



**Borough of Tamworth**

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## **AUDIT AND GOVERNANCE COMMITTEE**

14 March 2023

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Town Hall, Market Street, Tamworth on Wednesday, 22nd March, 2023 at 6.00 pm**. Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, consisting of a stylized 'A' followed by a long horizontal line that tapers to a point on the right.

**CHIEF EXECUTIVE**

### **A G E N D A**

### **NON CONFIDENTIAL**

- 1 Apologies for Absence**
- 2 Minutes of the Previous Meeting (Pages 5 - 8)**
- 3 Declarations of Interest**

*To receive any declarations of Members' interests (pecuniary and non-pecuniary) in any matters which are to be considered at this meeting.*

*When Members are declaring a pecuniary or non-pecuniary interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a pecuniary or non-pecuniary interest in respect of which they do not have a dispensation.*

**4 Public Sector Internal Audit Standards & External Quality Assessment**  
(Pages 9 - 54)

*(Report of the Audit Manager)*

**5 Update from External Auditors**

*(To receive an update from the External Auditors, Grant Thornton)*

**6 Internal Audit Plan and Charter 2023/24** (Pages 55 - 74)

*(Report of the Audit Manager)*

**7 Final Accounts 2022/2023 - Accounting Policies and Action Plan** (Pages 75 - 110)

*(Report of the Assistant Director, Finance)*

**8 Audit and Governance Committee Timetable** (Pages 111 - 116)

*(Discussion Item)*

**A Private Meeting of the Internal and External Auditors and Committee Members will Follow this Meeting**

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**Access arrangements**

*If you have any particular access requirements when attending the meeting, please contact Democratic Services on 01827 709267 or e-mail [democratic-services@tamworth.gov.uk](mailto:democratic-services@tamworth.gov.uk). We can then endeavour to ensure that any particular requirements you may have are catered for.*

**Filming of Meetings**

*The public part of this meeting may be filmed and broadcast. Please refer to the Council's Protocol on Filming, Videoing, Photography and Audio Recording at Council meetings which can be found [here](#) for further information.*

*If a member of the public is particularly concerned about being filmed, please contact a member of Democratic Services before selecting a seat*

**FAQs**

*For further information about the Council's Committee arrangements please see the FAQ page [here](#)*

To Councillors: P Turner, D Cook, A Cooper, S Daniels, J Jones, R Kingstone and  
P Thompson

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## MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE HELD ON 9th FEBRUARY 2023

PRESENT: Councillor P Turner (Chair), Councillors A Cooper, D Cook, S Daniels, J Jones and R Kingstone

Officers Stefan Garner (Executive Director Finance), Joanne Goodfellow (Assistant Director Finance), Anna Miller (Assistant Director – Growth & Regeneration), Andrew Wood (Audit Manager), Nicola Hesketh (Monitoring Officer) and Jo Hutchison (Senior Scrutiny and Democratic Services Officer)

### 53 APOLOGIES FOR ABSENCE

There were no apologies for absence.

### 54 APPOINTMENT OF VICE-CHAIR

**RESOLVED** that Councillor A Cooper was elected as Vice Chair

*(Moved by Councillor P Turner and seconded by Councillor A Cooper)*

A motion to nominate Councillor R Kingstone as Vice-Chair was moved and seconded but not carried.

### 55 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 15<sup>th</sup> November 2022 were approved and signed as a correct record.

*(Moved by Councillor D Cook and seconded by Councillor A Cooper)*

### 56 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

### 57 RISK MANAGEMENT QUARTERLY UPDATE QT3 2022/23

Report of the Assistant Director Finance to report on the Risk Management process and progress for Quarter 3 of the 2022/23 financial year.

Councillor S Daniels joined the meeting at 6.12pm.

The Committee sought clarification on the language used to describe the potential risk causes for the Finance / Financial Stability metric and the Executive Director, Finance agreed to review the language used to remove any ambiguity.

**RESOLVED:** That the Committee endorsed the Corporate Risk Register, subject to a review of the target score for the Finance / Financial Viability metric, given the current risk score

*(Moved by Councillor P Turner and seconded by Councillor D Cook)*

## 58 FHSF QUARTERLY UPDATE

Report of the Assistant Director - Growth & Regeneration to update the Committee on Future High Street Funds risks.

**RESOLVED:** That consideration of the report be deferred to a later meeting and that the item be considered following the exclusion of the press and public.

*(Moved by Councillor D Cook and seconded by Councillor R Kingstone)*

## 59 QUARTERLY INTERNAL AUDIT PROGRESS REPORT - QUARTER 3

Report of the Audit Manager to provide the Audit & Governance Committee with internal audit's progress report for period to 31 December 2022. The Audit Manager provided an update at the meeting on the progress made since December 2022 on the high priority recommendations, whereby three recommendations had been reported as completed.

**RESOLVED:** That the Committee  
  
noted Internal Audit's Quarterly Report (Appendix 1), which includes results up to 31 December 2022.  
  
requested that the priority of any restated actions be reviewed.

*(Moved by Councillor R Kingstone and seconded by Councillor A Cooper)*

## 60 AUDIT COMMITTEE EFFECTIVENESS

Report of the Audit Manager to undertake the annual self-assessment of Audit & Governance Committee effectiveness and provide an update in relation to the appointment of independent member/s to the Committee.

Councillor D Cook left the meeting at 6.41pm.

**RESOLVED:** That the Committee

1. considered the attached self-assessment checklist (Appendix 3) and endorsed any actions to improve its effectiveness as appropriate, noting that new members of the Committee complete a skills audit on appointment.
2. considered and ratified the approach to be taken in respect of appointing an Independent Member to the Committee.

*(Moved by Councillor R Kingstone and seconded by Councillor A Cooper)*

## **61 CODE OF CONDUCT REVIEW**

Report of the Monitoring Officer to update members on new Local Government Association Model (LGA) Code of Conduct in response to the recommendations made by the Office for Standards in Public Life so the Committee can consider whether to adopt it in full or in part, or to retain the Council's current Code of Conduct for Councillors ("Code of Conduct").

**RESOLVED:** That the Committee

1. endorsed the new LGA model code of conduct.
2. agreed that the Council's current Code of Conduct and Procedure for dealing with Code of Conduct complaints be reviewed by the Monitoring Officer with any necessary legal advice (where required). This could incorporate specific elements of the LGA Model Code.
3. Agreed to a member workshop to capture members views prior to the final draft being presented to A&G.

*(Moved by Councillor A Cooper and seconded by Councillor R Kingstone)*

## **62 AUDIT AND GOVERNANCE COMMITTEE TIMETABLE**

The Committee reviewed the timetable and agreed that ensure that the items for March and April were spread across both meetings as equally as possible.

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Chair



Wednesday, 22 March 2023

**Report of the Audit Manager**

**Public Sector Internal Audit Standards & External Quality Assessment**

**Exempt Information**

None.

**Purpose**

To report on the External Quality Assessment completed to ensure compliance with the Public Sector Internal Audit Standards and outline to committee the agreed Action Plan for improvements.

**Recommendations**

**That the Committee endorses:**

- 1. The External Quality Assessment and the responses to the recommendations made**

**Executive Summary**

The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> April 2013. The Standards require that Internal Audit comply with the professional best practice and that the External Quality Assessment (EQA) should be completed at least every five years. The last EQA was completed in 2017/2018 and to confirm to the standards a further EQA was completed in December 2022/January 2023. The EQA has recently been completed and the report is attached at **Appendix 1**. The report identifies areas of good practice as well as identifying some issues and recommendations to enhance the service.

The External Quality Assessor will provide an overall assessment of the service and the presentation is attached as **Appendix 2**. The overall assessment is that the service 'generally conforms' to the Standards:

<b>Resources</b>	<b>Excelling</b> – Processes in this area are embedded within every day practices and mostly reflect best practice that is consistent with PSIAS expectations.
<b>Competency</b>	<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every day practices; the EQA has identified a number of areas where further development would be beneficial.
<b>Delivery</b>	<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

The report also benchmarks the Internal Audit Service against fellow peers and this is detailed in the table below:

	<b>% - percentage compliance</b>
Lichfield/Tamworth	81%
Local Government Average	82%
Local Government Range	73% - 90%

In comparison with other local government Internal Audit providers the Shared Service between Tamworth and Lichfield compares well considering the size of the service and the requirement to procure services to cover vacancies from external contractors. It is also noted that the service also sits well within the current range of compliance across the local government. The report details the benchmarking undertaken and further comparisons across the private sector. Further analysis is shown within Part 3 of **Appendix 1**.

The report details a number of recommended actions for improvements to the Internal Audit Service which have been considered and the appropriate responses are detailed in **Appendix 3**. The actions outlined within the Action Plan are graded as follows;

<b>Recommendation grading</b>	<b>Explanation</b>
<b>Enhance</b>	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

The number of recommendations in each area are outlined below:

<b>Recommendation Grading</b>	<b>Number of Recommendations</b>	<b>Number agreed</b>
Enhance	NIL	NIL
Review	7	7
Consider	5	5
	<b>12</b>	<b>12</b>
<b>Suggested Enhancement</b>	<b>6</b>	<b>6</b>

As outlined in the table above and supported by the attached Action Plan **Appendix 3** the suggested recommendations are focussed in the 'Review' and 'Consider' category and no recommendations fall under the 'Enhance' rating. In addition 6 suggested enhancements were made at the conclusion of the review and these have been incorporated into the Action Plan.

The actions incorporated in the planned improvements will lead to specifically;

- Enhancing the Internal Audit Charter and Protocols;
- Improve the audit planning model and allow for the strategic and operational of the council's risk management framework and provide assurance of the mitigating controls in place; and

- Supplement the audit approach to provide an assessment and assurance that the objectives of the Council are being met.

The Action Plan will be regularly reviewed by the Audit Manager and reported to senior management. Additionally, the Action Plan will be reported as part of the Quality Improvement Assurance Policy and through the quarterly progress reports submitted to this committee.

### **Options Considered**

None.

### **Resource Implications**

None.

### **Legal/Risk Implications Background**

There is a risk that non-compliance with the PSIAS will mean that an effective system of internal control is not in place and therefore we are not complying with the Accounts and Audit (England) Regulations 2015.

### **Equalities Implications**

None.

### **Environment and Sustainability Implications (including climate change)**

None.

### **Background Information**

None.

### **Report Author**

Andrew Wood – Audit Manager  
Andrew-wood@tamworth.gov.uk

### **List of Background Papers**

None.

### **Appendices**

**Appendix 1 – External Quality Assessment**  
**Appendix 2 – External Quality Assessment Presentation**  
**Appendix 3 – External Quality Assessment Action Plan**

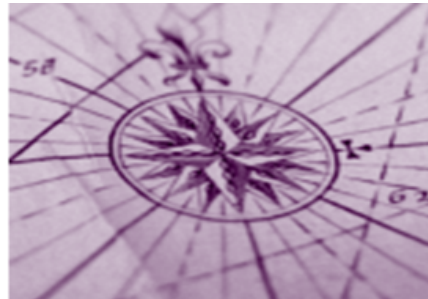
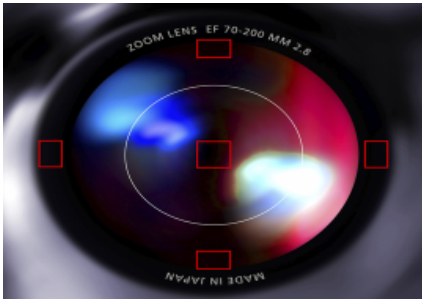
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# External Quality Assessment

Internal Audit Shared Services

Executive report – January 2023



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# External Quality Assessment

Tamworth BC and Lichfield DC Shared Internal Audit Service

BUSINESS  
RISK  
SOLUTIONS

**Opinion: The Internal Audit Shared Service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards.**

## Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of each Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Ensuring clear logic regarding the use of inherent and residual risk assessments in the form of 'Control Risk' through working papers for each assignment in order to focus on agreed management objectives, significant risks and relevant key controls would better support the content of the assurance provided.
- Consideration should be given to expressing internal audit recommendations and opinions in line with the risk appetite of each Council as stated within the Risk Management Policy as this would enhance transparency and communication with clients.
- Where high risk recommendations are identified ensure these support a negative audit opinion which is appropriately reflected in strategic and operational risk registers,,
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the cumulative knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

## Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis for delivery of Internal Audit.
- Shortfalls in resources are supplemented with external support,
- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent risk-based service.
- Self-assessment and the Quality Assurance Improvement Programme identifies areas in which future development will be beneficial,
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations, and
- Appropriate statements regarding confidentiality and limitation of liability are included in internal audit reporting.

