved.	August 2011	Direct Services Officer	All recommendations agreed to be implemented by August 2011.	The follow up audit confirmed a £250 limit had been agreed whereby any work above this figure would be supported with a written estimate but had not been in implemented in full. A monthly parts pricing schedule has yet to be provided by the contractor and their procurement procedures established. **A further follow-up audit has been carried out and is at draft report stage. Once finalised this will be reported to Audit Committee in June.**	The provision of a monthly parts pricing schedule is impractical as quoted but we are working closely with the contractor to demonstrate the principles requested in the audit recommendation are being fulfilled.

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	19 March 2014
Subject:	Internal Audit Annual Plan 2014/15
Report of:	Graeme Simpson, Policy and Performance Group Manager
Corporate Lead:	Mike Dawson, Chief Executive
Lead Member:	Councillor Mrs J M Perez
Number of Appendices:	1

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) REF 2010 (Planning) requires that the Chief Audit Executive (CAE) is responsible for developing a risk based plan. Ref 2030 (Resource Management) requires that the CAE must also ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the plan.

Recommendation:

To APPROVE the Internal Audit Plan 2014/15 as detailed at Appendix 1.

Reasons for Recommendation:

1. The Terms of Reference of the Audit Committee require Members to consider a summary of proposed internal audit activity.
2. The PSIAS requires that the CAE reports functionally to the Board, an example of functional reporting is approving the risk based Internal Audit Plan.

Resource Implications:

None.

Legal Implications:

None.

Risk Management Implications:

If an annual Internal Audit Plan is not developed and approved then there will be no steer as to where audit resources should be deployed.

If the plan does not give adequate coverage of the internal control environment then resources will not be deployed effectively to the higher risk areas.

Performance Management Follow-up: The Audit Committee will receive on a quarterly basis, a monitoring report on achievement against the plan, and an audit opinion for each individual audit. Any audit within the plan where recommendations have been made to improve control will be subject to a follow-up audit.
Environmental Implications: None.

1.0 INTRODUCTION/BACKGROUND

1.1 Internal Audit is part of the Policy and Performance team which reports directly to the Chief Executive. This arrangement demonstrates compliance with PSIAS ref 1110 – organisational independence, as it allows the Policy and Performance Group Manager (delegated as CAE within the audit charter) to report to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities.

1.2 PSIAS ref 2010 – planning, requires that the CAE is responsible for developing a risk based plan to take into account the requirement to produce an annual Internal Audit opinion. The input of senior management and the Board (Audit Committee) must be considered in the process. The plan has been circulated to Group Managers and was endorsed by Corporate Leadership Team at their meeting held on 5 March 2014.

2.0 PUTTING TOGETHER THE PLAN

2.1 The plan provides a total of 400 productive days and is delivered by two officers. This resource is appropriate, sufficient and will be effectively deployed to achieve the plan. Appropriate refers to the mix of knowledge, skills and other competencies need to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

2.2 The number of days is the net total following allowance for non-working days such as weekends and bank holidays, annual leave, sickness, training etc. This number of days is deemed adequate to ensure there is adequate coverage of the Council's control environment. The plan is divided into key areas as follows:-

2.2.1 Governance

The Council has an assurance framework that helps contributes towards the effectiveness of its overall governance arrangements. On an annual basis and in compliance with the Accounts and Audit Regulations 2006*,* the Council must produce an Annual Governance Statement (AGS). The purpose of the Statement is to demonstrate the effectiveness of the governance arrangements and, if necessary, identify and take action on any significant governance issues that arise. Internal Audit work therefore supports the completion and integrity of the AGS.

2.2.2 Corporate Improvement

This work supports the traditional assurance work undertaken and aids corporate improvement by identifying key activities that need to be progressed. Corporate Leadership Team and Group Managers are aware of this pot of days and are encouraged to put forward suggestions where the team may help. Good examples of where the team has helped previously include: procurement; customer services; business continuity; tree inspections; and playground inspections.

2.2.3 Fundamental Financial Systems

This is the audit review of the key financial systems. Although Internal Audit sits within the Chief Executive Unit, it still recognises its responsibility to support the Finance and Asset Management Group Manager to discharge his duties as the Council's Section 151 Officer, one of which is to maintain sound financial control. As reported previously, these are established systems which are satisfactorily controlled. On this basis, the financial systems are audited every two years. For example, Budgetary Control, Capital Accounting and Treasury Management were not included within the 2013/14 plan but are brought back in for 2014/15. Creditors, Debtors and Cash & Bank have been taken out for 2014/15.

2.2.4 Service areas

These are service activities that have been risk assessed based upon factors such as size of budget, inherent risk, previous audit history and the period since last audit. The main source for identifying these activities is the Council's revenue and capital budgets.

2.2.5 Other areas

There is an allocation of days under 'consultancy and advice'. This covers representation on corporate groups such as the Health and Safety Group, Procurement Group, Business Continuity Group, Equalities Forum. The days also cover general advice given on an ad hoc basis.

An estimated number of days are allocated for follow-up reviews. This is an important element of audit work to provide assurance as to whether audit recommendations have been successfully implemented.

There is an allocation of days to cover 2013/14 work which is ongoing at 31 March 2014.

2.2.6 Health and Safety Audits

In addition to regulatory work and corporate advice type work, the Council's Health and Safety Officer also undertakes audit type assignments. Currently, this type of work has no formal reporting mechanism, other than to an internal working group. To raise the profile of this work and to give management and Members assurance as to the adequacy of the Council's Health and Safety arrangements, the Health and Safety Officer will be seconded to the Internal Audit team when undertaking future audit assignments. The Internal Audit process will be followed which will culminate in an audit opinion being reported to Audit Committee on the activity being audited.

4.0 OTHER OPTIONS CONSIDERED

4.1 None

5.0 CONSULTATION

5.1 Consultation has taken place with Group Managers and the Corporate Leadership Team.

6.0 RELEVANT COUNCIL POLICIES/STRATEGIES

6.1 Internal Audit Charter.

7.0 RELEVANT GOVERNMENT POLICIES

7.1 None.

8.0 RESOURCE IMPLICATIONS (Human/Property)

8.1 None.

9.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

9.1 None.

10.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

10.1 Internal Audit contributes to value for money through its routine audit work and corporate improvement work.

11.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

11.1 None.

Background Papers: None

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Appendices: Appendix 1 – Draft 2014/15 Internal Audit Plan

Appendix 1

PROPOSED INTERNAL AUDIT PLAN 2014/15

	Est No of days	Total
Corporate Governance		
Data Quality	10	
Safeguarding	8	
Behaviours Framework	5	
Information Governance	15	
New Leisure Centre	10	
Disclosure and Barring Service Policy	5	
National Fraud Initiative	5	58
Corporate Improvement	65	65
Fundamental financial systems		
Main Accounting System	8	
Payroll (incl new payroll/HR self service)	20	
Council Tax	10	
Business Rates	15	
Housing Benefits	20	
Capital Accounting	5	
Treasury Management	8	
Budgetary Control	5	91
Service Areas		
ICT	25	
Recycling	10	
Garden Waste	10	
Individual Electoral Registration (IER)	10	
Homelessness	10	
Property leases	10	
Food Control	6	
S106	10	91
Consultancy & Advice		
Health & Safety Group/Procurement Group/Project Management	30	30
Follow up reviews	50	50
Audit work brought forward	15	15
Total		400