# Executive summary

Internal Audit Services are delivered by a shared service in-house team and supported by externally contracted support services for both IT (Etec) and general audit work (BDO). Services are managed by Andrew Wood as Audit Manager, who assumes the role of Chief Audit Executive (CAE) for the purposes of this review. Andrew is supported by Alison Swift as Principal Auditor. The service has been carrying two vacant positions since May 2021 which has been covered through use of the external support under contract.

The service has responded to the changes of focus in professional standards by developing a risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in 2022 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) although this might now be better revised to recognise current internal practice as this would aid training as the vacant posts are recruited to.

Page 16 From an internal audit perspective, considerable advantage is to be gained from increasing development and recognition of each client's Risk Management processes, which reflect a 'Three lines of Defence approach' and therefore provide a basis for risk-based internal audit as required by the standards. The approach can be used to reformat the Audit Universe of potential audits and therefore fully reflect the risk appetite of each Council. If fully embedded within audit engagement planning as recognition of Management's Objectives, this will align with current practice to identify significant risks and provide a basis for an assurance opinion in relation to risk management, governance and control. Clear alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby increasingly focus its attention on recognised key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to each Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of the Councils, there is a need and opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council's stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards with the service demonstrating a high standard of delivery which is well regarded by stakeholders. A series of specific recommendations are made in the report that follows which reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services and as a result enhance the benefit of the service to clients.



# Overall assessment

Page 17	<b>RESOURCES</b>		<b>Excelling</b> – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
	<b>COMPETENCY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
	<b>DELIVERY</b>		<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit and Governance (TBC) and Audit and Member Standards (LDC) Committees (AC).	The combination of the Charter, supported by the Internal Audit Protocol and Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest, although further clarity regarding the IA role regarding risk management would be beneficial.
311	The service has conducted internal assessment exercises regarding its performance in accordance with a Quality Assurance Improvement Programme.	Performance review is embedded within quality control procedures and identifies and supports performance development needs.
2020	Active engagement at Member and management levels.	Represents the establishment of a good understanding of key issues through routine interaction with Officers and Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other external sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A recognised process for delivery of internal audit services has been established.	Provides for a consistent methodology, within which the service is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied.	Demonstration of a consistent approach to communication which is well received by management and the AC's – effective follow-up ensures that issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.

# Part one

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## Compliance with the Public Sector Internal Audit Standards



# Resources

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1.	<p><b>Internal Audit Charter (IAC)</b>            The IAC is comprehensive regarding engagement reports however does not contain details of the requirement for the CAE to deliver an Annual Report including an opinion in relation to risk management, governance and control.</p>	<p>Include an appropriate statement in the Internal Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with a continuous assessment of the risk environment faced by each client, in order to support the provision of the annual opinion regarding risk management, governance and control.</p> <p style="text-align: right;"><b>PSIAS 1000</b></p>	
2.	<p><b>Performance appraisal</b>            The self-assessment identified that the CAE's appraisal which is undertaken by the Chief Executive at TBC has not taken place.</p> <p>A new OKR process is to be introduced at LDC.</p>	<p>Ensure that a robust performance appraisal process is in place within the Internal Audit Team</p> <p>With regard to the Audit Manager consider Inviting observations from both Chairs of AC in advance of the performance appraisal, as this would provide valuable client feedback and reflect best practice.</p> <p style="text-align: right;"><b>PSIAS 1110</b></p>	
3.	<p><b>Declarations of interest</b>            Each Council has adopted different practices regarding the protocol for declarations or conflicts of interest.</p> <p>Due to the independent nature of internal audit work it would be beneficial for internal audit staff and any contractors to confirm the position on an annual basis.</p>	<p>The CAE should obtain confirmation regarding potential conflicts of interest on 1 April each year and on appointment of any further staff or contractors undertaking internal audit engagements at the Councils.</p> <p style="text-align: right;"><b>PSIAS 1100</b></p>	

	Issue identified	Recommended action
<p>1.</p> <p>Page 21</p>	<p><b>Audit Universe</b></p> <p>The current internal audit planning model reflects use of a “standard audit universe’ to which a cyclical approach to reviewing areas of activity is applied in consultation with management. This is provided for in circumstances where the client risk management system cannot be relied upon.</p> <p>Internal Audits of risk management have provided positive opinions in relation to their application and as a result it would be beneficia therefore to increasing align the focus of strategic and engagement planning with each clients risk environment as this would enhance internal audits’ ability to demonstrate a commitment to helping each Council achieve its objectives.</p> <p>It may be beneficial to consider the content of each clients risk management process as the Audit Universe in future.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process, identifying sources of assurance as a matter of routine.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level.</p> <p>It may be that such an approach would also help embed effective risk management within each clients governance processes.</p> <p style="text-align: right;"><b>PSIAS 2000/2010</b></p>

# Competency continued

	Issue identified	Recommended action
2.	<p><b>Purpose of the system subject to review</b></p> <p>Audit Planning Memorandum currently contains a statement which reflects the 'Management Objective' of the area subject to review. Whilst the terminology is correct statements tend to focus on a generic statement regarding the internal control environment rather than focusing on what management are aiming to achieve, in accordance with PSIAS requirements, which recognise the value of focusing on operational management objectives.</p>	<p>The inclusion of a Management Objective is regarded as good practice however it may be beneficial to increasingly capture the specific aims of management in each review to which can be aligned the significant risks being faced within the area under review .</p> <p>This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based.</p> <p>The significant risks may be all or some of those identified with the risk management process as well as others recognised at the time of audit.</p> <p style="text-align: right;"><b>PSIAS 2201</b></p>
3.	<p><b>Recognition of identified key controls</b></p> <p>The current risk management methodologies require identification of the primary controls which exist as well as the further mitigating controls which are to be developed.</p> <p>These are likely to represent the key controls upon which the audit should be based, as they represent 'Control Risk' and the implications should a failure of controls occur.</p>	<p>It would be beneficial to increasingly focus on what is regarded as a 'significant risk' within each Councils risk management processes and the associated primary controls as this would increase efficiency through allocating appropriate resources to those areas of most concern..</p> <p>There is limited feedback from the client survey which indicates that the Shared Service might provide increased focus on significant risk and introducing advice best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which are regarded as adding value by clients.</p> <p style="text-align: right;"><b>PSIAS 2010</b></p>

# Competency continued

	Issue identified	Recommended action
5.	<p><b>Consideration of Fraud</b></p> <p>The Team maintain a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however this is not directly considered when scoping engagements.</p>	<p>Ensure that the areas reviewed within an engagement include those where potentially significant fraud risks exist.</p> <p style="text-align: right;"><b>PSIAS 2030</b></p>
6.	<p><b>QAIP policy</b></p> <p>The service has introduced a Quality Improvement Assurance Policy in accordance with the requirements of the standards.</p> <p>The policy focuses on consistent internal review of engagements, an annual assessment against the standards and the EQA review on a five year cycle.</p> <p>The Head of Internal Audit's Annual report confirms that aspects of the policy have been completed in a diagrammatic presentation.</p> <p>Industry best practice now reflects an extension of the quality review process to include consideration of wider performance in the form of KPI's, resources, skills and training requirements.</p>	<p>It would be beneficial to update the policy in line with best practice and as required confirm annually that all measures have operated during the year as well as summarise any outcomes influencing future development of the service within the Head of Internal audit's Annual Report.</p> <p style="text-align: right;"><b>PSIAS 1300</b></p>

Page 23

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action	
Page 24	<p><b>1. Governance</b> The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements.</p> <p>Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.</p>	<p>In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report.</p> <p style="text-align: right;"><b>PSIAS 2110</b></p>	
	<p><b>Risk Management</b> Internal Audit last reviewed risk management as an assignment in TBC (March 2021) and LDC (March 2022) providing a ‘Reasonable’ assurance opinion.</p>	<p>The standards require an annual opinion to be made in the Head of Internal Audit’s Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements.</p> <p>It would be beneficial to document in this approach how any potential conflict of interest with regard to the Audit Manager and Principal Auditor’s roles relating to risk management is managed.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>	



	Issue identified	Recommended action
<p>Page 254</p>	<p>3. <b>Head of Internal Audit Annual Opinion</b>            The current statement is largely based upon the work completed in the current financial year.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each client is facing and information from other assurance sources.</p>	<p>In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes.</p> <p>Future opinions should state the full basis upon which the opinion has been reached.</p> <p style="text-align: right;"><b>PSIAS 2450</b></p>
	<p><b>Internal Audit Risk Based Strategy</b>            The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting.</p> <p>Audit Engagement Plans and Reports contain an explanation of how the Internal Audit Team relate the level of risk evaluation to the conduct of the audit.</p> <p>It would be beneficial to ensure that the wording used is consistent with risk management terminology used by each client.</p> <p>PSIAS guidance emphasises that the focus of internal audit should be on 'significant' risk.</p>	<p>Consider reviewing the wording of definitions that support the grading of recommendations and opinions to better reflect risk appetite of each client. Particular attention should be given to the use of wording such as Fundamental and Significant.</p> <p>Within engagement reports this would then link to alignment of assurance opinions where fundamental or a series of significant recommendations automatically generated a 'Limited Assurance' opinion.</p> <p>Consider whether maintained a fourth level of assurance (being no assurance) is necessary.</p> <p style="text-align: right;"><b>PSIAS 2420</b></p>

# Part two

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## Suggested enhancements for consideration

# Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p><b>Job descriptions</b> Current job descriptions are in a consistent form abut are not routinely reviewed as part of the PDR process..</p>	<p>Best practice reflects regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected, particularly as the two currently vacant posts are advertised</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>
Page 27	<p><b>Client surveys</b> Progress has been made in obtaining feedback from auditees following each audit through discussions with client managers and within the annual planning process.</p> <p>Current completion reflects 66% TBC and 82% LDC.</p> <p>This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.</p>	<p>Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback, and capture similar feedback in relation to each contractors performance, as this can prove to be an efficient means of gathering an early response.</p> <p>Feedback should be included as part of the QAIP process.</p> <p style="text-align: right;"><b>PSIAS 2000</b></p>
3.	<p><b>Contract support</b> A contract is in place with each contractor which states that delivery of services should comply with the PSIAS.</p>	<p>In order to evidence that the Shared Service is compliant in overall terms it would be helpful if each contractor were requested to provide evidence that their work had been independently assessed in accordance with the PSIAS.</p> <p style="text-align: right;"><b>PSIAS 1312</b></p>

# Suggested Enhancements for consideration

	Issue identified	Recommended action
3.	<p><b>Key Performance Indicators</b> Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report.</p> <p>Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.</p>	<p>Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include:</p> <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <p style="text-align: right;"><b>PSIAS 1310</b></p>
4.	<p><b>Training</b> The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained.</p> <p>As the internal audit planning process devises a forward looking three year plan it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.</p>	<p>Consider the benefits of using the priorities included in internal audit plans to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed.</p> <p>Ensure that training records are maintained and used to inform the QAIP.</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>

# Suggested Enhancements for consideration

	Issue identified	Recommended action
6.	<p><b>Internal Audit Manual</b> The Team has compiled an Internal Audit Manual which was last reviewed in December 2022.</p>	<p>Following completion of the EQA, consider revising the Manual to fully reflect current practice rather than generic example as this will assist when training new staff.</p> <p>It may be useful to include the Internal Audit Protocol document within the Manual as this represents an excellent way of explaining the internal audit process to all stakeholders.</p> <p style="text-align: right;"><b>PSIAS 2030</b></p>

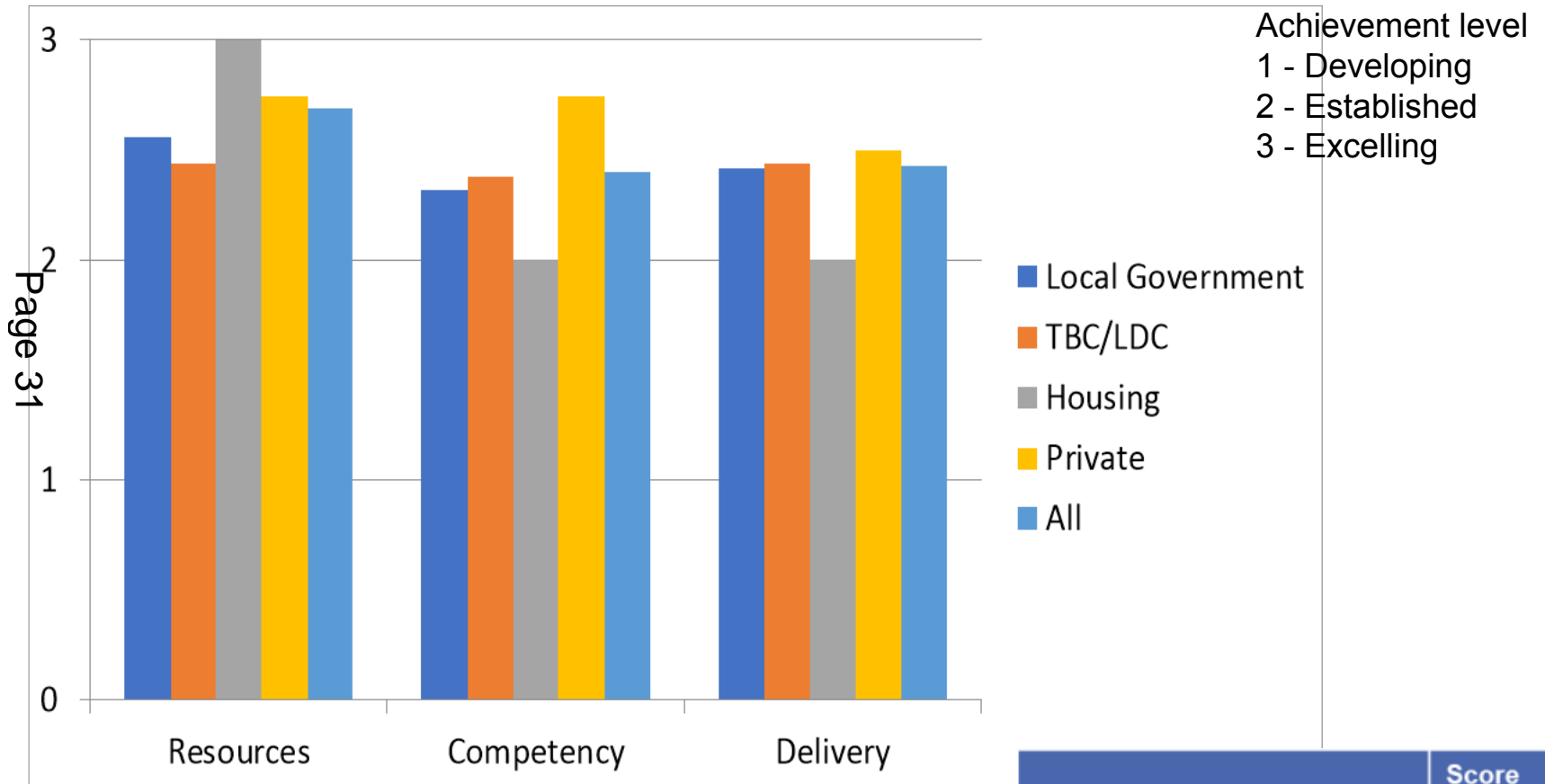
# Part three

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## Benchmarking

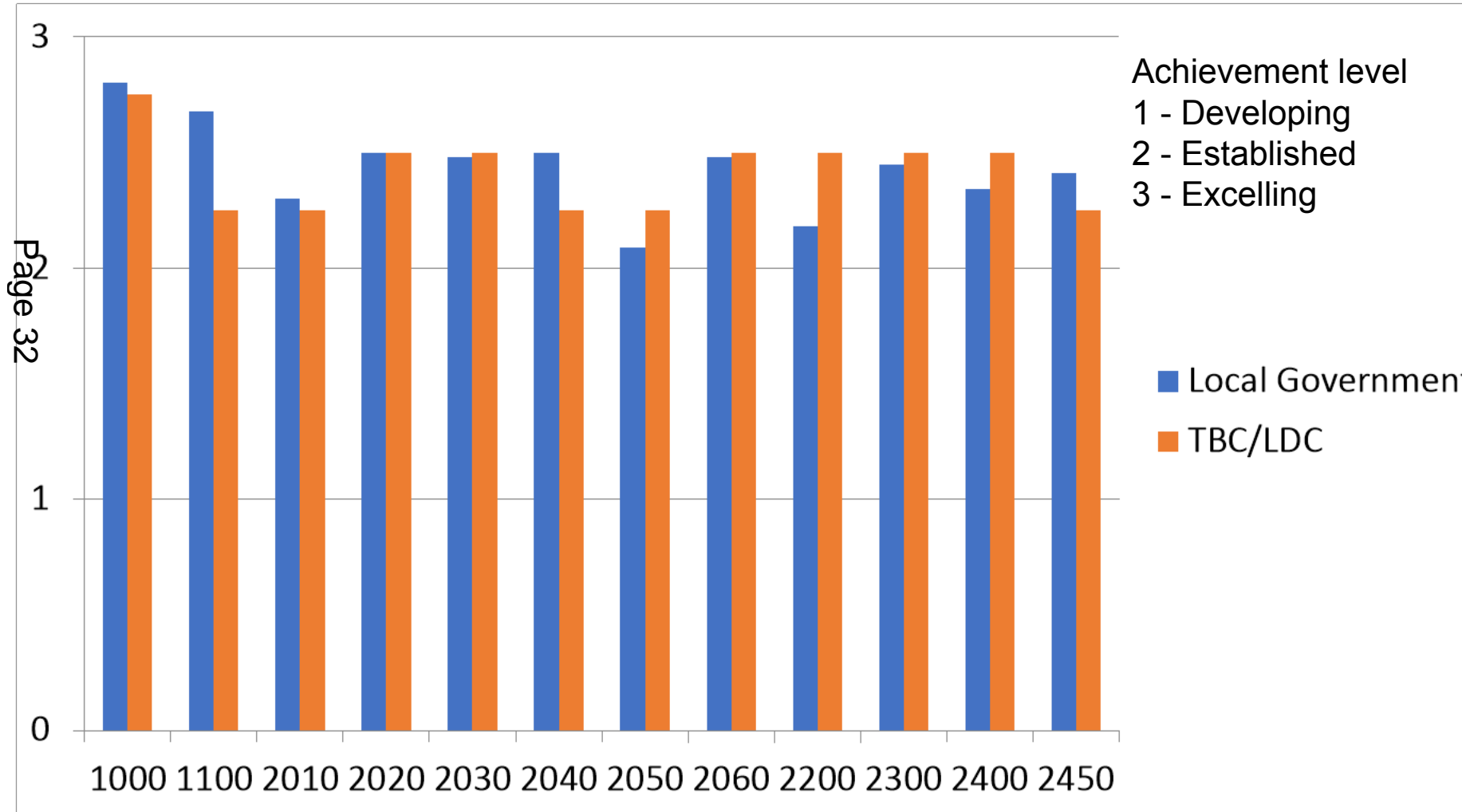
# Benchmarking - Sector analysis



Page 31

	Score
Tamworth /Lichfield	81%
LG Average	82%
LG range	73 -90%

# Benchmarking - Industry analysis





# Appendix

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1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

# Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	75	25
<b>Average</b>	<b>97</b>	<b>3</b>

**Conclusion:**

Feedback from stakeholders confirms that the Internal Audit Shared Service is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded. A small number of respondents were less positive regarding the emphasis placed on significant risk and the increasing need to add value through provision of advice regarding new ideas and best practice elsewhere.

# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

# Basis for EQA

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## Compliance with IPPF/PSIAS

### ■ Resources

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

### ■ Competency

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

### ■ Delivery

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

# Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
<b>Enhance</b>	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
<b>Review</b>	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
<b>Consider</b>	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.

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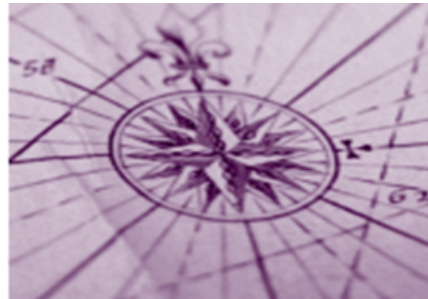


# Tamworth Borough Council

## External Quality Assessment

Internal Audit Services

Executive Summary for Audit Committee – 22 March 2023



# Basis for overall opinion

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Source: Institute of Internal Auditors (2016)

	Score
Tamworth /Lichfield	81%
LG Average	82%
LG range	73 -90%



# External Quality Assessment

Tamworth Borough Council

Overall Opinion – **GENERALLY CONFORMS**



BUSINESS  
RISK  
SOLUTIONS

## Good Practice identified during the review

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis for delivery of Internal Audit.
- Shortfalls in resources are supplemented with external support, The service has developed a documented internal audit methodology and supporting templates that delivers a consistent risk-based service.
- Self-assessment and the Quality Assurance Improvement Programme identifies areas in which future development will be beneficial,
- Routine reporting informs clients and the Audit and Governance Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations, and
- Appropriate statements regarding confidentiality and limitation of liability are included in internal audit reporting.

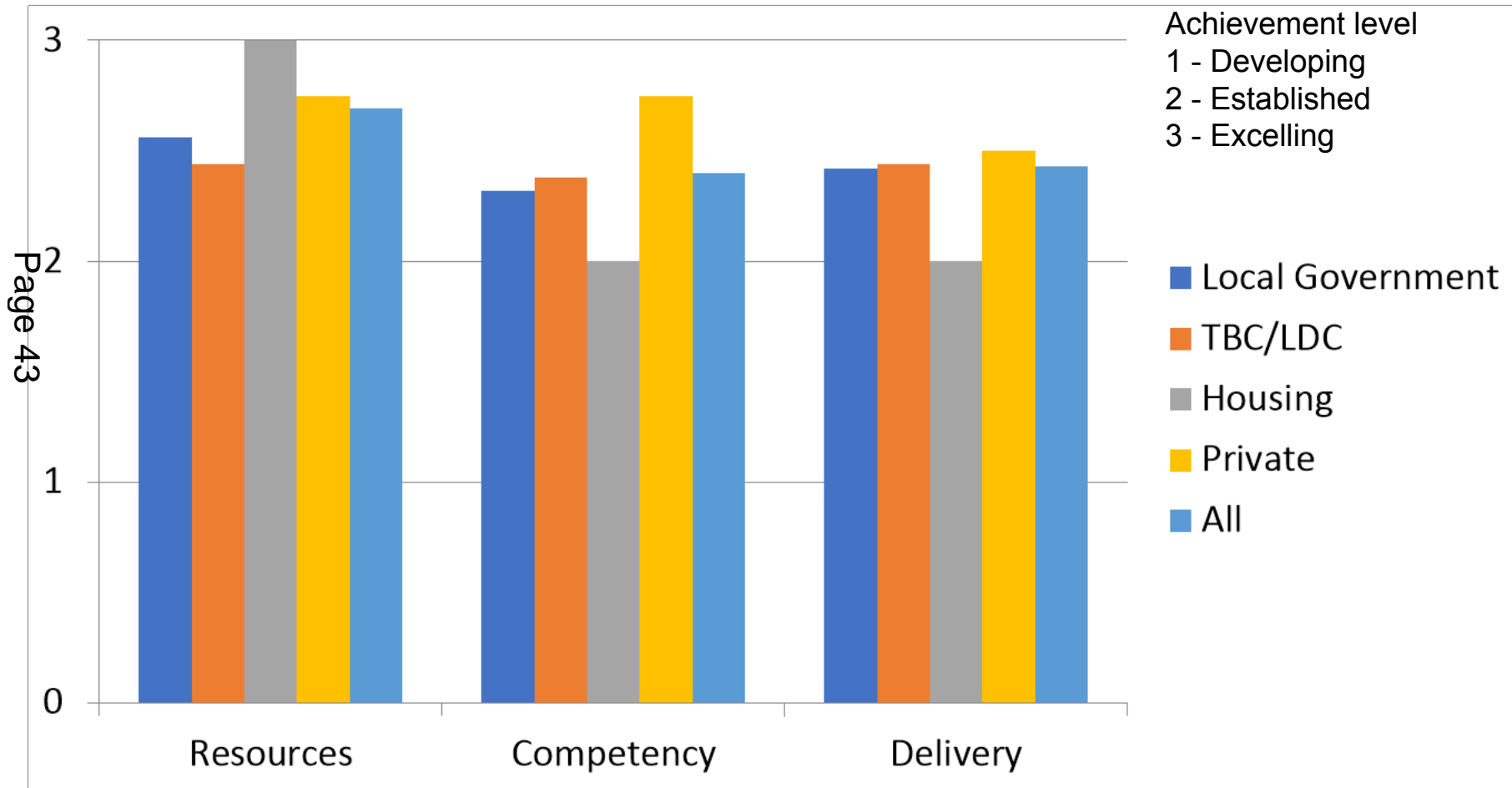
# Areas where further attention should be beneficial to the team and its clients

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## Key matters arising from the review:

- Increasing integration by internal audit of risk-based techniques with the risk appetite of TBC particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Ensuring clear logic regarding the use of inherent and residual risk in the form of 'Control Risk' through working papers for each assignment in order to focus on agreed management objectives, significant risks and relevant key controls would better support the content of the assurance provided.
- Consideration should be given to expressing internal audit recommendations and opinions in line with the risk appetite of the Council as stated within the Risk Management Policy as this would enhance transparency and communication with clients.
- Where high risk recommendations are identified ensure these support a negative audit opinion which is appropriately reflected in strategic and operational risk registers,
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the cumulative knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.



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## External Quality Assessment Action Plan

	Priority	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	Review	<p><b>Internal Audit Charter (IAC)</b> The IAC is comprehensive regarding engagement reports however does not contain details of the requirement for the Chief Audit Executive (CAE) to deliver an Annual Report including an opinion in relation to risk management, governance and control.</p>	<p>Include an appropriate statement in the Internal Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with a continuous assessment of the risk environment faced by each client, in order to support the provision of the annual opinion regarding risk management, governance and control.</p> <p>. <b>PSIAS 1000</b></p>	<p>Agreed.</p> <p>To be implemented via a review of Internal Audit Charters for 2023/24.</p> <p>This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.</p>	<p>Audit Manager</p> <p>May 2023</p>	
2.	Review	<p><b>Performance appraisal</b> The self-assessment identified that the CAE's appraisal which is undertaken by the Chief Executive at Tamworth Borough Council (TBC) has not taken place. A new appraisal process is to be introduced at Lichfield District Council (LDC).</p> <p>.</p>	<p>Ensure that a robust performance appraisal process is in place within the Internal Audit Team With regard to the Audit Manager consider Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal, as this would provide valuable client feedback and reflect best practice.</p> <p><b>PSIAS 1110</b></p>	<p>Agreed.</p> <p>Ongoing review of Audit Manager performance maintained by Chief Executive at Tamworth BC and both Section 151 Officers. Discussions to agree further approach following</p>		

				relaunch of PDR process at TBC.		
3.	Consider	<p><b>Declarations of interest</b> Each Council has adopted different practices regarding the protocol for declarations or conflicts of interest. Due to the independent nature of internal audit work it would be beneficial for internal audit staff and any contractors to confirm the position on an annual basis.</p>	<p>The CAE should obtain confirmation regarding potential conflicts of interest on 1 April each year and on appointment of any further staff or contractors undertaking internal audit engagements at the Councils.</p> <p><b>PSIAS 1100</b></p>	<p>Agreed</p> <p>Previous declarations of interest have been recorded but only updated if changes have occurred. However to comply with best practice will implemented annual reviews.</p>	<p>Audit Manager</p> <p>April 2023</p>	
4.	Review	<p><b>Audit Universe</b> The current internal audit planning model reflects use of a “standard audit universe’ to which a cyclical approach to reviewing areas of activity is applied in consultation with management. This is provided for in circumstances where the client risk management system cannot be relied upon. Internal Audits of risk management have provided positive opinions in relation to their application and as a result it would be beneficia therefore to increasing align the focus of strategic and engagement planning with each clients risk environment as this would enhance internal audits’ ability to demonstrate a commitment</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded within each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance. Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process, identifying sources of assurance as a matter of routine.</p>	<p>Agreed</p> <p>Review of current audit universes at both Tamworth and Lichfield.</p> <p>Change of current working practices to develop the auditing of control risks and linking into strategic and operational risk registers are both authorities. To be supported by the current reviews of Strategic Risk Registers which looks at mitigating controls. Additionally, this will improve wider</p>	<p>Audit Manager</p> <p>March 2024</p>	

		<p>to helping each Council achieve its objectives. It may be beneficial to consider the content of each clients risk management process as the Audit Universe in future.</p>	<p>It would be beneficial therefore to increasingly align development of the internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level. It may be that such an approach would also help embed effective risk management within each clients governance processes.</p> <p><b>PSIAS 2000/2010</b></p>	<p>outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.</p>		
5.	Consider	<p><b>Purpose of the system subject to review</b> Audit Planning Memorandum currently contains a statement which reflects the 'Management Objective' of the area subject to review. Whilst the terminology is correct statements tend to focus on a generic statement regarding the internal control environment rather than focusing on what management are aiming to achieve, in accordance with Public Sector Internal Audit Standards (PSIAS) requirements, which</p>	<p>The inclusion of a Management Objective is regarded as good practice however it may be beneficial to increasingly capture the specific aims of management in each review to which can be aligned the significant risks being faced within the area under review . This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based. The significant risks may be all or some of those identified with the risk</p>	<p>Agreed  Audit Planning and pre-meetings will incorporate aims of management in the Audit Brief.</p>	<p>Audit Manager  April 2023</p>	

		recognise the value of focusing on operational management objectives.	management process as well as others recognised at the time of audit.  <b>PSIAS 2201</b>			
6.	Consider	<b>Recognition of identified key controls</b> The current risk management methodologies require identification of the primary controls which exist as well as the further mitigating controls which are to be developed. These are likely to represent the key controls upon which the audit should be based, as they represent 'Control Risk' and the implications should a failure of controls occur.	It would be beneficial to increasingly focus on what is regarded as a 'significant risk' within each Councils risk management processes and the associated primary controls as this would increase efficiency through allocating appropriate resources to those areas of most concern. There is limited feedback from the client survey which indicates that the Shared Service might provide increased focus on significant risk and introducing advice best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which are regarded as adding value by clients.  <b>PSIAS 2010</b>	Agreed.  To be developed over 2023/24 towards full implementation.  This will improve wider outcomes in the Council so that the audit plan is more focussed on ensuring strategic/operational risks are mitigated to provide assurance.	Audit Manager  March 2024	
7.	Review	<b>Consideration of Fraud</b> The Team maintain a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however this is not directly considered when scoping engagements.	Ensure that the areas reviewed within an engagement include those where potentially significant fraud risks exist.  <b>PSIAS 2030</b>	Agreed.  As part of annual review of Fraud Risks and reported to respective Committees at Tamworth and Lichfield.	Audit Manager  October 2023	



8.	Review	<p><b>Quality Improvement Assurance Policy</b></p> <p>The service has introduced a Quality Improvement Assurance Policy (QIAP) in accordance with the requirements of the standards. The policy focuses on consistent internal review of engagements, an annual assessment against the standards and the External Quality Assessment (EQA) review on a five year cycle. The Head of Internal Audit's Annual report confirms that aspects of the policy have been completed in a diagrammatic presentation. Industry best practice now reflects an extension of the quality review process to include consideration of wider performance in the form of KPI's, resources, skills and training requirements.</p>	<p>It would be beneficial to update the policy in line with best practice and as required confirm annually that all measures have operated during the year as well as summarise any outcomes influencing future development of the service within the Head of Internal audit's Annual Report.</p> <p><b>PSIAS 1300</b></p>	<p>Agreed.</p> <p>QIAP to be reviewed at both Councils and implemented. Changes to be incorporated into the QAIP for 2023/2024.</p>	<p>Audit Manager</p> <p>July 2023</p>	
9.	Review	<p><b>Governance</b></p> <p>The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements. Current planning includes various aspects of the governance process including</p>	<p>In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement</p>	<p>Agreed.</p> <p>To be implemented as part of AGS for 2022/2023 and ongoing development. To be linked with Monitoring Officer at</p>	<p>Audit Manager</p> <p>March 2024</p>	

		Ethics, Conflicts of Interests and Members expenses.	through the Head of Internal Audit Annual Report.  <b>PSIAS 2110</b>	LDC and internally within TBC.		
10.	Review	<b>Risk Management</b> Internal Audit last reviewed risk management as an assignment in TBC (March 2021) and LDC (March 2022) providing a 'Reasonable' assurance opinion.	The standards require an annual opinion to be made in the Head of Internal Audit's Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements. It would be beneficial to document in this approach how any potential conflict of interest with regard to the Audit Manager and Principal Auditor's roles relating to risk management is managed.  <b>PSIAS 2120</b>	Agreed  To be implemented as part of Annual Internal Audit Reports submitted to each Council Audit Committees.	Audit Manager  April 2023	
11.	Consider	<b>Head of Internal Audit Annual Opinion</b> The current statement is largely based upon the work completed in the current financial year. Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant	In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes.	Agreed.  Updating of audit opinion for new financial year 2023/24	Audit Manager.  April 2023	

		risks which each client is facing and information from other assurance sources.	Future opinions should state the full basis upon which the opinion has been reached.  <b>PSIAS 2450</b>			
12.	Consider	<p><b>Internal Audit Risk Based Strategy</b></p> <p>The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting.</p> <p>Audit Engagement Plans and Reports contain an explanation of how the Internal Audit Team relate the level of risk evaluation to the conduct of the audit.</p> <p>It would be beneficial to ensure that the wording used is consistent with risk management terminology used by each client.</p> <p>PSIAS guidance emphasises that the focus of internal audit should be on 'significant' risk.</p>	<p>Consider reviewing the wording of definitions that support the grading of recommendations and opinions to better reflect risk appetite of each client. Particular attention should be given to the use of wording such as Fundamental and Significant. Within engagement reports this would then link to alignment of assurance opinions where fundamental or a series of significant recommendations automatically generated a 'Limited Assurance' opinion.</p> <p>Consider whether maintained a fourth level of assurance (being no assurance) is necessary.</p> <p><b>PSIAS 2420</b></p>	<p>Agreed.</p> <p>In conjunction with further reviews of wording and audit opinion, to be carried out in conjunction with these reviews.</p>	<p>Audit Manager</p> <p>December 2023</p>	

## Suggested Enhancements for consideration

	Issue Identified	Recommended Action	Management response	Officer responsible/ timescale	Status
1.	<p><b>Job descriptions</b> Current job descriptions are in a consistent form abut are not routinely reviewed as part of the PDR process..</p>	<p>Best practice reflects regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected, particularly as the two currently vacant posts are advertised</p> <p><b>PSIAS 1210</b></p>	<p>Agreed</p> <p>Review of job Descriptions to be undertaken.</p>	<p>Audit Manager.</p> <p>April 2023</p>	
2.	<p><b>Client surveys</b> Progress has been made in obtaining feedback from auditees following each audit through discussions with client managers and within the annual planning process. Current completion reflects 66% TBC and 82% LDC. This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.</p>	<p>Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback and capture similar feedback in relation to each contractors performance, as this can prove to be an efficient means of gathering an early response. Feedback should be included as part of the QAIP process.</p> <p><b>PSIAS 2000</b></p>	<p>Agreed.</p> <p>Will review the possibility and functionality of Survey Monkey and determine a way forward.</p>	<p>Audit Manager</p> <p>April 2023</p>	
3.	<p><b>Contract support</b> A contract is in place with each contractor which states that</p>	<p>In order to evidence that the Shared Service is compliant in overall terms it would be helpful if each contractor were requested to provide evidence that their work had been</p>	<p>Agreed</p>	<p>Audit Manager</p>	<p>Complete</p>

	delivery of services should comply with the PSIAS.	independently assessed in accordance with the PSIAS.  <b>PSIAS 1312</b>			
4.	<b>Key Performance Indicators</b> Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report. Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.	Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include: <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <b>PSIAS 1310</b>	Agreed  Will review current KPI's and in conjunction with client managers determine a suite of KPI's for Internal Audit.	Audit Manager  March 2024	
5.	<b>Training</b> The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained. As the internal audit planning process devises a forward looking three year plan it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.	Consider the benefits of using the priorities included in internal audit plans to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed. Ensure that training records are maintained and used to inform the QAIP.  <b>PSIAS 1210</b>	Agreed  Review training and implement as determined by the knowledge and experience of auditors.	Audit Manager  March 2024	

6.	<p><b>Internal Audit Manual</b> The Team has compiled an Internal Audit Manual which was last reviewed in December 2022.</p>	<p>Following completion of the EQA, consider revising the Manual to fully reflect current practice rather than generic example as this will assist when training new staff. It may be useful to include the Internal Audit Protocol document within the Manual as this represents an excellent way of explaining the internal audit process to all stakeholder</p> <p><b>PSIAS 2030</b></p>	<p>Agreed. Implement changes as suggested.</p>	<p>Audit Manager March 2023</p>	

**Wednesday, 22 March 2023**

**Report of the Audit Manager**

**Internal Audit Plan and Charter 2023/24**

**Exempt Information**

None.

**Purpose**

For the Audit & Governance Committee to comment on and endorse the 2023/24 proposed internal audit plan (**Appendix 1**) and charter (**Appendix 2**).

**Recommendations**

**That the Committee comment on and endorse the 2023/24 proposed internal audit plan (Appendix 1) and charter (Appendix 2).**

**Executive Summary**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Internal Audit Standards).

The Audit & Governance Committee's consideration and endorsement of an effective audit plan, charter and protocol is an important element in providing assurance to the organisation that arrangements are in place to provide an independent and objective opinion on the adequacy of the internal control environment.

The proposed audit plan is detailed at **Appendix 1**. The planned approach for 2023/24 has directly linked the Council's Corporate Risks into the planned work for the forthcoming year.

The Audit Charter is detailed at **Appendix 2**. Changes have been made to the Charter to incorporate the recommendations made at the conclusion of the External Quality Assessment. These will include the ongoing development of the charter to ensure that recommendations are fully implemented by 31 March 2024. These improvements will include;

- an appropriate statement in the Charter with regard to the provision of an Annual Report and align this with regard to the benefit of aligning the internal audit planning process with continuous assessment of the risk environment, in support of the annual opinion.
- Review of Key Performance Indicators to compliment the work of the section.

**Options Considered**

None.

### **Resource Implications**

Available resources have been considered and optimised and there is continuous review process in place to monitor plan delivery. Currently the service outsources 60 audit days in respect of general auditor services from BDO. Additionally we also source a further 20 days of IT Audit Services from E-TEC Business Services. The planned work also includes approximately 40 days of Principal Auditor services from Lichfield District Council. Regular quarterly updates are provided to Audit & Governance Committee.

### **Legal/Risk Implications Background**

The audit planning process ensures that audit resources are directed to areas of most significant/highest risk.

### **Equalities Implications**

None.

### **Environment and Sustainability Implications (including climate change)**

None.

### **Background Information**

None.

### **Report Author**

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Ext 234

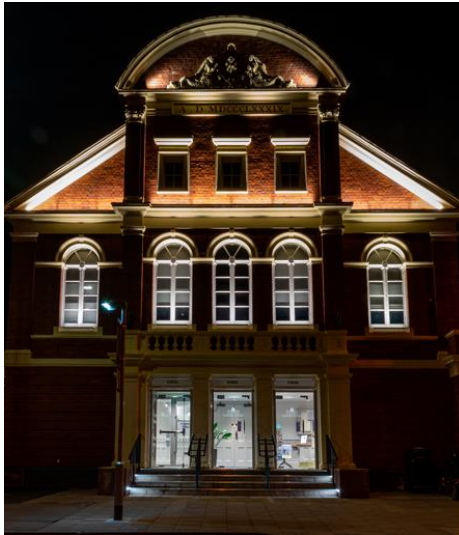
### **List of Background Papers**

### **Appendices**

Appendix 1 – Audit Plan 2023/24  
Appendix 2 – Audit Charter 2023/24



Internal Audit  
Draft Audit Plan & Charter 2023/24



## Contents

- 01 Introduction
- 02 Audit Planning
- 03 Internal Audit Plan 2023/24
- 04 Joint Working
- 05 Charter

### Appendices

- 01 Detailed Plan 2023/24
- 02 Internal Audit Charter

In the event of any questions arising from this report please contact Andrew Wood, Audit Manager [andrew-wood@tamworth.gov.uk](mailto:andrew-wood@tamworth.gov.uk)

The matters raised in this report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report was produced solely for the use and benefit of Tamworth Borough Council. The Council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification.

## 01 Introduction

### Background

This report sets out the Internal Audit operational plan for Tamworth Borough Council (TBC) for endorsement by the Audit & Governance Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work in accordance with an annual operational plan as endorsed by the Audit Committee.

### 02 Audit Planning

As part of the planning for 2022/23, the proposed plan of work has been developed based on:

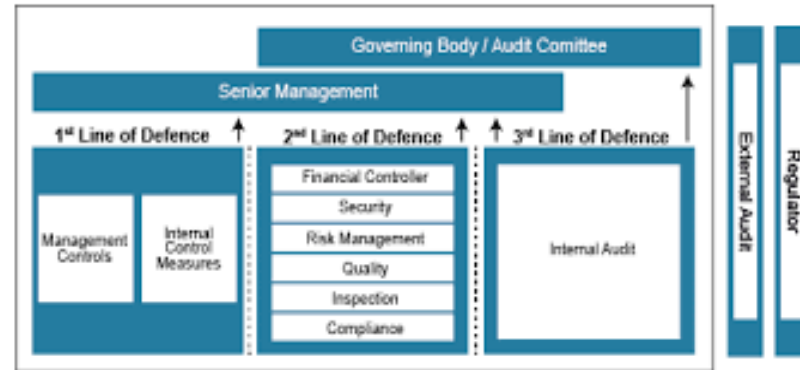
- **Key risks** – the plan for 2021/22 is based on an analysis of strategic and operational risks; strategic objectives; internal control and governance processes and other factors which may affect the year ahead, including any changes within the external environment and the sector .
- **Reference to previous assurance work** – a review of the outcome of previous audit and assurance work undertaken and where assurance is now required again.
- **Level of resources** – in 2020/21 a benchmarking exercise was undertaken to compare the level of audit resources with similar council's. Audit days were reduced from 318 days (2019/20) to 256 days

(2020/21) and 260 days (2021/22) to be competitive with peers. It is proposed to decrease the number of days slightly to 260 days during 2023/2024. The Council's risk profile has not changed year this year, is not unusual (a reasonable assurance opinion has been given for the last 3 years) and the level of fraud risk has remained low. For these reasons the 2023/24 draft plan resources have not materially changed.

- **Agile approach** – our approach will be one where we will respond to the changing assurance need, by having a level of contingency, we will be able to change the focus of the audits / audit deliver

Discussions with the Corporate Management Team (which include the Section 151 Officer) have been included and their views reflected in the final plan.

Our strategy is based upon a three lines of defence model of assurance:



Internal Audit seeks to identify assurances provided through the first and second lines of defence and selects the most appropriate method for obtaining assurance to support the Head of Internal Audit's opinion and the Council's governance requirements.

### **03 Internal Audit Plan**

The detailed audit plan at **Appendix 1** sets out the assurance requirement in terms of core financial systems; strategic and operational risk; ICT; governance, fraud and other assurance. The draft plan is for a total of 260 days and in particular seeks to provide assurance over areas of higher risk.

### **04 Joint Working**

During 2023/24 the shared service agreement with Lichfield District Council will end on 30 September 2023. Despite ongoing recruitment issues we have procured both IT Auditor and General Auditor Services and these have been extended as from 1 April 2023 for a further year the arrangement has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports).

During 2022/2023, as part of continued compliance with Public Sector Internal Audit Standards, we completed our External Quality Assessment and the findings/Action Plan will be implemented and reported quarterly to Audit & Governance Committee.

### **05 Charter**

The Audit Charter is at **Appendix 2**.

Appendix 01: Detailed Audit Plan 2022/23

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Creditors	Risk based review covering the adequacy and effectiveness of controls around the maintenance of creditors systems.	CR1, CR6	10	20	Q2
	Procurement	Risk based review of Procurement systems to ensure controls in place for the adherence to procurement legislative requirements.	CR1, CR6	10		Q1
Strategic & Operational Risks	Business Continuity	Risk based review of the council's arrangements for business continuity.	CR1, CR2, CR3, CR6	10	95	Q2
	Corporate Policy Management	Risk based review of the council's arrangements for policy development, update and change. Incorporating reporting and approval requirements.	CR1, CR3, CR4, CR5, CR6	10		Q3
	Fees and Charges	Review of arrangements across the Council for the levying and charging for fees and charges .	CR1	10		
	Taxi Licences	Risk based review of the council's management arrangements for taxi licensing across the Borough, ensuring all checks both individual and vehicle are carried out and completed.	CR3, CR4, CR6	10		Q3
	Community Safety	Risk based review of Community Safety arrangements at the Council.	CR3, CR4, CR6	10		Q3
	Training & Development	Risk based review looking at the Council's arrangements for training and development.	CR2, CR6	10		Q1
	Safeguarding	Risk based review of the Council's controls around the safeguarding to ensure all legislative requirements are met and being consistently applied.	CR3, CR4, CR5, CR6	10		Q4
	Insurance	Risk based review to ensure that all insurable risks are identified and appropriately managed.	CR1	5		Q3
	Time recording & absence management	Risk based review to ensure that time recording system is appropriately managed and that a	CR2	5		Q1

Assurance Requirement	Audit	Scope	Risk	Planned Days	Total Days	Proposed Quarter
		consistent approach is maintained in respect of absence management.				
	Shared Services	Risk based review looking at key aspects of the council's shared services arrangements.	CR1, CR3, CR5	5		Q2
	Housing Voids	Risk based review looking at Housing Void arrangements to ensure properties are appropriately managed and void periods minimised.	CR1	10		
ICT	Remote Working	ICT review of the development of remote working solutions.	CR2, CR3	10	20	Q1-Q4
	Network Infrastructure	ICT review of the council's network infrastructure to ensure that it is maximised and 'downtime' minimised with the resolution of issues in a prompt manner by third party suppliers.	CR2, CR3	10		
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement		5		Q3
	Municipal Charities	Preparation of municipal charities accounts		2		Q3
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.		10	53	Q1-Q4
	Future High Street Fund	Assurance based review with regards to Future High Street Fund		10		
	Risk Management	Review of Council's Risk Management processes		10		Q1-Q4
	Annual Governance Statement	Production of the AGS.		13		Q1-Q2
	Annual Audit Opinion	Production of the Annual Audit Opinion		3		Q1-Q2
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.		15		Q1-Q4
	Management and Planning	Management, planning and assurance reporting to CMT and Audit & Governance Committee		30	72	Q1-Q4
	Ad hoc / Contingency / Consultancy	Contingency allocation to be utilised upon agreement of the Chief Finance Officer		22		Q1-Q4
	IA QAIP and PSIAS	Review of PSIAS standards and review		5		
<b>Total</b>					<b>260</b>	

# Tamworth

Borough Council

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## INTERNAL AUDIT CHARTER



**March 2023**

### Document Location

This document is held by Tamworth Borough Council (TBC) and the document owner is the Audit Manager.

Printed documents may be obsolete. An electronic copy will be available on TBC's intranet. Please check for current version before using.

### Revision History

Revision Date	Version Control	Summary of changes
25/01/13	1.01.01	1 <sup>st</sup> draft
05/03/14	1.01.02	Review
04/03/15	1.01.03	Review
20/11/15	1.01.04	Review
08/03/17	1.01.05	Review
13/03/18	1.01.06	Review
07/06/18	1.01.07	Roles and responsibilities following management restructure
05/03/19	1.01.08	Review
12/06/20	1.01.09	Review – changes to follow up process
10/03/21	1.01.10	Review including role title changes
11/02/22	1.01.11	Review
20/02/23	1.01.12	Review

### Approvals

Name	Date:
Audit & Governance Committee	
Chief Executive	
Audit Manager	11.02.23

### Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

### Distribution

The document will be available on the Intranet and the website.



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## **1 Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IIA – UK & Ireland).

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

This Charter will be periodically reviewed in consultation with the Chief Executive and the Audit & Governance Committee. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The Audit Manager will report conformance to the PSIAS in the annual report to the Audit & Governance Committee.

## **2 Mission Statement of Internal Audit**

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

## **3 Purpose and Statutory Requirements**

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the Audit & Governance Committee, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Executive Director Finance to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

*“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

#### **4 Objectives**

The Audit Manager's responsibility is to report to the Audit & Governance Committee on its assessment of the adequacy of the entire control environment.

They do this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).

- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.
- Provision of an Annual Report to support the provision of the annual opinion regarding risk management, governance and control.

## 5 Role and Scope of Work

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;

- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Audit & Governance Committee;
- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

## **6 Proficiency and Due Professional Care**

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the delivery of internal audit plans, the Audit Manager can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

## **7 Authority**

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Tamworth Borough Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

## **8 Organisation**

The Audit Manager will report functionally to the Audit & Governance Committee and administratively (i.e. day to day operations) to the Chief Executive.

The Audit & Governance Committee will receive performance reports on the internal audit function on a quarterly basis.

## **9 Independence and Objectivity**

The service is managed by the Audit Manager who is professionally qualified as required by the PSIAS. The Audit Manager has a direct reporting line to the Chief Executive and also provides regular reports to the Audit & Governance Committee which has responsibility for overseeing audit arrangements.

The Audit Manager does not manage any other Council function to ensure their independence and objectivity is maintained.

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Chief Executive and the Audit & Governance Committee.

The Audit Manager will confirm to the Audit & Governance Committee, at least annually, the organisational independence of the internal audit activity.

## **10 Internal Audit Plan**

At least annually, the Audit Manager will submit to Executive Leadership Team and the Audit & Governance Committee an internal audit plan for review and endorsement.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built into the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Audit & Governance Committee.

Approval will be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

## **11 Reporting and Monitoring**

A written report will be prepared and issued by the Audit Manager following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up all high priority recommendations and those arising from overall no and limited assurance reports to ensure that management have implemented them in the agreed timescales. It is management's responsibility to ensure that the agreed actions for medium and low priority actions are implemented. All outstanding recommendations will be monitored.

Results of audit follow up will be communicated as appropriate and a summary of the results will be reported to senior management and the Audit & Governance Committee.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Audit & Governance Committee.

## **12 Quality Assurance and Improvement Programme**

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Audit Manager will periodically report to the Audit & Governance Committee on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Executive Leadership Team and the Audit & Governance Committee.

In addition, the Audit Manager will communicate to the Executive Leadership Team and the Audit & Governance Committee on the internal audit service's quality assurance and improvement programme, including results of ongoing internal



assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Audit & Governance Committee.

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## AUDIT & GOVERNANCE COMMITTEE

22<sup>nd</sup> March 2023

### Report of the Assistant Director Finance

#### FINAL ACCOUNTS 2022/23 – ACCOUNTING POLICIES AND ACTION PLAN

##### Purpose

To advise Members of the proposed Accounting Policies for 2022/23.

To provide an outline of the corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2022/23 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

##### Recommendations

That:

1. the proposed Accounting Policies for 2022/23, attached as Appendix A are approved;
2. the target of 30<sup>th</sup> June 2023 for closure of the final accounts and production of the statement for 2022/23 be approved;
3. staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);
4. CMT receive a fortnightly update until completion of the audit;
5. the Statement be presented to the Audit & Governance Committee before the end of September 2023; and
6. the Committee recognise the appointment of Azets Audit Services as the Council's external auditor from 1<sup>st</sup> April 2023.

##### Executive Summary

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.

As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

The proposed accounting policies are presented at **Appendix A**. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect for the Statement of Accounts. Apart from the dates, these have not significantly changed from the 2021/22 policies. These do not depart from the provisions of the 2022/23 Code.

Legislation detailed in Accounts and Audit (Amendment) Regulations 2022, requires the Council to prepare a Draft Statement of Accounts by 31st May (approved by the Council's Chief Finance Officer - the Executive Director Finance), a Committee of the Council to approve the Statement and for the Council to publish the Statement together with the Auditors' opinion by 30<sup>th</sup> September 2023.

DLUHC have recently announced a consultation exercise with regard to the 31<sup>st</sup> May deadline, following the extension to this deadline previously in place as a temporary measure for 20/21 and 21/22 accounts (to 31<sup>st</sup> July), and the continuing issues being experienced with regard to accounts and audit completion. This consultation is due to end 2<sup>nd</sup> March 2023.

Pending the results of this consultation, we will continue to aim to complete a first draft of the statement of accounts in line with the statutory deadline of 31<sup>st</sup> May 2023, however, given the significant resourcing issues experienced by the external auditors over the past few years, there is no need to submit the draft accounts to the external auditors until 30<sup>th</sup> June 2023 as the audit is unlikely to commence until July/August at the earliest. We are still awaiting confirmation of likely audit dates.

The annual plans for the production of the statutory accounts for recent years has been reviewed so that the draft accounts for 2022/23 can be produced before the deadline of 31<sup>st</sup> May 2023.

The key issues affecting the achievement of these deadlines are detailed in **Appendix B**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Council's External Auditors', (Grant Thornton - GT) assessment of the Council's performance within the Auditor's Annual Report.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions). It is proposed that CMT receive an update, by exception, every 2 weeks until completion of the audit. The information provided (detailed in **Appendix C**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 31<sup>st</sup> May 2023;
- Detailed management quality assurance review by 30<sup>th</sup> June 2023;
- Submission to Grant Thornton (and to Members) before 1<sup>st</sup> July 2023;
- Report to Audit & Governance Committee by the end of September 2023;
- Latest publish date 30<sup>th</sup> September 2023;

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of its accounts in compliance with statutory requirements.

### **External Audit Services**

It is brought to Members' attention that the audit of the 2022/23 accounts and associated Housing Benefit Subsidy claim will be the last carried out by Grant Thornton.

The Committee at its meeting on 28<sup>th</sup> October 2021 received a report to advise Members of the options process and legislative requirement to appoint External Auditors for the Accounting Periods from 2023/24 (for 5 years to 2027/28) – with the option agreed that the Authority opt into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors.

We have recently been notified that, following the tender process to procure the audit services, the PSAA have appointed Azets Audit Services Limited as the Council's external auditor for five years from 2023/24, with the appointment commencing on 1 April 2023.

A total of 470 bodies (99%) of eligible bodies (including local government, police and fire bodies) opted into the sector-led approach offered by PSAA. During the period April to September 2022 the PSAA managed a tender process to procure audit services. This procurement took place against the challenging backdrop of a troubled audit profession, a turbulent market and a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the procurement.

The outcome of the procurement resulted in contracts being offered to six suppliers following a competitive process that was protracted, reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide. Services of three existing suppliers were retained those being, Grant Thornton, Mazars and Ernst & Young, with one former supplier KPMG re-appointed and two new suppliers, Bishop Fleming and Azets Audit Services Limited also awarded contracts.

The appointment of Azets as the Council's external auditor excludes the provision of an Independent Reporting Accountant, required for the certification work on the Housing Benefit subsidy which is undertaken on behalf of the Department for Work and Pensions (DWP). Neither does the arrangement cover the provision of an Independent Reporting Accountant, required for the certification work on the Pooling of Housing Capital Receipts Scheme, which is undertaken on behalf of the Department for Levelling Up, Homes and Communities (DLUHC). These requirements were not included in the scope of works for the PSAA and must be procured separately - however the most pragmatic approach is to utilise the same firm to carry out all of the work.

There is a legal requirement to inform Department for Work & Pensions (DWP) by 1<sup>st</sup> March 2023 of our Reporting Accountants for 2023/24 – and as such a contract has recently been put in place with Azets Audit Services Limited for the 5 years to 2027/28.

At this stage the audit scale fees for 2023/24 are not yet known. The PSAA have stated that they will consult formally on scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies on their website by 30 November 2023. However, the PSAA announced in October 2022 that on the basis of the procurement outcome their advice to opted in bodies was to anticipate an increase of the order of 150% on the total fees for 2022/23 - noting that the actual total fees will depend on the amount of work required.

### Legal and Risk Implications

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the Pentana risk register.

<b>Risk No</b>	<b>Description of Risk</b>	<b>Likelihood Impact</b>	<b>Action Required to Manage Risk</b>
<b>1</b>	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	<b>M H</b>	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
<b>2</b>	Incorrect interpretation of changes in either the Code of Practice or IFRS	<b>M H</b>	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.

<b>Risk No</b>	<b>Description of Risk</b>	<b>Likelihood Impact</b>	<b>Action Required to Manage Risk</b>
<b>3</b>	Guidance by CIPFA changing possibly causing delays	<b>M H</b>	Regular review and rescheduling of project timetable
<b>4</b>	Delay in receiving information from external parties / contractors	<b>M H</b>	Ensure regular contact with all concerned and continually monitor completeness of the information provided
<b>5</b>	Inadequate training	<b>L M</b>	Research available training, ensure all relevant staff attend, training budget to be adequate
<b>6</b>	Failure to identify all leases	<b>L M</b>	Ensure staff understand exactly what is involved / process to outline the requirements
<b>7</b>	Key staff leaving	<b>H H</b>	Ensure there are sufficient skills within the team to cover / handover arrangements in place
<b>8</b>	Insufficient Resources from External Auditors Grant Thornton	<b>M H</b>	Continued liaisons with Grant Thornton / revised proactive approach to ensure they adequately allocate resources to the audit to meet timescales outlined above
<b>9</b>	Incorrect/inaccurate assumptions made re Pensions	<b>M H</b>	Figures are produced by SCC based on a set of assumptions and estimates for inclusion in the draft statement. SCC were then able to provide actual figures in June 2021 and these were then updated in the Final Audited Statement.
<b>10</b>	Continuing Impact of the response to the pandemic on staffing resources	<b>M H</b>	Prioritisation of the accounts production over all other work where possible; Re-assessment of deadlines where needed.
<b>11</b>	Issues with late/inaccurate valuations	<b>L H</b>	Regular communication with valuers, meetings held at start of process and revised valuation approach agreed.

### **Resource and Value for Money Implications**

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period to ensure completion of the Financial Statements by 30<sup>th</sup> June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

## Report Author

Please contact Joanne Goodfellow, Assistant Director Finance extension 241.

<b>Background papers</b>	Accounts and Audit (Amendment) Regulations 2022
	Code of Practice on Local Authority Accounting in the United Kingdom (2022/23) based on IFRS



## NOTES TO THE ACCOUNTS

### Accounting Policies

#### BASIS FOR PREPARATION

The notes relating to specific financial statement lines include the corresponding accounting policy. As a result, there is not an overall principal accounting policies note. However, the general accounting policies where there are not any accompanying notes are detailed within this note.

#### i. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2022/23 financial year and its position at the year end of 31<sup>st</sup> March 2023. The Accounts and Audit Regulations (England) 2015 require the Authority to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, supported by International Financial Reporting Standards (IFRS).

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.

#### ii. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received, other than prepayments which are accounted for on a cash basis. In particular:

- a) Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- b) 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;
- c) 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;
- d) 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;

- e) 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 in financing and investment income and expenditure for the income that might not be collected.

The Authority's policy is to review all accruals over £1k together with payments over £5k made in February, March and April to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

### **iii. 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.

### **iv. 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 fixed assets during the year:

- a) depreciation attributable to the assets used by the relevant service;
- b) 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; and
- c) amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced 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.

#### **v. COUNCIL TAX AND NON-DOMESTIC RATES (ENGLAND)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

#### **Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Taxation and Non-Specific Grant Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

#### **vi. 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).

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 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 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 £10k) the Capital Receipts Reserve.

#### **vii. 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.

#### **viii. FAIR VALUE MEASUREMENT**

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Authority uses internal and external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Authority's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

#### **ix. INTERESTS IN COMPANIES AND OTHER ENTITIES**

The authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **x. 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/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

#### **Within notes to the Accounts:**

#### **Events after the Reporting Period**

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date (31<sup>st</sup> March 2023) and the date when the Statement of Accounts is authorised for issue (30<sup>th</sup> June 2023). Two types of events can be identified:

- a) 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;

- b) 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 such 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.

### **Transfers to / (from) Earmarked Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund or Housing Revenue Account balance.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service 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 transferred back into the General Fund or Housing Revenue Account balance so that there is no net charge against Council Tax or housing rent 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.

### **Property, Plant & 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.

#### **a) Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, subject to a de minimus level of £10k, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **b) Measurement**

Assets are initially measured at cost, comprising:

- i. the purchase price;
- ii. any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- iii. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current 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.

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

- i. Infrastructure, Community Assets and Assets Under Construction – depreciated historical cost;
- ii. Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH); and
- iii. all other assets – current 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 current value because of the specialised nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of current 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 current value. In the case of the Assembly Rooms and Cemeteries valuations, there is no active market and so DRC is used.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years – including an annual desktop review of all Council Dwellings. A review of the valuation of all significant assets is undertaken annually.

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:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains);
- ii. 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 lines in the Comprehensive Income and Expenditure Statement.

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

### **c) 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 the Authority has incurred capital expenditure on Council dwellings this is included within the Gross Book Value (GBV) and where it is not considered to add value it is included as impairment. These impairments are subject to write out annually.

The Authority has an ongoing programme of regeneration including disposal and redevelopment of garage sites. Where the decision had been made to dispose of a garage site, the value of the buildings element has been impaired to zero leaving only a residual land value.

Where impairment losses are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains);
- ii. 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 lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines 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.

### **d) 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:

- i. **Council Housing Stock:** on a straight line basis to an appropriate residual value over the expected useful life of the asset of 50 years.
- ii. **Other Land and Buildings:** on a straight line basis to a nil residual value over the expected useful life of the asset being a range of 5 years to 70 years.



Historical properties: on a straight line basis to a nil residual value over the expected useful life of the asset being over 100 years

- iii. **Vehicles, Plant and Equipment:** on a straight line basis to a nil residual value over the expected useful life of the asset, being between 1 and 20 years.
- iv. **Infrastructure:** on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.
- v. **Community Assets:** on a straight line basis to a nil residual value over the expected useful life of the asset of 100 years.
- vi. **Heritage Assets:** the Authority considers that the Heritage Assets held will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets.
- vii. **Computer Hardware:** is depreciated over a period of 3 years on a straight line basis to a nil residual value.
- viii. **Investment Properties and Surplus Assets:** no depreciation has been applied to either the land or building value of Investment Properties or Surplus Assets.
- ix. **Intangible Fixed Assets:** computer software licences are amortised to revenue over a period of 3 years.
- x. **Furniture and equipment** – minor purchases by the Authority are charged to revenue in the year of acquisition and are not capitalised in the accounts.
- xi. **De minimus items** of expenditure on computer equipment and software are capitalised under the concept of 'Grouped Assets' where the value of such items is material. A charge is made for these assets (depreciation for equipment and amortisation for software), calculated using the straight line method over a period of three years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately – as detailed within the Component Accounting Policy for Property, Plant and Equipment.

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.

#### **e) Disposals and Non Current Assets Held for Sale**

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 current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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.

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 (ie 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 £10k are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within 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) (England and Wales)]. 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 noncurrent 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.

## **f) Component Accounting Policy for Property, Plant and Equipment**

### **i. De Minimus Level**

The de minimus threshold for the Authority is a current net book value of £250k. Individual assets with a value less than £250k will be disregarded for componentisation. This level will be reviewed annually.

### **ii. Policy for Componentisation**

The code requires that each part of an asset should be separately identified and depreciated where the cost is significant in relation to the overall cost of the asset.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £250k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de minimus threshold;
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de minimus threshold;

### **iii. Valuation**

The 5 year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be passed to the finance team and/or valuers who can consider componentisation for any properties not already reviewed.

### **iv. Impairment**

We will continue to complete a desktop Impairment review on an annual basis.

## **Heritage Assets**

Heritage Assets are assets that are held by the Authority because of their cultural, environmental or historical value. Tangible Heritage Assets include historical buildings, paintings, sculptures / statues, archives and other works of art.

The Authority's Museum, Art and Civic Heritage Assets are held in various sites. The Museum Collection has four main collections, General Collection, Art, Furniture and Archaeological Collection and Ephemera.

The collections are used for education, learning, research, enjoyment and are preserved for the use of future generations.

## Valuation of Heritage Assets

The Code requires that Heritage Assets are measured at valuation in the 2022/23 financial statements (including the 2021/22 comparative information). The Authority will recognise in the Balance Sheet each asset shown in the table which has an identified value.

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. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

The accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the Balance Sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.
- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the Balance Sheet at insurance valuation based on Market values.
- **Archaeological Collection and Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.
- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.
- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

## Investment Properties

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.

Investment Properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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 Financing and Investment Income line 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 £10k) the Capital Receipts Reserve.

## **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 most of the borrowings that the Authority has, 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.

### **Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost 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 financial assets held by the Authority, 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.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### **Expected Credit Loss Model**

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### **Financial Assets Measured at Fair Value through Profit of Loss (FVPL)**

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;

- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

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.

### **Cash & Cash Equivalents**

Cash is represented by Cash in Hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, Cash and Cash Equivalents are shown net of Bank Overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **Assets Held for Sale**

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 current 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 previous losses recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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.

## **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 when the Authority has an 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.

## **Acquisitions & Discontinued Operations**

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure Statement comprising the profit or loss of discontinued operations and the gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a unit that has been disposed of, or is classified as an Asset Held for Sale.

## **Officers' Remuneration**

### **Benefits Payable During Employment**

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. staff health cover) 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.



## **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 Authority 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 in the form of 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.

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.

## **Community Infrastructure Levy**

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this Authority may be used to fund revenue expenditure.

## **Capital Expenditure & Financing**

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 or Housing Revenue Account to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax or housing rent.

## **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.

### **a) Authority as Lessee**

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant and 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).

### **b) Authority as Lessor**

#### i. 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 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.

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.

## ii. 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 Other Operating Expenditure line in 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.

## **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 segment or, where applicable, to a corporate service segment 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 or Housing Revenue Account 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.

### **Defined Benefit Pension Schemes**

The pension costs included in these accounts have been determined in accordance with government regulations and IAS 19. The standard requires the full recognition of the pensions liability (and the movement of its constituent parts) in the Comprehensive Income and Expenditure Statement. These requirements are included within the accounts in accordance with CIPFA recommended practice.

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013:

- i. The liabilities of the Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit credit 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.
- ii. Liabilities are discounted to their value at current prices, using a discount rate of 2.7%.

This is based on an approach whereby a Corporate Bond yield curve is constructed based on the constituents of the iBoxx AA Corporate Bond Index.

Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions) for individual employers, dependent on their own weighted average duration.

- iii. The assets of Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price;
  - property – market value.

iv. The change in the net pensions liability is analysed into the following components:

**Service Cost Comprising:**

- **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 as a result of a scheme amendment or curtailment 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 Cost:**  
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:**

- **Expected 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 Staffordshire Local Government 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 and the Housing Revenue Account 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 transfers 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 and Housing Revenue Account 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 Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Staffordshire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

#### b) Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund (and HRA) via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

### **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.

### Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

Between completion of the statement in June and the conclusion of the on-site audit in September, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

Following the completion of the 2021/22 audit a number of amendments to the Draft Statement (as published on the website, 25<sup>th</sup> July 2022 and circulated to the Audit & Governance Committee on 26<sup>th</sup> July 2022) were discussed & agreed with Grant Thornton.

This included a revision to the housing dwellings valuation of £558k following a review from the external valuer to the actual Housing property values. This increased the valuation on the balance sheet from £241.382m to £241.940m.

It is important to note that, other than the adjustments to the housing dwellings figures, there were only minor changes relating to presentational or disclosure notes within the main financial statements and the associated notes and did not have any impact on the reported outturn position and net balances of the General Fund, Housing Revenue Account or Collection Fund and does not impact on the taxpayer.

Although the External Auditors had concluded the vast majority of their work on the accounts before the 15<sup>th</sup> November Audit & Governance Committee, there were some outstanding issues to resolve and for this reason it was agreed to delegate authority to the Chair to approve any changes and re-sign the accounts, and if necessary, report any significant changes to the members of Audit and Governance Committee at the earliest available opportunity.

To meet the necessary deadlines, the closure process for 2021/22 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2021/22 included:

- the need for corporate ownership of the process;
- reliance on staff in Services and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with laid down parameters (i.e. receipt of goods/services **before** 31<sup>st</sup> March);
- A lessons learned meeting has been held with the external valuer to agree a revised approach this year following the issues encountered during 2021/22 (with



particular focus and increased staffing resource dedicated to the housing valuations).

- Significant delays in completion of the audit by Grant Thornton partly due to their staffing issues. There have been changes to the planned audit process for 2022/23 to provide a pro-active approach which should focus audit resources at the timely completion of the audit but we will need to ensure adequate resources are allocated to the audit for 2022/23 to meet timescales outlined above.

***Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks within all Services.***

A brief planning meeting has already been held with the Audit Lead from Grant Thornton to discuss any emerging issues. The Interim Audit has been planned for February/March and will pro-actively test samples for the first nine months of the year.

The draft timetable of the year end process is attached at **Appendix D**.

A detailed year end timetable has been prepared (**attached at Appendix C**) and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next year. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2021/22 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping – together with fortnightly updates to CMT. There is still some room for development to ensure an efficient closedown for 2022/23.

## 2021/22 – Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A reduced number from previous years but still several manual accruals were received after the deadline and/or following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 31/03/23, Managers will be asked to ensure that where goods/services have been received the majority of orders are 'goods receipted' within e-financials, thereby generating 'auto-accruals' on 01/04/23  The minimum level for manual accruals will be £5k (as set by Executive Director Finance). However, should material accruals have been missed (i.e. over £5k) then the Service Accountants must be advised and appropriate action taken	ALL
Related Party Transactions	Again – Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings – for sign off by 30/04/23 at the latest.	Head of Paid Service
External Valuations	Delays / incomplete / inaccurate information from external valuers	Meeting held at start of process and revised valuation approach agreed.. Agreed that for 2022/23 only necessary to undertake desktop valuation of HRA assets – this will mitigate delays from not being able to gain access to properties in previous years	Finance and Assets
Pension Assumptions	<ul style="list-style-type: none"> <li>actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary</li> </ul>	To request initial data from the Actuary as at 31/03/23, supplemented by an updated report in June 2023	Finance
Final Sign Off	<ul style="list-style-type: none"> <li>Delays in completion of the audit following completion of on-site audit</li> </ul>	Continued liaisons with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above and dates included in agreed Audit Plan (due A&G Cttee 22/03/23)	Finance
Audit delays due to External Audit resourcing / approach	<ul style="list-style-type: none"> <li>Significant delays in completion of the audit by Grant Thornton partly due to their staffing issues. There have been changes to the planned audit process for 2022/23 to provide a proactive approach which should focus audit resources at the timely completion of the audit but we will need to ensure adequate resources are allocated to the audit for 2022/23 to meet timescales outlined above</li> </ul>	<p>A lessons learned meeting has been held with the external valuer to agree a revised approach this year following the issues encountered during 2021/22 (with particular focus and increased staffing resource dedicated to the housing valuations)</p> <p>A brief planning meeting has already been held with the Audit Lead from Grant Thornton to discuss any emerging issues. The Interim Audit has been planned for February/March and will pro-actively test samples for the first nine months of the year.</p>	

A flexible 'teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Executive Director Finance) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts are cleared regularly. A full review of all working papers has been carried out with key staff during the year in preparation for the 2022/23 closedown.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimus levels for year-end accruals.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a '**get it right first time**' approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help inform not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

## Appendix C

REF	CORPORATE REQUIREMENTS FINAL ACCOUNTS 2022/23	LEAD OFFICER	DEADLINE
1	Temporary Reserve / Retained Fund information	ALL	06/04/2023
2	Review all outstanding orders and delete where necessary	ALL	01/03/2023
3	All "goods receipts" should be on e-financials by 31/03/23, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 17/03/23)	ALL	31/03/2023
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/23) Refer to year end guidance	ALL	06/04/2023
5	Staff Holiday and Flexi Leave entitlement at 31/03/23	ALL	06/04/2023
6	Manual accruals to be kept to a minimum, with ED Finance approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	06/04/2023
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/23 and information returned to accountancy	ALL	06/04/2023
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/23 will be issued	ALL	06/04/2023
9	IT stock purchases and disposals (hardware and software) information	AD PEOPLE	06/04/2023
10	Bad debt information: E-financials Sundry Debtors and overpayments Homelessness and Housing Rents	AD FINANCE / AD NEIGH	06/04/2023
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	AD ASSETS	Draft by: 31/03/23 Final by : 10/04/2023
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	06/04/2023
13	Related Party Transaction information. Letters to be sent by 17/03/23 - Approach at Committee if delayed	S151 / MO	06/04/2023
14	Managers confirmation of continued existence and responsibility for assets	ALL	06/04/2023
15	Information for completion of DWP and Subsidy estimated claims from benefits	AD FINANCE	06/04/2023
16	Improvement grant reconciliation	AD ASSETS	06/04/2023
17	Collection fund information (NNDR3)	AD FINANCE	14/04/2023
18	FRS17 Pension information from SCC Pension Fund	SCC	30/04/2023
19	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Audit	30/04/2023
20	Review grant estimates (Benefits) / comparison to actual submissions	AD FINANCE	14/04/2023
21	Review potential post balance sheet events / impact on accounts	ALL	Up to 30/09/23

<b>Audit Planning Timetable 2022/23</b>		
<b>Date / Deadline</b>	<b>Completion of:</b>	
Feb-23	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc)	
Feb-23	GT Workshop	
Feb-23	Interim Audit (4 weeks) – walkthrough and early testing for period to December 2022	
Mar-23	Informing the Audit Risk Assessment and Audit Plan to Audit & Governance Cttee	
31/05/2023	Draft Statement preparation	
Jun-23	Quality assurance	
<b>30/06/2023</b>	<b>Submission of Accounts (to GT / Members)</b>	
June	Detailed Audit Plan for 2022/23 Audit confirmed (for planning / management purposes)	
July / Aug	Engagement Lead review	
July / Aug	On Site Audit Commences (review of working papers / reconciliations / quality assurance process)	Accountants / Key Officers to be available for Auditor questions by appointment
July / Aug	Weekly Meetings with Audit Manager (including emerging Audit Findings report issues) - issues to date documented in <b>one logical list i.e. no repeated issues</b>	
July / Aug	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager	
<b>Weekly</b>	<b>Draft list of audit amendments / issues received (subject to Engagement Lead review)</b>	
Early Sept	<b>Final list of audit amendments / issues received (after Engagement Lead review)</b>	
<b>By 05/09/2023</b>	<b>Close out meeting (with Engagement Lead review)</b>	
12/09/2023	Amended Statement of Accounts prepared	
15/09/2023	Audit Findings Report received	
21/09/2023	Audit Report to be circulated via Modgov	
27/09//2023	Audit Findings Report to Audit & Governance Committee / Sign Off	
30/09/2023	Publish at latest	

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## ROLLING AUDIT & GOVERNANCE TIMETABLE OF PLANNED REPORTS TO AUDIT AND GOVERNANCE COMMITTEE

	Report	Committee Date	Report Of	Comments
1	Internal Audit Service – External Quality Assessment	22 March 2023	Audit Manager & External Quality Assessor	<i>Report on Internal Audit’s compliance with Public Sector Internal Audit Standards</i>
2	<b>Audit and Governance Committee update</b>	<b>22 March 2023</b>	<b>Grant Thornton</b>	<i>Verbal Update</i>
3	<b>Internal Audit Charter and Audit Plan</b>	<b>22 March 2023</b>	<b>Audit Manager</b>	
4	Final Accounts – Accounting Policies and Action Plan	22 March 2023	Assistant Director of Finance	<i>March or April (ideally March)</i>
	Private meeting of Internal and External Auditors and Committee members	March		
1	<b>Audit &amp; Governance Committee update</b>	<b>20 April 2023</b>	<b>Grant Thornton</b>	
2.	<b>Public Sector Internal Audit Standards/Quality Assurance and Improvement Programme</b>	<b>20 April 2023</b>	<b>Audit Manager</b>	<i>Update following receipt of EQA Report from 22 March 2023 meeting</i>
3.	<b>Annual Report of the Chair of Audit &amp; Governance Committee</b>	<b>20 April 2023</b>	<b>Audit Manager / Chair</b>	

	Report	Committee Date	Report Of	Comments
4	Review of Financial Guidance	20 April 2023	Assistant Director Finance	From 2023 onwards to be considered in April each year.
5	Review of the Constitution and Scheme of Delegation for Officers	20 April 2023	Monitoring Officer	<i>Annual review prior to recommendation to full Council in May</i>
6	Review of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Statement and the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report	20 April 2023	Executive Director Finance	<i>March or April</i>
7	Auditor's Annual Report	20 April 2023	Grant Thornton	

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**2023/24 Year**

1	Audit & Governance Committee update	[late] June 2023	Grant Thornton	
2	External Audit Plan	[late] June 2023	Grant Thornton	
3	Internal Audit Annual Report and Quarterly Update for 2022/23	[late] June 2023	Audit Manager	



4	<b>Annual Governance Statement and Code of Corporate Governance</b>	<b>[late] June 2023</b>	<b>Chief Executive</b>	
5	<b>Risk Management Quarterly Update</b>	<b>[late] June 2023</b>	<b>Assistant Director, Finance</b>	
6	<b>Future High Street Fund Risk Report</b>	<b>[late June] 2023</b>	<b>Assistant Director, Growth &amp; Regeneration</b>	
7	Independent Member update	[late June] 2023	Audit Manager	Provisional date
8	Councillor Code of Conduct	[late June] 2023	Monitoring Officer	<i>Provisional date – Annual refresh to normally be in April each year.</i>
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1	<b>Audit &amp; Governance Committee update</b>	<b>xx August 2023</b>	<b>Grant Thornton</b>	
2	<b>Risk Management Quarterly Update</b>	<b>xx August 2023</b>	<b>Assistant Director – Finance</b>	
3	<b>Internal Audit Quarterly Update</b>	<b>xx August 2023</b>	<b>Audit Manager</b>	
	Private meeting of Internal and External Auditors and Committee members	xx August 2023		

1	<b>Audit Findings</b>	<b>Xx September 2023</b>	<b>Grant Thornton</b>	
2	<b>Management Representation Letter</b>	<b>XX September 2023</b>	<b>Grant Thornton</b>	
3	<b>Annual Statement of Accounts</b>	<b>Xx September 2023</b>	<b>Executive Director Finance</b>	
4	Annual Treasury Outturn	xx September 2023	Executive Director Finance	<i>Could be moved to October if required</i>
5	Regulation of Investigatory Powers Act (RIPA) Annual Report & Review of the RIPA Policy	Xx September 2023	Assistant Directors, Partnerships	Agreed that this be moved to September 2023.
6	Local Government Ombudsman's Annual Review and Report 2022/23	XX September 2023	Assistant Director – People	
1	<b>Audit &amp; Governance Committee update</b>	<b>XX October 2023</b>	<b>Grant Thornton</b>	
2	<b>Internal Audit Quarterly Update</b>	<b>XX October 2023</b>	<b>Audit Manager</b>	
3	<b>Counter Fraud Update</b>	<b>XX October 2023</b>	<b>Audit Manager</b>	
4	<b>Risk Management Quarterly Update</b>	<b>XX October 2023</b>	<b>Assistant Director – Finance</b>	

5	Future High Street Fund Risk Report	XX October 2023	Assistant Director, Growth & Regeneration	
6	Modern Slavery and Human Trafficking Statement	XX October 2023	Assistant Director – Partnerships	<i>Check whether September or October meeting is preferred for 2023</i>
1	Internal Audit Quarterly Update	XX February 2023	Audit Manager	
2	Risk Management Quarterly Update	XX February 2023	Assistant Director – Finance	
3	Audit Committee Effectiveness	XX February 2023	Audit Manager	
4	Future High Street Fund Risk Report	XX February 2023	Assistant Director, Growth & Regeneration	

**Note:**  
**It is**

***proposed that training on the role of the Audit Committee from the external auditors and training on the role of internal audit to take place in early June outside of the Committee meeting as part of the annual Member Training programme.***

**The Portfolio Holder for Finance, Risk and Customer Services**

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